

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34746

**R1 RCM Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**02-0698101**

(I.R.S. Employer Identification No.)

**401 North Michigan Avenue**

**Suite 2700**

**Chicago**

**Illinois**

(Address of principal executive offices)

**60611**

(Zip Code)

**(312) 324-7820**

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	RCM	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 28, 2019: \$1,407,582,075

As of February 13, 2020, the registrant had 114,463,006 shares of common stock, par value \$0.01 per share, outstanding.

Portions of the registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of the federal securities laws, that involve substantial risks and uncertainties. You should not place undue reliance on these statements. All statements, other than statements of historical facts, included in this Annual Report on Form 10-K are forward-looking statements. The words "anticipate", "believe", "designed", "estimate", "expect", "forecast", "intend", "may", "plan", "predict", "project", "target", "will" or "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about our strategy, our future operations, our future financial position, our projected costs, our prospects, our plans, objectives of management, our ability to integrate the Intermedix Holdings, Inc. ("Intermedix") business as planned and to realize the expected benefits from the acquisition, the timing of the closing and anticipated benefits of the pending acquisition of scheduling.com, Inc. d/b/a SCI Solutions, Inc. and our ability to integrate the SCI Solutions, Inc. business as planned, our ability to successfully deliver on our commitments to our customers, our ability to deploy new business as planned, our ability to successfully implement new technologies, the expected outcome or impact of pending or threatened litigation and expected market growth. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- our ability to maintain profitability;
  - our ability to retain existing customers or acquire new customers;
  - our ability to manage our operations effectively;
  - the development of markets for our RCM service offering;
  - variability in the lead time of prospective customers;
  - competition within the market;
  - breaches or failures of our information security measures or unauthorized access to a customer's data;
  - delayed or unsuccessful implementation of our technologies or services, or unexpected implementation costs;
  - disruptions in or damages to our global business services centers and third-party operated data centers;
  - our exposure to risks related to our growing global business services operations;
  - risks related to our indebtedness;
  - the loss of key personnel;
  - our ability to integrate our customers' revenue cycle management employees;
  - fluctuations in our results of operations or cash flows;
  - our potential liability resulting from future errors;
  - negative perceptions of the collection of medical co-pays and other payments from patients;
  - negative perceptions of offshore outsourcing and proposed legislation related thereto;
  - the impact of litigation;
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- our legal responsibility for obligations related to our customers' employees;
- our ability to use our net operating loss carryforwards;
- changes in tax laws and unanticipated tax liabilities;
- our dependence on the A&R MPSA with Ascension;
- our ability to realize the anticipated benefits of acquisitions, strategic initiatives, and other investments;
- our ability to complete the pending acquisition of SCI;
- our ability to comply with healthcare laws and regulations;
- developments in the healthcare industry, including national healthcare reform;
- our ability to comply with information privacy laws;
- our ability to comply with debt collection and other consumer protection laws and regulations;
- our ability to protect our intellectual property; and
- other factors set forth in Part I, Item 1A "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important information in the cautionary statements included in this Annual Report on Form 10-K, particularly in Part I, Item 1A "Risk Factors," that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this Annual Report on Form 10-K and the documents that we have filed as exhibits to the Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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## PART I

*Unless the context indicates otherwise, references in this Annual Report to "R1 RCM," "R1," the "Company" or "company," "we," "our" and "us" mean R1 RCM Inc. and its subsidiaries.*

### **Item 1. Business**

#### **Overview**

R1 is a leading provider of technology-enabled revenue cycle management ("RCM") services to healthcare providers, including health systems and hospitals, physicians groups, and municipal and private emergency medical service ("EMS") providers. Our services help healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for our customers.

We achieve these results for our customers by managing healthcare providers' revenue cycle operations, which encompass processes including patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections from patients and payers. We do so by deploying a unique operating model that leverages our extensive healthcare site experience, innovative technology and process excellence. We assist our RCM customers in managing their revenue cycle operating costs while simultaneously increasing the portion of the maximum potential services revenue they receive. Together, these benefits can generate significant and sustainable improvements in operating margins and cash flows for our customers.

Our primary service offering consists of end-to-end RCM services for health systems, hospitals, physician groups, and EMS providers, which we deploy through an operating partner relationship or a co-managed relationship. Under an operating partner relationship, we provide comprehensive revenue cycle infrastructure to providers, including all revenue cycle personnel, technology solutions and process workflow. Under a co-managed relationship, we leverage our customers' existing RCM staff and processes, and supplement them with our infused management, subject matter specialists, proprietary technology solutions and other resources. Under the operating partner model, we record higher revenue and expenses due to the fact that almost all of the revenue cycle personnel are our employees and more third-party vendor contracts are controlled by us. Under the co-managed model, the majority of the revenue cycle personnel and more third-party vendor contracts remain with the customer and those costs are netted against our co-managed revenue. For the years ended December 31, 2019, 2018, and 2017, substantially all of our net operating and incentive fees from end-to-end RCM services were generated under the operating partner model.

We also offer modular services, allowing customers to engage us for only specific components of our end-to-end RCM service offering, such as physician advisory services ("PAS"), practice management ("PM"), revenue integrity solutions ("RIS"), patient experience, coding management, and business office. Our PAS offering assists healthcare organizations in complying with payer requirements regarding whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes. Our PM services offer administrative and operational support to allow healthcare providers to focus on delivering high quality patient care and outsource non-core functions to us. Our RIS offering includes charge capture, charge description master ("CDM") maintenance and pricing services that help providers ensure they are capturing the maximum net compliant revenue for services delivered. Our patient experience offering helps patients manage their data in one easy-to-use environment, enabling eligibility validation and insurance plan attribution, demographic accuracy, meeting authorization and referral requirements, medical necessity validation, and patient out-of-pocket cost estimation. Our coding management offering drives performance, quality, and consistent results via business intelligence and analysis, human capital management, an accountability framework, and a quality management program. Our business office service can help providers with the entire billing function or to specifically recoup revenue that may otherwise be lost by focusing skilled resources in lower priority areas with significant revenue potential.

Once implemented, our technology solutions, processes and services are deeply embedded in our customers' day-to-day revenue cycle operations. We believe our service offerings are adaptable to meet an evolving healthcare regulatory environment, technology standards and market trends.

## **Revenue Cycle Software and Services Market**

Revenue cycle is an important function for healthcare providers as they seek to collect payment due to them from health insurance companies and patients. Healthcare providers operate their revenue cycle with a combination of labor, software and services vendors. Third-party vendors offer various solutions including consulting services, software and services point solutions that cover one or multiple components of the revenue cycle and full outsourcing services, among others. The Centers for Medicare and Medicaid Services ("CMS") projects hospital care expenditures in the U.S. to amount to \$1.32 trillion in 2020. We estimate the cost of hospital revenue cycle operations to be approximately 5% of revenue, resulting in a market size of \$66 billion. Additionally, CMS projects physician care expenditures to amount to \$809 billion in 2020. We estimate cost of physician revenue cycle operations to be approximately 5.5% of revenue, resulting in a market size of \$44 billion. According to Research and Markets, revenue cycle spend is projected to grow at a compounded annual growth rate of 12% through 2022.

Health systems are currently facing challenges in their revenue cycle operations based on several factors including: (1) more complex and clinical-outcomes based reimbursement, (2) industry consolidation amongst hospitals and across the continuum of care, (3) increasing patient responsibility of their medical bills and (4) capital constraints to invest in the revenue cycle given financial difficulties and requirements to invest in improving clinical care. We believe these are positive trends for external vendors in the revenue cycle industry which we expect will drive further growth for the industry and our Company.

## **Segment**

All of our significant operations are organized around the single business of providing revenue cycle operations for healthcare providers.

We view our operations and manage our business as one operating and reporting segment. All of our net services revenue and trade accounts receivable are derived from healthcare providers, primarily domiciled in the United States. The information about our business should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. See Note 23, Segments and Customer Concentrations, to our consolidated financial statements for information regarding our segment and customer concentrations.

## **Our Services**

Drawing on our combination of our extensive healthcare-site expertise, innovative technology and process excellence, we seek to deliver measurable economic value to our customers across our RCM solutions.

### ***End-To-End Revenue Cycle Management Offering***

Our primary RCM service offering consists of comprehensive end-to-end RCM services, which address the full spectrum of revenue cycle challenges faced by healthcare providers. Our approach to deliver value for our customers is built on a holistic operating model designed to fit into a healthcare provider's revenue cycle operations.

This operating model consists of four components:

**Workflow - End-to-end workflow differentiated on outcomes** - We deploy a fully cataloged, standardized methodology for revenue cycle execution from order intake and scheduling to claim reimbursement. The approach is based on standard structures and rigorous methods, tested and proven in multiple organizations and environments.

**Analytics - Performance monitoring & management system** - We use hundreds of operating metrics to drive comprehensive daily accountability and to enable front-line operators to deliver on differentiated business outcomes every single day.

**Operations - Scaled global delivery model & leading human capital** - We bring experienced talent across global business services, centralized analytics and deployment teams who all deliver one operating platform. Our teams understand the missions and unique needs of non-profit organizations and are trained, certified and continuously developed to deliver on customer revenue cycle needs.

**Technology - Comprehensive revenue cycle workflow & analytics solutions** - Our R1 Hub Technologies integrate across multiple host and payer systems and hard-wire our standard methods, operating metrics, and daily routines into an end-to-end technology platform.

Our RCM service offering is designed to adapt to a provider's organizational structure. We seek to integrate our technology, personnel, our accumulated body of knowledge, and our culture within each customer's revenue cycle activities, with the expectation that we will enjoy a long-term collaborative relationship with each customer. We deliver technology and operational support in the form of both on-site management and centralized staffing to deliver improved efficiency and quality across all RCM functions.

Our end-to-end RCM agreements generally provide us with the opportunity to earn net operating fees and incentive fees. Net operating fees include gross base fees we charge our customers for operating the revenue cycle processes included in our agreements less corresponding costs of customers' revenue cycle operations which we undertake to pay pursuant to our RCM agreements, and agreements on a fixed fee, per-use and/or volumetric basis. We help our customers reduce their revenue cycle costs by implementing new operational practices, optimizing their technology suite and deploying more efficient processes. We work with our customers to transfer aspects of their revenue cycle operations to our global business services operations, which typically results in lower operating costs than operating those aspects of the revenue cycle at the customers' sites.

Incentive fees are performance-based fees related to agreed-upon improvements in financial or operating metrics at our customers. When using these metrics to calculate this improvement, we typically utilize metrics that are already being tracked by, or easily calculated from, our or our customers' respective information systems and compare the results of those metrics against the results for the same metrics for a defined prior period.

We seek to improve our customers' processes using a variety of techniques including:

- **Gathering Complete Patient and Payer Information.** We focus on gathering complete patient information and validating insurance eligibility and benefits so patient care services can be recorded and billed to the appropriate parties. For scheduled healthcare services, we educate patients as to their potential financial responsibilities before receiving care. Through our systems, we maintain an automated electronic scorecard which measures the efficiency of up-front data capture, authorization, billing and collections throughout the life cycle of any given patient account. These scorecards are analyzed in the aggregate, and the results are used to help improve workflow processes and operational decisions for our customers.
- **Improving Claims Filing and Collections.** Through our proprietary technology and process expertise, we identify, for each patient encounter, the estimated amount due from the patient and the amount our customer should receive from a payer if terms of the applicable contract with the payer and patient policies are followed. Over time, we compare these amounts with the actual payments collected to help identify which payers, types of medical treatments and patients represent various levels of payment risk for a customer. Using proprietary algorithms and analytics, we consider actual reimbursement patterns to predict the payment risk associated with a customer's claims to its payers, and we then direct increased attention and time to the riskiest accounts.
- **Identifying Alternative Payment Sources.** We use various methods to find payment sources for uninsured patients and reimbursement for services not covered by payers. Our patient financial screening technology



and methodologies often identify federal, state or private grant sources to help pay for healthcare services. These techniques are designed to ease the financial burden on uninsured or underinsured patients, increase the percentage of patient bills that are actually paid and improve the total amount of reimbursement received by our customers.

- **Employing Proprietary Technology and Algorithms.** We employ a variety of proprietary data analytics and algorithms. For example, we identify patient accounts with financial risk by applying proprietary analysis techniques to the data we have collected. Our systems are designed to streamline work processes through the use of proprietary algorithms that focus revenue cycle staff effort on those accounts deemed to have the greatest potential for improving net revenue yield or charge capture. We adjust our proprietary predictive algorithms to reflect changes in payer and patient behavior based upon the knowledge we obtain from our entire customer base. As new customers are added and payer and patient behavior changes, the information we use to create our algorithms expands, increasing the accuracy, reliability and value of such algorithms.
- **Using Analytical Capabilities and Operational Excellence.** We draw on the experience that we have gained from working with some of the best healthcare provider systems in the United States to train our customers' staff about new and innovative RCM practices. We use sophisticated analytical procedures to identify specific opportunities to improve business processes.
- **Increasing Charge Capture.** We are able to help our customers increase their charge capture by implementing optimization techniques and related processes. We use sophisticated analytics software to help improve the accuracy of claims filings and the resolution of disputed claims from payers. We also overlay a range of capabilities designed to reduce missed charges, improve the clinical/reimbursement interface and produce bills that comply with payer requirements and applicable healthcare regulations.
- **Leveraging our Global Business Services Operations.** We help our customers increase their revenue cycle efficiency by implementing improved practices, streamlining workflow processes and outsourcing aspects of their revenue cycle operations to our global business services operations. Examples of services that can be completed at our global business services operations in the United States and India include pre-registration, medical transcription, cash posting, reconciliation of payments to billing records and patient and payer follow-up. By leveraging the economies of scale and experience of our global business services operations, we believe that we offer our customers better quality services at a lower cost.

We believe that these techniques are enhanced by our proprietary and integrated technology, management experience and well-developed processes. Our proprietary technology solutions include workflow automation and direct payer connection capabilities that enable revenue cycle staff to focus on problem accounts rather than on manual tasks, such as searching payer websites for insurance and benefits verification for all patients. We employ technology that identifies and isolates specific cases requiring review or action, using the same interface for all users, to automate a host of tasks that otherwise can consume a significant amount of staff time. Our proprietary technology enhances the ability of our customers' revenue cycle staff to improve their interaction with patients. We use real-time feedback from our customers to improve the functionality and performance of our technology and processes and incorporate these improvements into our service offerings on a regular basis. We strive to apply operational excellence throughout our customers' entire revenue cycle.

### **Modular Solutions**

Our modular service solutions allow customers to engage us for specific components of end-to-end RCM and expanded service offerings. These service offerings, including PAS, PM, RIS, patient experience, coding management, and business office, allow our customers to place their focus on delivering high quality patient care, while outsourcing non-core functions to us. Providing modular solutions allows us to expand our customer base utilizing technology and service offerings which have already been developed.

## **Business Update**

### ***SCI Solutions, Inc. Acquisition***

On January 9, 2020, we entered into a Stock Purchase Agreement with ClearSight Intermediate Holdings, Inc. ("Seller Blocker") and ClearSight Group Holdings, LLC (the "Seller") providing for the purchase (the "SCI Acquisition") by us from the Seller of all of the issued and outstanding equity interests of Seller Blocker, which owns all of the issued and outstanding equity interests of scheduling.com, Inc. d/b/a SCI Solutions, Inc. ("SCI"). Pursuant to the terms of the Stock Purchase Agreement, we will acquire Seller Blocker and SCI for \$190 million in cash, subject to customary adjustments for working capital, cash, debt and transaction expenses, plus an earn-out payment of up to \$10 million if certain financial and operational targets are met twelve months following the closing date. We intend to fund the SCI Acquisition and the related fees and expenses with the proceeds of an incremental term loan facility together with cash on hand and borrowings under our revolving credit facility. Concurrently with the execution of the Stock Purchase Agreement, we entered into a debt financing commitment letter. The SCI Acquisition is expected to close in the second quarter of 2020.

### **Relationship with Ascension**

On February 16, 2016, we entered into a long-term strategic partnership with Ascension Health Alliance, the parent of our largest customer and the nation's largest Catholic and non-profit health system, and TowerBrook Capital Partners ("TowerBrook"), an investment management firm. As part of the transaction, we amended and restated our Master Professional Services Agreement ("A&R MPSA") with Ascension Health ("Ascension") effective February 16, 2016 with a term of ten years. Pursuant to the A&R MPSA and with certain limited exceptions, we are the exclusive provider of RCM services and PAS with respect to acute care services provided by the hospitals affiliated with Ascension that execute supplement agreements with us. In addition, at the close of the transaction, we issued to TCP-ASC ACHI Series LLLP, a limited liability limited partnership jointly owned by Ascension Health Alliance and investment funds affiliated with TowerBrook ("Investor"): (i) 200,000 shares of our 8.00% Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock") for an aggregate price of \$200 million and (ii) a warrant with a term of ten years to acquire up to 60 million shares of our common stock, par value \$0.01 per share, at an exercise price of \$3.50 per share, on the terms and subject to the conditions set forth in the Warrant Agreement ("the Warrant"). The Series A Preferred Stock is immediately convertible into shares of common stock. We refer herein to the foregoing transactions consummated on February 16, 2016 with the Investor and Ascension as the "Transaction".

This long-term strategic partnership has expanded our relationship with Ascension, and we expect that it will continue to expand that relationship, help us to grow our overall business and improve our ability to win customers outside of the Ascension hospital base. We believe the ten year term of the A&R MPSA, together with the significant investment in R1 by Ascension, our largest customer, provides our business with stability and growth. In addition, our management team continues to benefit from the oversight provided by having TowerBrook involved as a strategic investor.

On and effective as of June 24, 2018, we and Ascension entered into a supplement (the "Supplement") to the A&R MPSA. Pursuant to the Supplement, the Company will provide RCM services for physician groups that receive services from Ascension's National Revenue Service Center and other groups associated with Ascension hospital systems. Each such physician group will be required to execute an addendum to the Supplement for those physician groups to receive services under the Supplement. Ascension has agreed that the Company may provide services to additional physician groups affiliated with or acquired by Ascension over time. The Supplement also provides for the re-badging of certain centrally-based revenue cycle operations employees who support Ascension's physician groups. We began providing services under the Supplement during the fourth quarter of 2018 and continued to onboard physician groups in 2019.

## **Customers**

Our customers typically are healthcare providers, including health systems and hospitals, physician groups, and municipal and private EMS providers. We seek to develop strategic, long-term relationships with our customers and focus on providers that we believe understand the value of our operating model and have demonstrated success in both the provision of healthcare services and the ability to achieve financial and operational results.

Hospital systems affiliated with Ascension have accounted for a significant portion of our net services revenue each year since our formation. For the years ended December 31, 2019, 2018, and 2017, net services revenue from healthcare providers affiliated with Ascension accounted for 67%, 69% and 90% of our total net services revenue, respectively.

## ***Customer Agreements***

We generally provide our RCM offering pursuant to managed services agreements with our customers. In rendering our services, we must comply with customer policies and procedures regarding charity care, personnel, data security, compliance and risk management, as well as applicable federal, state and local laws and regulations. Our end-to-end RCM agreements typically span two to ten years (subject to the parties' respective termination rights). In general, our end-to-end RCM agreements provide that:

- we are required to staff a sufficient number of our own employees commensurate with the service offering and provide the technology necessary to implement and manage our services;
- in our operating partner relationship model, we are responsible for providing all revenue cycle personnel, technology and process workflow;
- a portion of our fees are tied to the achievement of certain financial or operating metrics; and
- the parties provide representations and indemnities to each other.

Our agreements for modular solutions generally vary in length between one and three years. Customers pay a contractually negotiated fee for these services on a fixed fee, per-use or volumetric basis and, in certain cases, a portion of our fees are tied to the achievement of certain metrics.

## **Sales and Marketing**

Our new business opportunities are generated by our sales and marketing team and other members of our senior management team. Our customer acquisition process utilizes traditional and non-traditional techniques to inform the marketplace of R1's solutions. Broad outreach and interest are turned into selling opportunities through demand generation programs and a marketing-sales pipeline management process. Initial interaction with a prospective healthcare provider begins with a key decision maker reporting to executive management. The initial interaction begins by comparing the potential customer's historical and projected results versus a standardized improvement model. The next step is a more detailed assessment of the prospect's existing operations versus our RCM model and a review of the potential opportunities. We begin negotiations with a standardized contract that is customized, as necessary, after collaborative discussions of operational and management issues and our proposed working relationship. Our sales process for RCM managed services agreements typically lasts six to 18 months from the introductory meeting to the agreement's execution, while our sales process for our modular solutions typically lasts three to six months.

## **Technology and Products**

### ***Technology and Product Development***

Our technology and product development process begins with interaction with the marketplace and understanding of healthcare providers' needs and challenges. Our product management team in our Chicago and Salt Lake City offices, working closely with our operations team, leads these efforts with product development operations facilities in the United States and India. We continue to invest in the improvement of our technology and products in order to enhance the services that we provide our customers. We devote substantial resources to our development efforts and plan at an annual, quarterly, and monthly release level. We employ a structured system to assess the impact that potential new technologies, products or enhancements will have on net services revenue, costs, efficiency and customer satisfaction. The results of this analysis are evaluated in conjunction with our overall corporate goals when making development decisions. In addition to our technology and products development team, our operations personnel play an integral role in setting technology and product priorities in support of their objective of keeping our software operating 24 hours a day, seven days a week.

R1's single largest technology investment is centered around our digital transformation initiative. This is a multi-million dollar and multi-year commitment to rapidly develop and deploy automation technologies throughout the revenue cycle process. We anticipate that this investment will improve the patient experience and deliver superior financial results for our clients.

A key deliverable of the initiative is the creation and launch of the R1 Technology & Innovation Center. Located in Salt Lake City, Utah, the 30,000 square foot facility was created to evaluate, test and design new RCM technologies for health systems, hospitals and physician groups, as well as serve as a client experience center. We plan to work with clients to develop ways artificial intelligence and robotic process automation can help address high-value and currently unsolved RCM challenges associated with the cost to collect, denials management, and improving the patient's financial experience.

### ***Proprietary Software Suite***

Our integrated suite of RCM technology provides a layer of analytics, rules processing and workflow capabilities that interface with provider systems to optimize process efficiency and effectiveness. These technologies power the detection of defects on patient accounts and enable staff workflow at point of service areas, customer sites and our global business services operations. Our technology suite includes but is not limited to:

- "R1 Access" powers workflow in customer central business offices and at our scaled global business services centers for pre-registration, financial clearance and financial counseling. The platform processes patient accounts through proprietary rules engines tuned to identify defects in demographic data, authorization processes, insurance benefits and eligibility and medical necessity. Our rules engines in R1 Access are also used to calculate patient cost estimates and prior balance accounts receivables. For the uninsured, the platform helps staff triage patients to find coverage for their visit. Our technology enables staff to work on an exception basis eliminating the need for manual intervention on accounts with no exceptions identified.
- "R1 Link" delivers all of the insight and defect detection capabilities of our proprietary rules engines in real-time to point of service emergency department and registration areas within healthcare organizations. When defects or inconsistent data are detected in the data entry or registration process, users receive targeted messages alerting them to resolve the issue while the patient is still in front of them.
- "R1 Contact," our patient contact application, provides the workflow and data for patient contact center representatives. It enables effective financial discussions with patients on outstanding balances. The platform is integrated into our call center, call-routing and auto-dialer capabilities and facilitates improved outcomes through propriety process and technology approaches.

- "R1 Insight," our proprietary contract modeling platform, is used to accurately calculate the maximum allowed reimbursement for each claim based upon models of our customer's contract with each payer. This platform is used to provide insight into the health of payer contracts and to power portions of the workflow tools described above.
- "R1 Analytics," our web-based reporting and analytics platform, produces over 300 proprietary reports derived from the financial, process and productivity data that we accumulate as a result of our services, which enable us to monitor and identify areas for improvement in the efficacy of our RCM services.
- "R1 Decision," classifies defects in a proprietary nomenclature and distributes data to back end teams for follow up and resolution according to standard operating processes. Defects are identified and noted on accounts as they occur. The platform, along with our "Yield-Based Follow Up" application, is designed to power customer patient financial services departments and our global business services.
- "R1 Physician Advisor," assists our customers in the initiation of a service request by our PAS team. Our platform allows for the electronic submission, tracking, reviewing and auditing of patient cases referred to us. The PAS portal environment is established as a secure site that enables us to receive patient records from customer case managers and route them to our physicians for review. This workflow is supported by an analytics engine within the web portal that provides our customers the ability to improve their compliance and workflow with our real time reporting, dashboards and worklists.
- "R1 Patient Experience," streamlines the interface for patients and physicians with the revenue cycle across all settings of care. It includes self-service appointment management, patient out-of-pocket estimation, online pre-registration and financial clearance. The technology includes web-based, mobile, tablet, kiosk and other access points, which are all connected to R1's proprietary rules engines to reduce revenue cycle defects.
- "R1 Automate," provides robotic process automation, data aggregation from disparate sources, desktop automation and other technologies to automate work. With this technology, repetitive transactional processes are automated, delivering operating efficiency and freeing up staff members to focus on higher-order problem solving and higher value-added work. The solutions target a wide range of functions including prior authorization, coding, accounts receivable follow-up, payment posting and credit balances, among others.
- "R1 Chart Manager," supports patient medical record deficiency management, by evaluating record completeness and optimizing the chart completion workflow. The application creates an intuitive user experience, queuing work by defect and providing visibility to work in process. It allows hand-offs across departments, and tracking of accountability for chart completion, in order to drive velocity and accuracy of the medical record management and coding processes. Customers generally experience improved unbilled AR days and faster cash collection by utilizing the technology.

These proprietary technology applications run on an integrated platform built on a modern event driven architecture and rules engines that enhance integration of systems and operational workflows. Our applications are deployed on a highly-scalable architecture based upon Microsoft and other industry leading platforms. We offer a common experience for end-users and believe the consistent look and feel of our applications allows our customers and staff to use our software suite quickly and easily.

### ***Technology Operations***

Our software interacts with our customers' software through a series of real-time and batch interfaces. We do not require changes to the customer's core patient care delivery or financial systems. Instead of installing hardware or software in customer locations or data centers, we specify the information that a customer needs to extract from its existing systems in order to interface with our systems. This methodology enables our systems to operate with many combinations of customer systems, including custom and industry-standard implementations.

When these interfaces are in place, we provide a holistic application suite across the healthcare provider's revenue cycle. For our purposes, the revenue cycle starts when a patient registers for future service or arrives at a hospital or clinic for unscheduled service, and ends when the healthcare organization has collected all the appropriate revenue from all possible sources. Thus, we provide eligibility, address validation, skip tracing, charge capture, patient and payer follow-up, analytics and tracking, charge master management, contract modeling, contract "what if" analysis, collections and other functions throughout the customer's revenue cycle.

Our core RCM and PAS applications are hosted within enterprise-class, industry-leading, third-party data centers located in Dallas, TX and Ashburn, VA. Our internal financial application suite is hosted in various locations in a U.S.-based cloud model. The third-party partners we use for hosting are compliant with the Statement on Standards for Attestation Engagements, or SSAE, No. 16, Reporting on Controls at a Service Organization (Service Organization Controls 1). We have agreements with our hardware and system software suppliers for support 24 hours a day, seven days a week. Our operations personnel also use our resources located in our other U.S. facilities, as well as our India facilities.

Data and information regarding our customers' patients reside within the continental U.S. data centers and is encrypted both when transmitted over the internet and at-rest. We have dedicated links for data replication between our primary and secondary production data centers for resiliency and redundancy. We also have data backups that occur at appropriate intervals.

If a combination of events were to cause a system failure, we would follow our IT incident management and IT disaster-recovery processes to isolate the failure and restore services. We believe that no combination of failures by our systems can impact a customer's ability to deliver patient care because our systems run parallel to the client's host system, which is the system of record for all patient-related information.

Our third-party data centers are designed to withstand many catastrophic events such as blizzards, hurricanes and power grid anomalies. To protect against a catastrophic event where our primary data center is destroyed and service cannot be completely restored within a few days, we continuously replicate our data from our primary data center to our secondary data center. In addition, we store backups of our virtual servers, applications, and databases off-site, which would be utilized to make our systems and IT infrastructure operational. We would re-establish operations by pointing to secondary data-center servers and, where appropriate, restoring data from the off-site backups and re-establishing connectivity with our customers' host systems. There would be minimal changes needed on the customer host systems, and no changes on customer workstations would need to be made for customers to reconnect to our systems.

### ***Digital Transformation Office***

In November 2018, we launched a Digital Transformation Office ("DTO") to systematically automate our transactional environment on an end-to-end basis. The DTO's three principal objectives are: (1) digitization of the patient and physician interface with the revenue cycle; (2) automation of manual tasks using robotic process automation technology; and (3) using advanced data analysis methods to improve complex revenue cycle processes such as denials via machine learning and predictive modeling. We expect to complete the original pipeline of automation by the end of the first quarter of 2020, and we continue to uncover opportunities for both net new automations and extending existing automations to capture incremental value.

### ***Information Security***

Our priority is protecting our customers' confidential and protected health information ("PHI"). Our security strategy employs various best practices, multi-layered defenses, and relevant technologies designed to control, audit, monitor and protect access to sensitive information. Our senior officers, including the Chief Information Officer and Chief Information Security Officer, are responsible for the operation of our information security program and regularly communicate with the Compliance and Risk Management Committee on the program, including with respect to the state of the program, compliance with applicable regulations, current and evolving threats, and recommendations for changes in the information security program. The information security program also includes a

cybersecurity incident response plan that is designed to provide a management framework across company functions for a coordinated assessment and response to potential security incidents.

With our comprehensive, cross-functional approach, we have received and maintained certification from the Health Information Trust ("HITRUST") Alliance since January 2013. The HITRUST Common Security Framework ("CSF"), the most widely adopted framework in the healthcare industry, provides a comprehensive set of baseline security controls that leverage nationally and internationally accepted standards, including ISO, NIST, PCI, HIPAA and COBIT. Our HITRUST certification validates our continued commitment to compliance with the Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it, such as the Health Information Technology for Economic and Clinical Health Act, or HITECH Act ("HITECH") and OMNIBUS regulations, which we collectively refer to as "HIPAA", and to state-specific security and privacy laws regarding the creation, access, storage or exchange of PHI and financial information. With continual receipt of HITRUST CSF Certified Status, we believe we are recognized as meeting key healthcare regulations and requirements for protecting and securing sensitive private healthcare information and appropriately managing risk.

## **Competition**

The market for our solutions is highly competitive and we expect competition to intensify in the future. We believe that competition for the services we provide is based primarily on the following factors:

- knowledge and understanding of the complex healthcare payment and reimbursement system in the United States;
- a track record of delivering revenue improvements and efficiency gains for healthcare organizations;
- predictable and measurable results;
- the ability to deliver a solution that is fully-integrated along each step of a healthcare organization's revenue cycle operations;
- cost-effectiveness, including the breakdown between up-front costs and pay-for-performance incentive compensation;
- reliability, simplicity and flexibility of technology platforms;
- understanding of the healthcare industry's regulatory environment; and
- sufficient and scalable infrastructure and financial stability.

We face competition from various sources, including other end-to-end RCM providers and the internal RCM departments of healthcare organizations. Healthcare providers that previously have made internal investments in their RCM departments sometimes choose to continue to rely on their own internal RCM staff.

We also compete with several categories of external market participants, most of which focus on specific components of the healthcare revenue cycle. External market participants include:

- software vendors and other technology-supported RCM business process outsourcing companies;
- traditional consultants; and
- information technology outsourcers.

These types of external participants also compete with us in the field of modular solutions.

Although we believe that there are barriers to replicating our end-to-end RCM solution, competition may intensify in the future. Other companies may develop superior or more economical service offerings that healthcare providers could find more attractive than our offerings. Moreover, the regulatory landscape may shift in a direction that is more strategically advantageous to existing and future competitors.

## **Government Regulation**

The customers we serve are subject to a complex array of federal and state laws and regulations. These laws and regulations may change rapidly and unpredictably, and it is frequently unclear how they apply to our business. We devote significant efforts, through training of personnel and monitoring, to establish and maintain compliance with all regulatory requirements that we believe are applicable to our business and the services we offer.

### ***Government Regulation of Health Information***

***Privacy and Security Regulations.*** HIPAA contains substantial restrictions and requirements with respect to the use and disclosure of an individual's PHI. HIPAA prohibits a covered entity from using or disclosing an individual's PHI unless the use or disclosure is authorized by the individual or is specifically required or permitted under HIPAA. Under HIPAA, covered entities must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic PHI maintained or transmitted by them or by others on their behalf.

HIPAA applies to covered entities such as healthcare providers that engage in HIPAA-defined standard electronic transactions, health plans and healthcare clearinghouses. In February 2009, HIPAA was amended by the HITECH Act to impose certain of the HIPAA privacy and security requirements directly upon "business associates" that perform functions on behalf of, or provide services to, certain covered entities. Most of our customers are covered entities and we are a business associate to many such customers under HIPAA as a result of our contractual obligations to perform certain functions on behalf of, and provide certain services to, those customers. As a business associate, we sometimes also act as a clearinghouse in performing certain functions for our customers. In order to provide customers with services that involve the use or disclosure of PHI, HIPAA requires our customers to enter into business associate agreements with us.

Such agreements must, among other things, provide adequate written assurances:

- as to how we will use and disclose the PHI;
- that we will implement reasonable administrative, physical and technical safeguards to protect such information from misuse;
- that we will enter into similar agreements with our agents and subcontractors that have access to the information;
- that we will report security incidents and other inappropriate uses or disclosures of the information; and
- that we will assist the customer with certain of its duties under HIPAA.

***Transaction Requirements.*** In addition to privacy and security requirements, HIPAA also requires that certain electronic transactions related to healthcare billing be conducted using prescribed electronic formats. For example, claims for reimbursement that are transmitted electronically to payers must comply with specific formatting standards, and these standards apply whether the payer is a government or a private entity. We are contractually required to structure and provide our services in a way that supports our customers' HIPAA compliance obligations.

***Data Security and Breaches.*** In recent years, there have been well-publicized data breach incidents involving the improper dissemination of personal health and other information of individuals, both within and outside of the healthcare industry. Many states have responded to these incidents by enacting laws requiring holders of personal



information to maintain safeguards and to take certain actions in response to data breach incidents, such as providing prompt notification of the breach to affected individuals and government authorities. In many cases, these laws are limited to electronic data, but states are increasingly enacting or considering stricter and broader requirements. Under the HITECH Act and its implementing regulations, business associates are also required to notify covered entities, which in turn are required to notify affected individuals and government authorities of data security breaches involving unsecured PHI. In addition, the U.S. Federal Trade Commission ("FTC") has prosecuted some data breach cases as unfair and deceptive acts or practices under the Federal Trade Commission Act ("FTC Act"). We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data, and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents.

**State Laws.** In addition to HIPAA, most states have enacted patient confidentiality laws that protect against the unauthorized disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards and data security breach notification requirements. Such state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we must comply with them even though they may be subject to different interpretations by various courts and other governmental authorities.

**Other Requirements.** In addition to HIPAA, numerous other state and federal laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health and other information and healthcare provider information. The FTC has issued guidance for, and several states have issued or are considering new regulations to require, holders of certain types of personally identifiable information to implement formal policies and programs to prevent, detect and mitigate the risk of identity theft and other unauthorized access to or use of such information. Further, federal and state legislation has been proposed, and through rule making or executive action, several states have taken action, to restrict or discourage the disclosure of medical or other personally identifiable information to individuals or entities located outside of the United States.

**International Laws.** In addition to data privacy and security statutes in the United States, the European Union ("EU") introduced the General Data Protection Regulation 2016/679 ("GDPR"). GDPR became applicable on May 25, 2018, and applies to our activities conducted from an establishment in the EU and any targeting activities toward the EU. Our UK operations will remain subject to GDPR (or the UK equivalent) depending on the outcome of the Brexit negotiations. GDPR creates an enhanced range of compliance obligations, including duties as to privacy notices, legal bases for processing, data retention, data security, and rights for individuals. Additionally, GDPR significantly increases financial penalties for non-compliance, including possible fines of up to 4% of global annual turnover for the preceding financial year or €20 million (whichever is higher) for the most serious infringements.

#### ***Government Regulation of Reimbursement***

Our customers are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs. Accordingly, our customers are sensitive to legislative and regulatory changes in, and limitations on, the government healthcare programs and changes in reimbursement policies, processes and payment rates. During recent years, there have been numerous federal legislative and administrative actions that have affected government programs, including adjustments that have reduced or increased payments to physicians and other healthcare providers and adjustments that have affected the complexity of our work. For example, the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) established a Quality Payment Program (QPP) that requires physician groups to track and report a multitude of data relating to quality, clinical practice improvement activities, use of an electronic health record and cost. Success or failure with respect to these measures may impact reimbursement in future years. Similarly, in 2020, hospitals participating in the Medicare Value-Based Purchasing Program, which requires the reporting of quality and cost measures, may receive a net decrease in payments of up to 1.72%. It is possible that the federal or state governments will implement additional reductions, increases or changes in reimbursement in the future under government programs that adversely affect our customer base or increase the cost of providing our services. Any such changes could adversely affect our own financial condition by reducing the reimbursement rates of our customers.

## ***Fraud and Abuse Laws***

A number of federal and state laws, generally referred to as health care fraud and abuse laws, apply to hospitals, physicians, and others who (i) furnish health care services to patients and submit claims for reimbursement to government programs and/or commercial insurers, and (ii) refer patients to one another. Given the breadth of these laws, they may affect our business, either directly or because they apply to our customers. These laws and regulations include:

***False Claims Laws.*** There are numerous federal and state laws that forbid (i) submitting a false claim, (ii) causing the submission of a false claims, (iii) retaining a known overpayment, or (iv) engaging in similar types of conduct. The federal civil False Claims Act ("FCA"), 31 U.S.C. §3729 et seq., for example, prohibits (i) knowingly presenting, or causing to be presented, a false or fraudulent claim for payment or approval, or (ii) knowingly making, using, or causing to be made or used, a false record or statement material to a false or fraudulent claim. Further, under its so-called "reverse false claims" provision, the federal FCA imposes liability on any person who knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the government. An obligation to pay or transmit money or property to the government, in turn, may arise if a person identifies an overpayment and fails to report and return the overpayment to the government within 60 days. Violations of the FCA may result in treble damages and per claim fines ranging from \$11,181 to \$22,363. Other federal laws, such as those governing the imposition of civil monetary penalties, 42 U.S.C. §1320a-7a, prohibit similar conduct, as do many state laws.

***Anti-Kickback Laws.*** There are numerous federal and state laws that prohibit one person from providing anything of value to another person if one purpose of the arrangement is to induce the payee to refer patients or other business to the payor for services that are covered by a government program (or, in the case of some state laws, a commercial insurer). For example, the federal health care program anti-kickback statute ("AKS"), 42 U.S.C. §1320a-7b(b), prohibits one person from "knowingly and willfully" offering or paying any "remuneration" to another person to induce the recipient to (i) refer an individual for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicare, Medicaid or any other federal health care program, or (ii) purchase, lease, order, or arrange for or recommend purchasing, leasing, or ordering any good, facility, service, or item for which payment may be made in whole or in part under a federal health care program. The AKS also prohibits a person from soliciting or receiving remuneration in exchange for engaging in any of these activities. The AKS has a number of statutory exceptions and regulatory safe harbors (collectively, "safe harbors"). If all of the conditions of a safe harbor are met, the arrangement at issue will be protected from prosecution under the AKS. Violation of the AKS can result in imprisonment, fines, exclusion from participation in federal health care programs ("program exclusion"), and exposure under the FCA. Many states have adopted anti-inducement laws similar to the AKS. In some cases, these state laws are narrower than the federal AKS (applying only to certain categories of persons, such as physicians). In other cases, the state laws are broader than the federal AKS (covering inducements to refer not only government program patients and business but commercially insured patients and business as well).

***Physician Self-Referral Laws.*** Under the federal physician self-referral law (or "Stark Law"), 42 U.S.C. §1395nn, if a physician (or one of his or her immediate family members) has a financial relationship with a health care provider (such as a hospital), then, in the absence of an applicable exception (i) the physician may not refer Medicare beneficiaries to that provider for certain so-called "designated health services," and (ii) in the event of such a referral, the provider may not bill Medicare, the beneficiary, or any other person for those services. Violations of the referral and billing prohibitions of the Stark Law can result in civil monetary penalties, program exclusion, and exposure under the FCA. Many states have their own physician self-referral laws. These state laws vary widely, in some cases being narrower, and in other cases broader, than the Stark Law.

Health care fraud and abuse laws, such as those described above, apply to many of our customers and, under some circumstances, could apply to us. Although we believe that our practices and our customers' practices are generally in compliance with these laws, we cannot be certain that governmental officials or others will not assert otherwise.

### ***Emergency Medical Treatment and Labor Act***

The federal Emergency Medical Treatment and Labor Act ("EMTALA") was enacted to ensure public access to emergency services regardless of a patient's insurance status or ability to pay. Specifically, EMTALA imposes obligations on Medicare-participating hospitals to perform a medical screening examination on all individuals that present to the hospital's emergency department seeking care. In the event an individual is determined to have an emergency medical condition, the hospital must either stabilize such individual consistent with the capability and capacity of the hospital, or initiate an appropriate transfer to another hospital consistent with applicable EMTALA provisions. Sanctions for violating EMTALA include program exclusion and civil monetary penalties. In addition, the law creates a private right of action for any individual who suffers personal harm as a direct result of a violation of the law. A hospital that suffers a financial loss as a direct result of another hospital's violation of the law also has a similar right.

EMTALA generally applies to our customers that are Medicare-participating hospitals, and we assist our customers with the intake of their patients. Although we believe that our customers' practices are generally in compliance with the law and applicable regulations, we cannot be certain that governmental officials or others will not assert that we or our customers are in violation of EMTALA nor can we predict what obligations may be imposed by regulations to be issued in the future.

### ***Laws Limiting Assignment of Reimbursement Claims***

Various federal and state laws limit whether and the extent to which claims for reimbursement from a government program can be assigned (by a patient to a provider) or reassigned (by one provider to another person). We do not believe that our customers reassign their claims for Medicare or Medicaid reimbursement to us. Any determination to the contrary, however, could adversely affect our ability to be paid for the services we provide to our customers, require us to restructure the manner in which we are paid, or have further regulatory consequences.

### ***Regulation of Debt Collection Activities***

The federal Fair Debt Collection Practices Act ("FDCPA") regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our accounts receivable activities may be deemed to be subject to the FDCPA. The FDCPA establishes specific guidelines and procedures that debt collectors must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt collectors, including the threat of violence or criminal prosecution, obscene language or repeated telephone calls made with the intent to abuse or harass. The FDCPA also places restrictions on communications with individuals other than consumer debtors in connection with the collection of any consumer debt and sets forth specific procedures to be followed when communicating with such third parties for purposes of obtaining location information about the consumer. In addition, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt collectors. Finally, the FDCPA imposes certain limitations on lawsuits to collect debts against consumers.

Debt collection activities are also regulated at the state level. Most states have laws regulating debt collection activities in ways that are similar to, and in some cases more stringent than, the FDCPA. In addition, some states require companies engaged in the collection of consumer debt to be licensed. In all states where we operate, we believe that we (1) currently hold all required licenses, (2) are in the process of requesting and retaining all applicable licenses; or, (3) are exempt from licensing.

We are also subject to the Telephone Consumer Protection Act ("TCPA"). In the process of communicating with our customers' patients, we use a variety of communications methods. The TCPA places certain restrictions on companies that place telephone calls to consumers.

The FTC has the authority to investigate consumer complaints relating to the FDCPA and the TCPA, and to initiate or recommend enforcement actions, including actions to seek monetary penalties. State officials typically

have authority to enforce corresponding state laws. In addition, affected consumers may bring suits, including class action suits, to seek monetary remedies (including statutory damages) for violations of the federal and state provisions discussed above.

### ***Regulation of Credit Card Activities***

We process, on behalf of our customers, credit card payments from their patients. Various federal and state laws impose privacy and information security laws and regulations with respect to the use of credit cards. If we fail to comply with these laws and regulations or experience a credit card security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal or financial risk as a result of non-compliance.

### ***Foreign Regulations***

Our international operations are subject to additional regulations that govern the creation, continuation and winding up of companies, as well as the relationships between the shareholders, the company, the public and the government.

### **Intellectual Property**

We rely upon a combination of patent, trademark, copyright and trade secret laws and contractual terms and conditions to protect our intellectual property rights, and have sought patent protection for aspects of our key innovations.

We have been issued four U.S. patents which expire between 2027 and 2030, upon payment of U.S. Patent maintenance fees, and two additional pending U.S. patent applications that relate to key domains of our R1 Access software suite: improving efficiency of client claims' reimbursement, follow-up and measurement. Legal standards relating to the validity, enforceability and scope of protection of patents can be uncertain. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our patent applications may not result in the grant of patents with the scope of the claims that we seek, if at all, or the scope of the granted claims may not be sufficiently broad to protect our products and technology. Our four granted patents or any patents that may be granted in the future from pending or future applications may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. Third parties may develop technologies that are similar or superior to our proprietary technologies, duplicate or otherwise obtain and use our proprietary technologies or design around patents owned or licensed by us. If our technology is found to infringe any patent or other intellectual property right held by a third party, we could be prevented from providing our service offerings and/or subjected to significant damage awards.

We also rely, in some circumstances, on trade secrets to protect our technology. We control access to and the use of our application capabilities through a combination of internal and external controls, including contractual protections with employees, customers, contractors and business partners. We license some of our software through agreements that impose specific restrictions on our customers' ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also require employees and contractors to sign non-disclosure agreements and invention assignment agreements to give us ownership of intellectual property developed in the course of working for us.

Consistent with common industry practices, we occasionally utilize open source software or third party software products to meet our clients' needs.

### **Financial Information About Geographic Areas**

The majority of our customers are entities organized and located within the United States. See Note 7, Property, Equipment and Software, to our consolidated financial statements for information regarding the location of our long-lived assets.

**Employees**

As of February 13, 2020, we had approximately 19,000 full-time employees, as well as approximately 3,500 part-time employees. Of these employees, approximately 10,500 full-time and 3,400 part-time employees were located in the U.S., and approximately 8,500 full-time employees and 50 part-time employees were located internationally. Our employees are not represented by a labor union, and we consider our current employee relations to be good.

**Corporate Information**

We were incorporated in Delaware in 2003 as Healthcare Services, Inc. and were named Healthcare Services, Inc. from July 2003 until August 2009 when we changed our name to Accretive Health, Inc. We operated under the name Accretive Health until January 5, 2017, when we changed our name to R1 RCM Inc. Our principal executive offices are located at 401 North Michigan Avenue, Suite 2700, Chicago, Illinois 60611, and our telephone number is (312) 324-7820.

**Information Availability**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments and exhibits to those reports are available free of charge on our website at [www.r1rcm.com](http://www.r1rcm.com) under the "Investor Relations" page as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise. Our reports filed with the SEC are also made available on its website at [www.sec.gov](http://www.sec.gov).

**Item 1A. Risk Factors**

**Risks Relating to our Business and Industry**

***We may not be able to maintain profitability.***

Prior to 2019, we had incurred net losses in most of our recent fiscal years in accordance with United States generally accepted accounting principles ("GAAP"). We also incurred significant costs in most of our recent fiscal years including, among other things, costs related to acquisitions and other strategic initiatives, debt related fees and expenses, restructuring and/or previously settled lawsuits filed against us and we may continue to incur additional costs in connection with certain of these matters. Further, we have incurred and expect to incur additional costs for investments in technology, facilities and talent to support the anticipated growth of our business, including growth related to the expected implementation of our services under our operating partner relationships. We intend to continue to increase our operating expenses associated with sales and marketing in future years in an effort to expand our business. If our revenue does not increase to offset these increases in costs, our operating results would be adversely affected. You should not consider our historical operating results as indicative of future operating results, and we cannot assure you that we will be able to maintain profitability in the future. Each of the risks described in this "Risk Factors" section, as well as other factors, may adversely affect our future operating results.

***If we are unable to retain our existing customers or acquire new customers, our financial condition will suffer.***

Our success depends in part upon the retention of our customers and our ability to acquire new customers. We derive our net services revenue primarily from managed services agreements pursuant to which we receive performance-based fees. Customers can elect not to renew their managed services agreements with us upon expiration. Our agreements with certain customers permit such customers to terminate for convenience, subject to a notice period. If a managed services agreement is not renewed or is terminated early for any reason, we would not derive the financial benefits that we would expect to derive by serving that customer. In addition, certain customer agreements contain clauses requiring us to offer fees for comparable services at least as low as the fees we offer other customers. If we offer new customers a lower fee, it may impact our ability to continue to be profitable while serving existing customers.

Some of our managed services agreements require us to adhere to extensive, complex data security, network access and other institutional procedures and requirements of our customers, and we cannot guarantee that some of our customers will not allege that we have not complied with all such procedures and requirements. If we breach a managed services agreement or, for certain of our managed services agreements, fail to perform in accordance with contractual service levels, we may be liable to the customer for damages, and either we or the customer may generally terminate an agreement for a material uncured breach by the other. In addition, financial issues or other changes in customer circumstances, such as a customer change in control (including as a result of increasing consolidation within the healthcare provider industry), may cause us or the customer to seek to modify or terminate a managed services agreement.

Increasing consolidation within the healthcare provider industry may also make it more difficult for us to acquire new customers, as consolidated healthcare systems may be more likely to have incumbent revenue cycle management providers or significant internal revenue cycle capabilities. For example, certain of our smaller customers have been acquired by larger healthcare systems and ceased to be customers.

Additionally, from time to time we have reached settlement agreements with customers which provided for the early terminations of those customers' agreements. The loss of customer agreements has adversely affected our operating results historically.

***If we fail to manage our operations effectively, our business would be harmed.***

We have not always been fully successful in managing the expansion of our operations which has led, at times, to customer dissatisfaction and weaknesses in our operating, internal and financial controls. To manage potential future growth, we will need to hire, integrate and retain highly skilled and motivated employees, and will need to work effectively with a growing number of customer employees engaged in revenue cycle operations. We will also need to continue to maintain or improve our operating, internal, and financial controls, reporting systems and procedures. If we do not effectively manage our operations, we may not be able to execute on our business plan, respond to competitive pressures, take advantage of market opportunities, satisfy customer requirements or maintain high-quality service offerings.

***The markets for our RCM service offering may develop more slowly than we expect. Additionally, potential customers for our services may have previously made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources, which could adversely affect our revenue growth.***

Our success depends, in part, on the willingness of healthcare organizations to implement integrated solutions for the areas in which we provide services. Some organizations may be reluctant or unwilling to implement our solutions for a number of reasons, including failure to perceive the need for improved revenue cycle operations or lack of knowledge about the potential benefits our solutions provide.

Even if potential customers recognize the need to improve revenue cycle operations, they may not select solutions such as ours because they previously have made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources. As a result, the markets for integrated, end-to-end revenue cycle management services may develop more slowly than we expect, which could adversely affect our revenue and operating results.

***We face a selling cycle of variable length to secure new RCM agreements, making it difficult to predict the timing of specific new customer relationships.***

We face a selling cycle of variable length, typically spanning six to 18 months or longer, to secure a new managed services agreement. Even if we succeed in developing a relationship with a potential new customer, we may not be successful in entering into a managed services agreement with that customer. In addition, we cannot accurately predict the timing of entering into managed services agreements with new customers due to the complex procurement decision processes of most healthcare providers, which often involves high-level management or board committee approvals. Also, new and renewal government contracts often require approval of appointed or elected bodies which means that politics and public opinion may affect to outcome of a bidding process. Consequently, we have only a limited ability to predict the timing of specific new customer relationships.

***We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.***

The market for our solutions is highly competitive and we expect competition to intensify in the future. The rapid changes in the U.S. healthcare market due to financial pressures to reduce the growth in healthcare costs and from regulatory and legislative initiatives are increasing the level of competition. We face competition from new entrants, internal RCM departments and external participants. External participants that are our competitors include end-to-end RCM providers, software vendors and other technology-supported RCM business process outsourcing companies, traditional consultants and information technology outsourcers. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, regulations or customer requirements. We may not be able to compete successfully with these companies, and these or other competitors may introduce technologies or services that render our technologies or services obsolete or less marketable. Even if our technologies and services are more effective than the offerings of our competitors, current or potential customers might prefer competitive solutions to our solutions. Increased competition is likely to result in

pricing pressures, which could adversely affect our margins, growth rate or market share. In addition, many of our government customers require rebid of existing service contracts every three to five years. Even if we have a good relationship and strong performance history with the customer, open and competitive bidding practices mean we may not be awarded the renewal business or may have to aggressively price our services to be successful.

***If our information technology security measures are breached or fail and unauthorized access is obtained to a customer's data, our service may be perceived as not being secure, the attractiveness of our services to current or potential customers may be reduced and we may incur significant liabilities.***

Our services involve the storage and transmission of customers' proprietary information and protected health, financial, payment and other personal information of patients. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. Due to the sensitivity of this information, the effectiveness of such security efforts is very important. If our security measures are breached or fail as a result of third-party action, employee error, malfeasance or otherwise, someone may be able to obtain unauthorized access to customer or patient data. Improper activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our computer systems. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, and we may be unable to anticipate these techniques or to implement adequate preventive measures. Our security measures may not be effective in preventing these types of activities, and the information technology security measures of our third-party data centers and service providers may not be adequate.

To date, cyber attacks have not had a material impact on our business, results of operations or financial condition; however, we could suffer material losses in the future as a result of cyber attacks, and we are not able to predict the severity of these attacks. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the ongoing shortage of qualified cyber security professionals and the interconnectivity and interdependence of third parties to our systems. The occurrence of a cyber attack, breach, unauthorized access, misuse, computer virus or other malicious code or other cyber security event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of confidential information that belongs to us or our customers or PHI that is processed and stored in, and transmitted through, our computer systems and networks. The occurrence of such an event could also result in damage to our software, computers or systems, or otherwise cause interruptions or malfunctions in our, our customers' or third parties' operations. If a breach of our information technology security occurs, we could face damages for contract breach, penalties for violation of applicable laws or regulations, possible lawsuits by individuals affected by the breach and significant remediation costs and efforts to prevent future occurrences. Although we currently carry insurance coverage to protect ourselves against some of these risks, our inability to continue to obtain such insurance coverage at reasonable costs could also have a material adverse effect on us. In addition, whether there is an actual or a perceived breach of our information technology security, the market perception of the effectiveness of our security measures could be harmed and we could lose current or potential customers.

***Delayed or unsuccessful implementation of our technologies or services with our customers or implementation costs that exceed our expectations may harm our financial results.***

To implement our solutions, we work with our customer's existing vendors, management and staff and layer our proprietary technology applications on top of the customer's existing patient accounting and clinical systems. Each customer's situation is different, and unanticipated difficulties and delays may arise, such as delays in, or the inability to, obtain approvals or access rights from our customers' vendors. If the implementation process is not executed successfully or is delayed, our relationship with the customer may be adversely affected and our results of operations could suffer. Implementation of our solutions also requires us to integrate our own employees into the customer's operations. The customer's circumstances may require us to devote a larger number of our employees than anticipated, which could increase our costs and harm our financial results.



***Disruptions in service or damage to our global business services centers and third-party operated data centers could adversely affect our business.***

Our global business services centers and third-party operated data centers are essential to our business. Our operations depend on our ability to operate our global business services centers and maintain and protect our applications, which are located in data centers that are operated for us by third parties. We cannot control or assure the continued or uninterrupted availability of these third-party data centers. In addition, our information technologies and systems, as well as our data centers and global business services centers, are vulnerable to damage or interruption from various causes, including (1) acts of God and other natural disasters, war and acts of terrorism and (2) power losses, computer systems failures, internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. We have a business continuity plan and maintain insurance against fires, floods, other natural disasters and general business interruptions to mitigate the adverse effects of a disruption, relocation or change in operating environment at one of our data centers or global business services centers, but the situations we plan for and the amount of insurance coverage we maintain may not be adequate in every particular case. In addition, the occurrence of any of these events could result in interruptions, delays or cessations in service to our customers, or in interruptions, delays or cessations in the direct connections we establish between our customers and payers. Any of these events could impair or inhibit our ability to provide our services, reduce the attractiveness of our services to current or potential customers and adversely affect our financial condition and results of operations.

In addition, despite the implementation of security measures, our infrastructure, data centers, global business services centers or systems that we interface with, including the internet and related systems, may be vulnerable to physical break-ins, improper employee or contractor access, programming errors, cyber attacks, computer viruses, malicious code, phishing attacks, denial-of-service attacks or other information security threats by third parties seeking to disrupt operations or misappropriate information or similar physical or electronic breaches of security. Any of these can cause system failure, including network, software or hardware failure, which can result in service disruptions. As a result, we may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by such breaches.

***Our growing global business services operations expose us to risks that could have a material adverse effect on our costs of operations.***

We employ a significant number of personnel internationally and expect to continue to add personnel in India. While there are cost and service advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees and has led to a commensurate increase in compensation expense. In the future, we may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure in India.

Our reliance on an international workforce exposes us to disruptions in the business, political and economic environment in those regions. Maintenance of a stable political environment is important to our operations, and terrorist attacks and acts of violence or war may directly affect our physical facilities and workforce or contribute to general instability. Our global business services operations require us to comply with local laws and regulatory requirements, which are complex and of which we may not always be aware, and expose us to foreign currency exchange rate risk. Our global business services operations may also subject us to trade restrictions, reduced or inadequate protection for intellectual property rights, security breaches and other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.

***We have a substantial amount of indebtedness. The agreement that governs our indebtedness contains covenants that impose restrictions on our ability to operate.***

We have a substantial amount of indebtedness as a result of our strategic initiatives. The loan agreement for this indebtedness contains certain customary representations and warranties, affirmative and negative financial

covenants, indemnity obligations and events of default. These covenants could have important consequences to us, including:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms, or at all;
- negative financial covenants contained in the debt agreement require us to meet financial tests that may affect our flexibility in planning for, and reacting to, changes in our business, including possible acquisition opportunities;
- we will need a substantial portion of our cash flow to make principal and interest payments on our indebtedness, reducing the funds that would otherwise be available for operations and future business opportunities; and
- our debt level will make us more vulnerable than our less leveraged competitors to competitive pressures or a downturn in our business or the economy generally.

Our ability to comply with the provisions of the debt agreement may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations.

***If we lose key personnel or if we are unable to attract, hire, integrate and retain our key personnel and other necessary employees, our business could be harmed.***

Our future success depends in part on our ability to attract, hire, integrate and retain key personnel. Our future success also depends in part on the continued contributions of our executive officers and other key personnel, each of whom may be difficult to replace. The loss of services of any of our executive officers or key personnel, or the inability to continue to attract qualified personnel could have a material adverse effect on our business. Competition for the caliber and number of employees we require is intense. We may face difficulty identifying and hiring qualified personnel at compensation levels consistent with our existing compensation and salary structure. In addition, we invest significant time and expense in training each of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring, integrating and training their replacements, and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.

***We may be unsuccessful in integrating our customers' revenue cycle management employees who become our employees under our operating partner service offering model.***

Under the terms of our operating partner model agreements, we expect to transition a significant number of our customers' revenue cycle management employees to our employment. We may experience difficulties in integrating these employees. Such difficulties may include the diversion of management's attention from other business concerns. If we experience difficulties in integrating these employees, our business, results of operations and financial condition could be adversely affected.

***Our results of operations and cash flows fluctuate as a result of certain factors, some of which may be outside of our control.***

A variety of events could occur which are outside of our control and could have an impact on our operations and cash flows. For example, the timing of any new customer additions is not likely to be uniform period to period, which can cause fluctuations in our results. Operating costs are typically higher in periods in which we add new customers because we incur expenses to implement our operating model at those customers. Further, fees billable to customers under many of our managed services agreements experience fluctuations as they are tied contractually to the level of our customers' cash receipts. Fees have a significant effect on our cash flows, and

changes in the amount of fees can cause significant fluctuations in our quarter-to-quarter operating cash flows. Our cash flows can also be impacted by the timing of operating costs.

***We may be liable to our customers or third parties if we make errors in providing our services, and our anticipated net services revenue may be lower if we provide poor service.***

The services we offer are complex, and we make errors from time to time. Errors can result from the interface of our proprietary technology applications and a customer's existing technologies or we may make human errors in any aspect of our service offerings. The costs incurred in correcting any material errors may be substantial and could adversely affect our operating results. Our customers, or third parties such as our customers' patients, may assert claims against us alleging that they suffered damages due to our errors, and such claims could subject us to significant legal defense costs in excess of our existing insurance coverage and adverse publicity regardless of the merits or eventual outcome of such claims. In addition, if we provide poor service to a customer and the customer therefore fails to achieve agreed upon improvement in financial or operating metrics, the incentive fee payments to us from that customer will be lower than anticipated.

***Our business operations currently include the collection, on behalf of our customers, of medical co-pays and other payments that are due to our customers from their patients. This business practice has been perceived negatively by the public and this negative perception has adversely affected (and may continue to adversely affect) our business, results of operations and financial condition.***

We currently collect, on behalf of our customers, medical co-pays and other non-defaulted payments that are due to our customers from their patients, pursuant to managed services agreements with our customers. Collection of these payments from patients may become a more significant part of our RCM services as industry trends continue to increase patient responsibility as a percentage of total compensation to healthcare providers. This business practice, which has received widespread, unfavorable publicity as a result of lawsuits previously initiated against us, has been negatively perceived by the public and has led us to change aspects of our business practices, made it more difficult to retain existing customers and attract new customers, extended the time it takes to enter into service agreements with new customers, and resulted in a material adverse effect on our business, results of operations and financial condition, and it may continue to do so.

***Negative public perception in the United States regarding offshore outsourcing and proposed legislation may increase the cost of delivering our services.***

Offshore outsourcing is a politically sensitive topic in the United States. For example, various organizations and public figures in the United States have expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States. Current or prospective customers may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing would increase the cost of delivering our services if we had to relocate aspects of our services from our global business services operations to the United States where operating costs are higher.

Legislation in the United States may be enacted that is intended to discourage or restrict offshore outsourcing. In the United States, federal and state legislation has been proposed, and in several states enacted, to restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. Further, through rule making or executive action, some states have imposed limitations on offshore outsourcing of administrative services for the Medicaid program. It is possible that additional legislation could be adopted or regulatory guidance issued that would restrict U.S. private sector companies that have federal or state government contracts, or that receive government funding or reimbursement, such as Medicare or Medicaid payments, from outsourcing their services to offshore service providers. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing in the United States may adversely affect our ability to do business, particularly if these changes are widespread, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Litigation has materially adversely affected our business, financial condition, operating results and cash flows and caused unfavorable publicity and may continue to do so.***

We are currently and have in the past been involved in lawsuits, claims, audits and investigations related to our business. These lawsuits, claims, audits and investigations, which are described in "Part I – Item 3 – Legal Proceedings", have resulted in, and may lead to additional, unfavorable publicity for us and may continue to materially adversely affect our business, financial condition, operating results and cash flows in various ways, including having a disruptive effect upon the operation of our business and consuming the time and attention of our senior management.

In addition, we have incurred substantial expenses in connection with these litigation matters, including substantial fees for attorneys. Although we maintain insurance that may provide coverage for some or all of these expenses, and we have given notice to our insurers of the claims, our insurers have responded, in many instances, by reserving their rights under the policies, including the rights to deny coverage under various policy exclusions. There is risk that the insurers will rescind the policies, that some or all of the claims will not be covered by such policies, or that, even if covered, our ultimate liability will exceed the available insurance.

We are unable to predict the outcome of pending legal actions. The ultimate resolutions of our pending litigation could have a material adverse effect on our financial results, financial condition or liquidity, and on the trading price of our common stock.

In addition, we may become subject to future lawsuits, claims, audits and investigations that could result in the incurrence of substantial additional expense, subject us to significant liability, result in significant settlement payments or further divert management's attention from our business, and thereby materially adversely affect our business, financial condition, operating results and cash flows.

***The imposition of legal responsibility for obligations related to our customers' employees could adversely affect our business and subject us to liability.***

Under our co-management model, we work with customers' employees engaged in the activities included in the scope of our services. Our co-management model agreements establish the division of responsibilities between us and our customers for various personnel management matters, including compliance with and liability under various employment laws and regulations. We could, nevertheless, be found to have liability with our customers for actions against or by employees of our customers, including under various employment laws and regulations, such as those relating to discrimination, retaliation, wage and hour matters, occupational safety and health, family and medical leave, notice of facility closings and layoffs and labor relations, and any such liability could result in a material adverse effect on our business.

***Our ability to use our net operating loss carryforwards may be limited.***

As of December 31, 2019, we had approximately \$245.9 million of federal net operating loss carryforwards for U.S. income tax purposes that begin to expire in 2033 and cumulative state net operating loss carryforwards of approximately \$252.2 million. In the event an "ownership change" were to occur in the future, our ability to utilize our net operating losses could be limited. If our net operating loss carryforwards are limited, and we have taxable income which exceeds the available net operating loss carryforwards for that period, we would incur an income tax liability even though net operating loss carryforwards may be available in future years prior to their expiration.

***We offer our services in many jurisdictions and, therefore, may be subject to federal, state, local and foreign taxes that could harm our business or that we may have inadvertently failed to pay.***

We may lose sales or incur significant costs should various tax jurisdictions be successful in imposing taxes on a broader range of services. Imposition of such taxes on our services could result in substantial unplanned costs, which would effectively increase the cost of such services to our customers and may adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

***Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.***

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

***We may be adversely affected by changes in LIBOR reporting practices.***

On July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear if at that time whether or not LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. Recent proposals for LIBOR reforms may result in the establishment of new methods of calculating LIBOR or the establishment of one or more alternative benchmark rates. Although our credit agreement provides for application of successor rates to be mutually agreed between us and the agent, it is not currently possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the U.K. or elsewhere. These changes may have an adverse impact on our financing costs and any floating rate indebtedness we may incur.

**Risks Related to Ascension and the Transaction**

***Healthcare providers affiliated with Ascension currently account for a significant portion of our net services revenue. The early termination of our A&R MPSA with Ascension, or any significant loss of business from our large customers, would have a material adverse effect on our business, results of operations and financial condition.***

Healthcare providers affiliated with Ascension have accounted for a significant portion of our net services revenue each year since our formation. In 2019, 2018, and 2017, net services revenue from healthcare providers affiliated with Ascension represented 67%, 69%, and 90% of our total net services revenue, respectively. The early termination of the A&R MPSA, the loss of any of our other large customers or their failure to renew their managed services agreements with us upon expiration, or a reduction in the fees for our services for these customers, could have a material adverse effect on our business, results of operations and financial condition.

***Our agreement with Ascension requires us to offer to Ascension service fees that are at least as low as the fees we charge any other customer receiving comparable services at comparable or lower volumes.***

Our A&R MPSA with Ascension requires us to offer to Ascension's affiliated healthcare providers fees for our services that are at least as low as the fees we charge any other customer receiving comparable services at lower volumes. If we were to charge lower service fees to any other customer receiving comparable services at lower volumes, we would be obligated to charge such lower fees to the hospital systems affiliated with Ascension effective as of the date such lower charges were first implemented for such other customer. If we offer customers lower rates as discussed above, it could have a material adverse effect on our results of operations and financial condition.

***The shares of Series A Preferred Stock are senior obligations, rank prior to our common stock with respect to dividends, distributions and payments upon liquidation and have other terms, such as a put right and a mandatory conversion date, that could negatively impact the value of shares of our common stock.***

We have issued 266,529 shares of Series A Preferred Stock to the Investor. The rights of the holders of our Series A Preferred Stock with respect to dividends, distributions and payments upon liquidation rank senior to similar obligations to our common stock holders. Upon our liquidation or upon certain changes of control, the

holders of our Series A Preferred Stock are entitled to receive, prior and in preference to any distribution to the holders of any other class of our equity securities, an amount equal to the greater of the outstanding principal plus all accrued and unpaid dividends on such Series A Preferred Stock (which cumulative dividends accrue at the rate of 8.0% per annum and compound quarterly) and the amount such holders would have received if such Series A Preferred Stock had been converted into common stock. Until February 16, 2023, the dividends on the Series A Preferred Stock will be paid-in-kind and thereafter such dividends may be paid in cash or paid-in-kind at the election of the Company.

The terms of the Series A Preferred Stock provide rights to their holders that could negatively impact our Company. Shares of our Series A Preferred Stock may be converted at any time at the option of the holder at an effective initial conversion price of \$2.50 per share (which conversion price is subject to adjustment upon the occurrence of certain events).

Further, so long as the Investor owns at least 25% of our common stock on an as-converted basis, no dividends on our common stock (or any other equity securities junior in right to the Series A Preferred Stock) may be paid without the consent of the Investor. To the extent any dividend, distributions or other payments are made on our common stock, the holders of the Series A Preferred Stock shall have the right to participate on an as converted basis in any such dividends, distributions or other payments. The existence of such a senior security could have an adverse effect on the value of our common stock.

***The Investor, an affiliate of TowerBrook and Ascension, is a significant shareholder in us and may have conflicts of interest with us or you in the future.***

In connection with the Transactions, we entered into a purchase agreement with the Investor and Ascension, pursuant to which we issued (i) 200,000 shares of our Series A Preferred Stock for an aggregate price of \$200 million and (ii) a warrant to acquire up to 60 million shares of our common stock. As a result of this ownership, so long as certain ownership thresholds are met, the Investor, among other things, has the right to nominate a majority of the members of our board of directors ("Board") and has a consent right over certain corporate actions, including the declaration of any dividend, any amendment of the A&R MPESA, the incurrence of indebtedness in excess of \$25.0 million, the acquisition of any assets or properties or the making of any capital expenditures in excess of \$10.0 million, the approval of our annual budget and the hiring or termination of our chief executive officer. In addition, as of December 31, 2019, the issued and outstanding Series A Preferred Stock would represent approximately 48% of the current voting power at a meeting of our stockholders.

The interests of the Investor and its affiliates may differ from our other stockholders in material respects. For example, the Investor may have an interest in pursuing acquisitions, divestitures, financings (including financings that are secured and senior to the Series A Preferred Stock) or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to you. Additionally, Ascension is an affiliate of the Investor and as our largest customer their interests may differ from yours. The Investor or its affiliates or advisors are also in the business of making or advising on investments in companies, and may from time to time in the future, acquire interests in, or provide advice to, businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. They may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. You should consider that the interests of these holders may differ from yours in material respects.

## **Risks Related to Acquisitions**

***We may fail to realize the success of strategic initiatives and other investments.***

The anticipated benefits of acquisitions, strategic initiatives, and other investments, including the acquisition of SCI, will depend on, among other things, our ability to realize anticipated synergies, cost savings, and operational benefits of corresponding activity, which benefits are subject to, among others, the following risks:

- the incurrence of additional indebtedness in connection with the financing of the acquisition may have an adverse effect on our liquidity;
- we may fail to retain key employees of the acquired company;
- we may be unable to successfully integrate personnel from the two companies, while at the same time attempting to provide consistent, high quality services;
- we may fail to realize the anticipated synergies and cost savings we expect from the acquisition;
- future developments may impair the value of our purchased goodwill or intangible assets;
- we may face difficulties establishing, integrating or combining operations and systems;
- we may face challenges retaining the customers of the acquired businesses;
- we may encounter unforeseen internal control, regulatory or compliance issues; and
- we may face other additional risks relating to regulatory matters, legal proceedings, tax laws or positions.

If any of these risks occur, we may not be able to realize the anticipated benefits of the acquisition, or they may take longer to realize than expected. The integration process could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the acquisition, or could otherwise adversely affect our business and operating results.

***There is no assurance that our pending acquisition of SCI will be completed in a timely manner or at all. If the acquisition of SCI is not consummated, our business could suffer materially and our stock price could decline.***

The consummation of our acquisition of SCI is subject to customary closing conditions. There can be no assurance that the acquisition will be consummated on the desired timeframe, or at all.

If our acquisition of SCI is not consummated, we may be subject to a number of material risks, and our business and stock price could be adversely affected, as follows:

- we have incurred and expect to continue to incur significant expenses related to the acquisition of SCI even if the transaction is not consummated;
- we could be obligated to pay SCI a \$20 million termination fee in connection with the termination of the SCI acquisition agreement; and
- the market price of our common stock may decline to the extent that the current market price reflects a market assumption that the acquisition will be completed.

## **Regulatory Risks**

***The healthcare industry is heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and adversely affect our business.***

The healthcare industry is heavily regulated and is subject to changing political, legislative, regulatory and other influences. Many healthcare laws are complex, and their application to specific services and relationships may

not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate the services that we provide. There can be no assurance that our operations will not be challenged or adversely affected by enforcement initiatives. Enforcement activity is growing and is an identified priority of federal and state governments. Our failure to accurately anticipate the application of these laws and regulations to our business, or any other failure to comply with regulatory requirements, could create liability for us, result in adverse publicity and adversely affect our business. Federal and state legislatures and agencies frequently consider proposals to revise laws that impact the healthcare industry or to revise or create additional statutory and regulatory requirements. Such proposals, if implemented, could adversely affect our operations, the attractiveness of our services to existing customers and our ability to market new services, or could create unexpected liabilities for us. We are unable to predict what changes to laws or regulations might be made in the future or how those changes could affect our business or our operating costs.

***Developments in the healthcare industry, including national healthcare reform, could adversely affect our business.***

The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. The timing and impact of developments in the healthcare industry are difficult to predict. We cannot be sure that the markets for our services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets. The adoption of legislative measures to reform the Medicaid program through block grants and other methods could reduce healthcare revenue and have an adverse effect on our business. We are unable to predict what additional healthcare initiatives, if any, will be implemented at the federal or state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. Other material changes have required and will continue to require significant system and business changes throughout the healthcare industry, and may be disruptive to our customers and our business. Such disruption could result in, among other things, the imposition of significant new challenges to our ability to achieve performance targets specified under our customer contracts, as well as a need for us to redeploy resources or to obtain new resources in an effort to meet such challenges, all of which could adversely affect our business or our results of operations. Additionally, several reductions or changes to Medicare reimbursement have been enacted recently or will be implemented, which reductions and changes could reduce the amounts received by our customers and may have an adverse indirect effect on our business.

Healthcare reform also is causing the transition of some payment methods and provider reimbursement from volume-based reimbursement to value-based reimbursement models, which can include risk-sharing, accountable care organizations, capitation, bundled payment and other innovative approaches. While such new reimbursement models may provide us with opportunities to provide new or additional services to our customers (e.g., our value based reimbursement capabilities within our RCM service offering) and to participate in incentive-based payment arrangements for our services, there can be no assurance that such new models and approaches will prove to be profitable to our customers or to us. Further, such new models and approaches may require investment by us to develop technology or expertise to offer necessary and appropriate services or support to our customers, and the amount of such investment and the timing for return of such investment are not fully known at this time due to the uncertainties of healthcare reform and payment and reimbursement model transitions that are occurring. Certain new care delivery and reimbursement models are being offered as pilot programs or as limited or transitional programs, and there is no assurance that such programs will continue or be renewed. Any of these models and approaches, and changes generally in the healthcare industry, can impact the relationships between our customers and payers, from which our customers derive revenue and with which revenue our customers pay for our services. Adoption of such new models and approaches may require compliance with a range of federal and state laws relating to fraud and abuse, insurance, reinsurance and managed care regulation, billing and collection, corporate practice of medicine restrictions and licensing, among others. Many states in which these new value-based structures are being developed lack regulatory guidance or a well-developed body of law for these new models and approaches, or may not have updated their laws or enacted legislation yet to reflect the new healthcare reform models. As a result, although we have structured, and will attempt to structure and conduct, our operations in accordance with our interpretation of current laws and regulations, new laws, regulations or guidance could have a material adverse effect on our current and future operations and could subject us to the risk of restructuring or terminating our customer agreements and



arrangements, as well as the risk of regulatory enforcement, penalties and sanctions, if state enforcement agencies disagree with our interpretation of state laws.

***If we violate HIPAA, the HITECH Act or state or foreign health information privacy laws, we may incur significant liabilities, and any such violations could make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.***

HIPAA contains substantial restrictions and requirements with respect to the use and disclosure of individuals' PHI. Under HIPAA, covered entities, including health plans, healthcare providers, and healthcare clearinghouses that conduct HIPAA-defined standard electronic transactions, are restricted in how they use and disclose PHI and must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic PHI maintained or transmitted by them or by others on their behalf. Most of our customers are covered entities and we are a business associate to many of those customers under HIPAA as a result of our contractual obligations to perform certain functions on behalf of, and to provide certain services to, those customers. As a business associate, we sometimes also act as a clearinghouse in performing certain functions for our customers. In addition, although we believe that we are not a healthcare provider, if we were found to be a healthcare provider, we could have liability under the provisions of HIPAA that apply to providers as well as under state health information privacy and licensing laws. Our use and disclosure of PHI is restricted by HIPAA and the business associate agreements we are required to enter into with our covered entity customers. In 2009, HIPAA was amended by the HITECH Act to impose certain of the HIPAA privacy and security requirements directly upon business associates of covered entities and increase significantly the monetary penalties for violations of HIPAA. The HITECH Act also requires business associates to notify covered entities, who in turn must notify affected individuals and government authorities, of data security breaches involving unsecured PHI. Since the passage of the HITECH Act, enforcement of HIPAA violations has increased, as indicated by the announcement of a number of significant settlement agreements and/or sanctions by federal authorities, the pursuit of HIPAA violations by state attorneys general, and the roll-out of a new federal audit program for covered entities and business associates.

In addition to HIPAA, most states have enacted patient confidentiality laws that protect against the unauthorized disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards and data security breach notification requirements. Such state laws, if more stringent than HIPAA, are not preempted by the federal requirements, and we must comply with them even though such state laws may be subject to different interpretations by various courts and other governmental authorities.

Along with state and federal laws, GDPR imposes obligations on us as a data controller and data processor, as well as on many of our customers. New privacy laws may also mandate steps needed to continue to store, transfer, and process personal data. For example, there are some legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the European Economic Area to the United States. This may mean that data transfer agreements will need to be updated. Additionally, certain countries have passed or are considering passing laws requiring local data residency.

We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents or breaches. We have received and maintained certification from the Health Information Trust (HITRUST) Alliance since January 2013. The HITRUST Common Security Framework (CSF), the most widely adopted framework in the healthcare industry, provides a comprehensive set of baseline security controls that leverage nationally and internationally accepted standards, including ISO, NIST, PCI, HIPAA and COBIT. Our HITRUST certification validates our continued commitment to compliance with the Security and Privacy Rules under HIPAA and to state-specific security and privacy laws regarding the creation, access, storage or exchange of PHI and financial information. Nonetheless, a knowing breach of HIPAA's requirements could expose us to criminal liability. A breach of our safeguards and processes that is not due to reasonable cause or involves willful neglect could expose us to significant civil penalties and the possibility of civil litigation under HIPAA and applicable state law.

We have been the victim of theft of company property containing patient data in the past, and we may face similar incidents in the future, which could result in a material adverse effect on our business, results of operations and financial condition.

***If we fail to comply with federal and state laws governing submission of false or fraudulent claims to government healthcare programs and financial relationships among healthcare providers, we may be subject to civil and criminal penalties or loss of eligibility to participate in government healthcare programs.***

A number of federal and state laws, including anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims, apply to healthcare providers, physicians and others that make, offer, seek or receive payments or split fees for referrals of products or services that may be paid for through any federal or state healthcare program and, in some instances, any private program. These laws are complex and their application to our specific services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Healthcare, as one of the largest industries in the country and one of the costliest lines in the federal budget, continues to attract attention from legislators and regulators. Federal and state regulatory and law enforcement authorities continue to focus on enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other healthcare reimbursement laws and rules in an effort to reduce overall healthcare spending. From time to time, participants in the healthcare industry receive inquiries or subpoenas to produce documents in connection with government investigations. We could be required to expend significant time and resources to comply with these requests, and the attention of our management team could be diverted by these efforts. Furthermore, if we are found to be in violation of any federal or state fraud and abuse laws, we could be subject to civil and criminal penalties, forced to restructure our business and excluded from participating in federal and state healthcare programs such as Medicare and Medicaid which would result in significant harm to our business and financial condition.

The federal healthcare anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to induce referrals, and some of these state laws are applicable to all patients regardless of whether the patient is covered under a governmental health program or private health plan. New payment structures, such as accountable care organizations and other arrangements involving combinations of healthcare providers who share payment savings, potentially implicate anti-kickback and other fraud and abuse laws. We seek to structure our business relationships and activities to avoid any activity that could be construed to implicate the federal healthcare anti-kickback law and similar laws. We cannot assure you, however, that our arrangements and activities will be deemed outside the scope of these laws or that increased enforcement activities will not directly or indirectly have a material adverse effect on our business, financial condition or results of operations. Any determination by a federal or state agency or court that we have violated any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, could disqualify us from providing services to healthcare providers doing business with government programs, could give our customers the right to terminate our managed services agreements with them and, thus, could have a material adverse effect on our business and results of operations. Moreover, any violations by, and resulting penalties or exclusions imposed upon, our customers could adversely affect their financial condition and, in turn, have a material adverse effect on our business and results of operations.

There are also numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with the submission and payment of healthcare provider claims for reimbursement. In particular, the federal FCA prohibits a person from knowingly presenting or causing to be presented a false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. In addition, the FCA prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. The FCA may be enforced by the government or by private whistleblowers under the "qui tam" provisions of the statute. Whistleblowers are entitled to a share of any recovery in a FCA case. Changes to the FCA enacted as part of the ACA make it easier for whistleblowers to bring FCA claims. Violations of

the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Errors created by our proprietary applications or services that relate to entry, formatting, preparation or transmission of claim, reporting of quality or other data pursuant to value-based purchasing initiatives, or cost report information may be determined or alleged to cause the submission of false claims or otherwise be in violation of these laws and regulations. Further, our continued growth of coding and billing services provided from a global business services environment necessitates comprehensive monitoring and oversight of these services to ensure a constant vigilance to quality control and regulatory compliance. Any failure of our proprietary applications or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, invalidate all or portions of some of our managed services agreements with our customers, require us to change or terminate some portions of our business, require us to refund portions of our base fee revenues and incentive payment revenues, cause us to be disqualified from serving customers doing business with government payers, and give our customers the right to terminate our managed services agreements with them.

***We cannot be certain that governmental officials responsible for enforcing EMTALA, or other parties, will not assert that our customers are in violation of EMTALA, and defending and settling allegations of EMTALA violations could have a material adverse effect on our business even if we are ultimately not found to have contributed to such violations.***

EMTALA requires Medicare-participating hospitals that have emergency departments to provide a medical screening examination and stabilizing treatment to all individuals who come to the hospital seeking treatment of an emergency medical condition, regardless of the patient's ability to pay for the care. Sanctions for failing to fulfill these requirements include exclusion from participation in the Medicare and Medicaid programs and civil monetary penalties. In addition, the law creates private civil remedies that enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief.

Since we are not a healthcare provider, EMTALA is not applicable to us, but we cannot be certain that governmental officials responsible for enforcing EMTALA, or other parties, will not assert that our customers are in violation of EMTALA. If our customers are found to have violated EMTALA, they may assert claims that our management practices contributed to the violation. Defending and settling allegations of EMTALA violations could have a material adverse effect on our business even if we are ultimately not found guilty of a violation.

***Our failure to comply with debt collection and other consumer protection laws and regulations could subject us to fines and other liabilities, which could harm our reputation and business, and could make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.***

The FDCPA regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts in default that are owed or asserted to be owed to another person. However, our business practices that involve collecting, or assisting our customers in collecting, non-defaulted amounts owed by patients for current and prior services activities may be determined to be subject to the FDCPA. Many states impose additional requirements on debt collection communications, and some of those requirements may be more stringent than the federal requirements. Moreover, regulations governing debt collection are subject to changing interpretations that may be inconsistent among different jurisdictions. Further, we are subject to the TCPA, which imposes certain restrictions on companies that place telephone calls to consumers.

We could incur costs or could be subject to fines or other penalties under the TCPA, the FDCPA and the FTC Act if we are determined to have violated the provisions of those regulations during the course of conducting our operations. We, or our customers, could be required to report such breaches to affected consumers or regulatory authorities, leading to disclosures that could damage our reputation or harm our business, financial position and

operating results. As a result of the theft of a laptop in 2011 giving rise to a lawsuit against us by the Minnesota Attorney General and a related FTC inquiry of our data security practices, in December 2013, we entered into a consent order with the FTC pursuant to which no fine or penalty was paid but in which we agreed, among other things, to maintain a comprehensive information security program reasonably designed to protect the security, confidentiality, and integrity of personal information collected from or about consumers. Future allegations of this type could require us to change aspects of our business practices, make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.

***Potential additional regulation of the disclosure of health information outside the United States may increase our costs.***

Federal or state governmental authorities may impose additional data security standards or additional privacy or other restrictions on the collection, use, transmission and other disclosures of health information. Legislation has been proposed at various times at both the federal and the state levels that would limit, forbid or regulate the use or transmission of medical information pertaining to U.S. patients outside of the United States. Some states have also imposed limitations through rule making or executive action. If additional states or the federal government were to adopt additional limitations, that may render our international operations impracticable or substantially more expensive. Moving such operations to the United States may involve substantial delay in implementation and increased costs.

***Backlog of administrative appeals could adversely affect our business.***

Many of our clients are able to file administrative appeals when a claim is denied. A hospital or physician clinic can request a redetermination with one contractor, then request reconsideration from another contractor, and then appeal to an administrative law judge ("ALJ"). Historically, the best chance of success on appeal comes at that third level of appeal, to the ALJ. Although the U.S. Department of Health and Human Services ("HHS") has significantly reduced its backlog of pending ALJ appeals over the past five years (from 886,418 in FY15 to 292,517 in FY19), HHS reports that in FY19, the average time to process an ALJ appeal was 1,372 days (i.e., over 3.5 years). Such prolonged appeals could present cash flow issues for a client and consequently, impact a client's ability to pay us on time.

**Risks Related to Intellectual Property**

***We may be unable to adequately protect our intellectual property.***

Our success depends, in part, upon our ability to establish, protect and enforce our intellectual property and other proprietary rights. If we fail to establish or protect our intellectual property rights, we may lose an important advantage in the market in which we compete. We rely upon a combination of patent, trademark, copyright and trade secret law and contractual terms and conditions to protect our intellectual property rights, all of which provide only limited protection. We cannot assure you that our intellectual property rights are sufficient to protect our competitive advantages. Although we have filed two U.S. patent applications, we cannot assure you that any patents that will be issued from these applications will provide us with the protection that we seek or that any current or future patents issued to us will not be challenged, invalidated or circumvented. We have also been issued four U.S. patents, but we cannot assure you that they will provide us with the protection that we seek or that they will not be challenged, invalidated or circumvented. Legal standards relating to the validity, enforceability and scope of protection of patents are uncertain. Any patents that may be issued in the future from pending or future patent applications or our four issued patents may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any trademark registrations will be issued for pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights.

We also rely in some circumstances on trade secrets to protect our technology. Trade secrets may lose their value if not properly protected. We endeavor to enter into non-disclosure agreements with our employees,

customers, contractors and business partners to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use of our technology, and adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and proprietary technology. Moreover, others may reverse engineer or independently develop technologies that are competitive to ours or infringe our intellectual property.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. Monitoring infringement of our intellectual property rights can be difficult and costly, and enforcement of our intellectual property rights may require us to bring legal actions against infringers. Infringement actions are inherently uncertain and therefore may not be successful, even when our rights have been infringed, and even if successful, may require a substantial amount of resources and divert our management's attention.

***Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.***

Our competitors protect their intellectual property rights by means such as patents, trade secrets, copyrights and trademarks. We have not conducted an independent review of patents issued to third parties. Additionally, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our proprietary technology. Any party asserting that we infringe its proprietary rights would force us to defend ourselves, and possibly our customers, against the alleged infringement. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights or interruption or cessation of our operations. The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, the risk of such a lawsuit will likely increase as our size and scope of our services and technology platforms increase, as our geographic presence and market share expand and as the number of competitors in our market increases.

Any such claims or litigation could:

- be time-consuming and expensive to defend, whether meritorious or not;
- require us to stop providing the services that use the technology that infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources;
- require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all;
- prevent us from operating all or a portion of our business or force us to redesign our services and technology platforms, which could be difficult and expensive and may make the performance or value of our service offerings less attractive;
- subject us to significant liability for damages or result in significant settlement payments; or
- require us to indemnify our customers, as we are required by contract to indemnify some of our customers for certain claims based upon the infringement or alleged infringement of any third party's intellectual property rights resulting from our customers' use of our intellectual property.

Intellectual property litigation can be costly. Even if we prevail, the cost of such litigation could deplete our financial resources. Litigation is also time-consuming and could divert management's attention and resources away

from our business. Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could significantly limit our ability to continue our operations and could harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our operating results and financial condition.

### **Risks Related to the Ownership of Shares of Our Common Stock**

*The trading price of our common stock has been volatile and may continue to be volatile.*

Since December 31, 2010, our common stock has traded at a price per share as high as \$32.82 and as low as \$1.47. The trading price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors. In addition to the risks described in this section, factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in estimates of our financial results;
- failure to meet expectations of securities analysts;
- the loss of service agreements with customers;
- lawsuits filed against us by governmental authorities or stockholders;
- unfavorable publicity concerning our operations or business practices;
- investors' general perception of us; and
- changes in general economic, industry, regulatory and market conditions.

In addition, if the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations.

*Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.*

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our Board to thwart a takeover attempt;
- require that directors only be removed from office upon a supermajority stockholder vote;

- provide that vacancies on our Board, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders; prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- require supermajority stockholder voting to effect certain amendments to our restated certificate of incorporation and amended and restated bylaws.

***We may not pay any cash dividends on our capital stock in the foreseeable future.***

Although we paid cash dividends on our capital stock prior to our May 2010 initial public offering ("IPO") there is no assurance that we will pay cash dividends on our common stock in the foreseeable future. Any future dividend payments will be within the discretion of our Board and will depend on, among other things, our financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, provisions of applicable law and other factors that our Board may deem relevant. Additionally, pursuant to the Investor Rights Agreement between the Company and the Investor ("Investor Rights Agreement") and subject to certain ownership thresholds contained in the Investor Rights Agreement, any dividends on our common stock would require the approval of the holders of our Series A Preferred Stock that are held by the Investor or any Investor Affiliate (as defined in the Investor Rights Agreement). We may not generate sufficient cash from operations in the future to pay dividends on our common stock.

**Item 1B.**        *Unresolved Staff Comments*

None.

**Item 2.**        *Properties*

We primarily lease our existing facilities, and own one facility in Mansfield, Texas.

Our corporate headquarters occupy approximately 43,000 square feet in Chicago, Illinois under a lease expiring on August 31, 2030. In addition, we have a right of first offer to lease all or a portion of 21,500 square feet of space on another floor in the same building. We also lease approximately 700,000 square feet of office space throughout 25 offices domestically, and approximately 390,000 square feet of office space throughout 5 offices internationally. Pursuant to our managed services agreements with customers, we occupy space on-site at all healthcare providers where we provide our RCM services. We generally do not pay customers for our use of space provided by them for our use in the provision of RCM services to that customer.

We believe that our facilities are sufficient for our current needs. We intend to add new facilities or expand existing facilities as we add employees or expand or change our geographic markets and office locations, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

**Item 3.**        *Legal Proceedings*

Other than as described below, we are presently not a party to any material litigation or regulatory proceeding and are not aware of any pending or threatened litigation or regulatory proceeding against us which, individually or in the aggregate, could have a material adverse effect on our business, operating results, financial condition or cash flows.

In May 2016, we were served with a False Claims Act case brought by a former emergency department service associate who worked at a hospital of one of the Company's customers, MedStar Inc.'s Washington Hospital Center ("WHC"), along with WHC and three other hospitals that were PAS clients and a place holder, John Doe hospital, representing all PAS clients (U.S. ex rel. Graziosi vs. Accretive Health, Inc. et. al.), and seeking money damages, False Claims Act penalties and plaintiff's attorneys' fees. The Third Amended Complaint alleges that the Company's PAS business violates the federal False Claims Act. The case was originally filed under seal in 2013 in the Federal district court in Chicago, was presented to the U.S. Attorney in Chicago, and the U.S. Attorney declined to intervene. We believe that we have meritorious defenses to all claims in the case and intend to vigorously defend the Company against these claims. Discovery on liability issues has been completed and on October 11, 2019 we filed a motion for summary judgment that is fully briefed and pending decision by the district court. The outcome is not presently determinable.

**Item 4.**        *Mine Safety Disclosures*

Not applicable.



## PART II

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is listed on the NASDAQ Stock Market under the symbol "RCM."

#### Holders of Record

As of February 4, 2020, there were approximately 22 stockholders of record of our common stock and approximately 11,000 beneficial holders.

#### Dividends

We did not pay any dividends on our common stock during the years ended December 31, 2019 and 2018. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our Board and will depend on, among other things, our financial condition, results of operations, capital expenditure requirements, contractual restrictions, provisions of applicable law and other factors that the Board deems relevant. Additionally, pursuant to the Investor Rights Agreement between the Company and the Investor, subject to certain ownership thresholds contained in the Investor Rights Agreement, any dividends on our common stock would require the approval of the holders of our Series A Preferred Stock that are held by the Investor or any Investor Affiliate (as defined in the Investor Rights Agreement). The credit agreement governing our senior secured credit facilities also restricts our ability to pay dividends on our common stock.

#### Issuer Purchases of Equity Securities

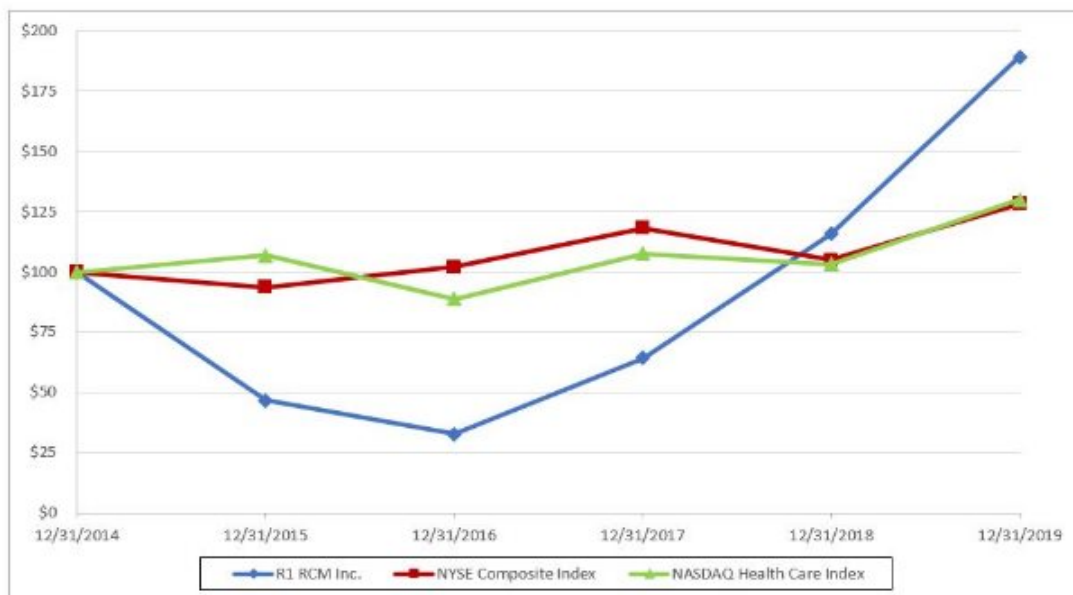
The following table provides information about our repurchases of common stock during the periods indicated (in thousands, except share and per share data):

Period	Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs (in millions) (2)
October 1, 2019 through October 31, 2019	—	\$ —	—	\$ 49.0
November 1, 2019 through November 30, 2019	281	\$ 10.81	—	\$ 49.0
December 1, 2019 through December 31, 2019	484,234	\$ 12.98	—	\$ 49.0

- (1) Repurchases of our stock related to employees' tax withholding upon vesting of restricted stock. See Note 15, Share-Based Compensation, to our consolidated financial statements included in this Annual Report on Form 10-K.
- (2) On November 13, 2013, the Board authorized, subject to the completion of the restatement of our financial statements, the repurchase of up to \$50.0 million of our common stock from time to time in the open market or in privately negotiated transactions (the "2013 Repurchase Program"). The timing and amount of any shares repurchased under the 2013 Repurchase Program will be determined by our management based on its evaluation of market conditions and other factors. The 2013 Repurchase Program may be suspended or discontinued at any time. See Note 14, Stockholders' Equity (Deficit), to our consolidated financial statements included in this Annual Report on Form 10-K.

## Stock Price Performance Graph

The following graph compares the change in the cumulative total return (including the reinvestment of dividends) on our common stock to the change in the cumulative total return on the stocks included in the NYSE Composite Index and NASDAQ Health Care Index over the period from December 31, 2014 through December 31, 2019. The graph assumes an investment of \$100 made in our common stock on December 31, 2014. We did not pay any dividends during the period reflected in the graph.



### COMPARISON OF CUMULATIVE TOTAL RETURN

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
R1 RCM Inc.	\$100	46.65	32.80	64.29	115.89	189.21
NYSE Composite Index	\$100	93.58	102.01	118.17	104.94	128.36
NASDAQ Health Care Index	\$100	106.86	88.78	107.70	103.21	129.87

The comparisons shown in the graph above are based on historical data and we caution that the stock price performance shown in the graph above is not indicative of, and is not intended to forecast, the potential future performance of our common stock. The information in this "Stock Price Performance Graph" section shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, or the Securities Act, or the Securities Exchange Act of 1934, or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

**Item 6. Selected Consolidated Financial Data**

The selected consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Consolidated Financial Statements and Supplementary Data," included elsewhere in this Form 10-K.

We derived the consolidated statements of operations and comprehensive income (loss) data for the years ended December 31, 2019, 2018, and 2017 and the consolidated balance sheet data as of December 31, 2019 and 2018 from our audited consolidated financial statements, which are included in this Annual Report on Form 10-K. We derived the consolidated statement of operations and comprehensive income (loss) data for the years ended December 31, 2016 and 2015 and the consolidated balance sheet data as of December 31, 2017, 2016, and 2015 from our audited consolidated financial statements and audited restated consolidated financial statements, which are not included in this Annual Report on Form 10-K.

Beginning in 2017, the Company changed the presentation in its financial statements to be stated in millions instead of thousands. Therefore, previously reported amounts may differ due to rounding.

**Selected Financial Data**

	Year Ended December 31,				
	2019	2018	2017	2016	2015
(In millions, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Net services revenue	\$ 1,186.1	\$ 868.5	\$ 449.8	\$ 592.6	\$ 117.2
Operating expenses:					
Cost of services	987.8	770.6	416.3	199.7	169.0
Selling, general and administrative	104.4	97.9	56.3	74.1	75.0
Other	36.2	30.4	4.7	20.8	9.3
Total operating expenses	1,128.4	898.9	477.3	294.7	253.3
Income (loss) from operations	57.7	(30.4)	(27.5)	297.9	(136.0)
Loss on debt extinguishment	18.8	—	—	—	—
Net interest expense (income)	29.1	26.3	(0.2)	(0.3)	(0.2)
Net income (loss) before income tax provision	9.8	(56.7)	(27.3)	298.2	(135.8)
Income tax provision (benefit)	(2.2)	(11.4)	31.5	121.1	(51.6)
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)	\$ 177.1	\$ (84.3)
Net income (loss) per common share					
Basic	\$ (0.08)	\$ (0.60)	\$ (0.75)	\$ 0.65	\$ (0.87)
Diluted	\$ (0.08)	\$ (0.60)	\$ (0.75)	\$ 0.65	\$ (0.87)

Due to rounding, numbers presented in this table may not add up precisely to the totals provided.

	As of December 31,				
	2019	2018	2017	2016	2015
(In millions)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 92.0	\$ 62.8	\$ 164.9	\$ 181.2	\$ 103.5
Working capital (1)	\$ (15.8)	\$ 0.6	\$ 112.4	\$ 137.7	\$ 24.2
Total assets	\$ 929.1	\$ 807.5	\$ 336.0	\$ 415.1	\$ 460.3
Non-current liabilities	\$ 449.4	\$ 396.6	\$ 23.4	\$ 120.7	\$ 441.0
Total stockholders' equity (deficit)	\$ 18.1	\$ 6.3	\$ 33.4	\$ (12.3)	\$ (213.3)

- (1) We define working capital as total current assets less total current liabilities excluding the current portion of deferred customer billings (prior to the adoption of Topic 606, Revenue from Contracts with Customers, which was adopted as of January 1, 2017). We excluded the current portion of deferred customer billings prior to the adoption of Topic 606, Revenue from Contracts with Customers, from the definition of working capital due to the nature of these balances.

**Non-GAAP Measure**

In order to provide a more comprehensive understanding of the information used by our management team in financial and operational decision-making, we supplement our consolidated financial statements that have been prepared in accordance with GAAP with the non-GAAP financial measure of adjusted EBITDA. Adjusted EBITDA is utilized by



our Board and management team as (i) one of the primary methods for planning and forecasting overall expectations and for evaluating actual results against such expectations; and (ii) as a performance evaluation metric in determining achievement of certain executive incentive compensation programs, as well as for incentive compensation plans for employees.

As of January 1, 2017, the Company adopted Topic 606, *Revenue from Contracts with Customers* ("Topic 606") and thus for the years ended December 31, 2019, 2018, and 2017, the Company followed the guidance under Topic 606. Under the newly adopted guidance, revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service to a customer, which is typically over the contract term. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. See Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements for additional information.

For the years ended December 31, 2016 and 2015, we typically invoiced customers for base fees and incentive fees on a quarterly or monthly basis, and typically received cash from customers on a similar basis. For GAAP reporting purposes, we only recognized those net operating fees and incentive fees as net services revenue to the extent that all the criteria for revenue recognition were met, which was generally upon contract renewal, termination or other contractual agreement event. As such, net operating and incentive fees were typically recognized for GAAP purposes in periods subsequent to the periods in which the services are provided. Therefore, our net services revenue and other items in our GAAP consolidated financial statements typically included the effects of billings and collections from periods prior to the period in which revenue was recognized. Prior to the adoption of Topic 606, management utilized certain non-GAAP financial measures in financial and operational decision-making due to net services revenue and other items in our GAAP consolidated financial statements typically including the effects of billings and collections from periods prior to the period in which revenue was recognized. While comparability has been impacted, management has deemed adjusted EBITDA to be the appropriate measure shown below for all years as this is the metric our Board and management team are using for current and future periods.

This non-GAAP measure is used throughout this Form 10-K including "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### ***Use of Non-GAAP Financial Information***

We understand that, although non-GAAP measures are frequently used by investors, securities analysts, and others in their evaluation of companies, these measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect share-based compensation expense;
- Adjusted EBITDA does not reflect income tax expenses or cash requirements to pay taxes;
- Adjusted EBITDA does not reflect interest expenses or cash required to pay interest;
- Adjusted EBITDA does not reflect certain other expenses which may require cash payments;
- Although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect cash requirements for such replacements or other purchase commitments, including lease commitments; and
- Other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

#### ***Selected Non-GAAP Measure***

For each of the periods indicated, the following table presents the selected non-GAAP measure and the most comparable GAAP measure. See below for an explanation of how we calculate and use this non-GAAP measure, and for a

reconciliation of this non-GAAP measure to the most comparable GAAP measure. See "Selected Financial Data" above for a presentation of net income (loss), the most comparable GAAP measure to adjusted EBITDA.

	Year End December 31,				
	2019	2018	2017	2016	2015
	(In millions)				
<b>Non-GAAP Measure:</b>					
Adjusted EBITDA	\$ 168.0	\$ 57.0	\$ 4.1	\$ 357.0	\$ (86.6)

#### Adjusted EBITDA

We define adjusted EBITDA as net income before net interest income/expense, income tax provision/benefit, depreciation and amortization expense, share-based compensation expense, expense arising from debt extinguishment, strategic initiatives costs, transitioned employee restructuring expense, digital transformation office expenses, and other items which are detailed in the table below. Prior to 2017, the use of adjusted EBITDA to measure operating and financial performance was limited by our revenue recognition criteria, pursuant to which GAAP net services revenue was recognized at the end of a contract or "other contractual agreement event". As such, adjusted EBITDA did not adequately match corresponding cash flows resulting from customer contracting activities.

**Reconciliation of GAAP:** The following table presents a reconciliation of adjusted EBITDA to net income (loss) for each of the periods indicated.

	Year End December 31,				
	2019	2018	2017	2016	2015
	(In millions)				
Net income (loss) (GAAP)	\$ 12.0	\$ (45.3)	\$ (58.8)	\$ 177.1	\$ (84.3)
Net interest expense (income)	29.1	26.3	(0.2)	(0.3)	(0.2)
Income tax provision (benefit)	(2.2)	(11.4)	31.5	121.1	(51.6)
Depreciation and amortization expense	55.7	38.8	16.3	10.2	8.5
Share-based compensation expense (1)	18.4	18.2	10.7	28.1	31.7
Loss on debt extinguishment (2)	18.8	—	—	—	—
Other (3)	36.2	30.4	4.7	20.8	9.3
Adjusted EBITDA (Non-GAAP)	\$ 168.0	\$ 57.0	\$ 4.1	\$ 357.0	\$ (86.6)

Due to rounding, numbers presented in this table may not add up precisely to the totals provided.

- (1) Share-based compensation expense represents the expense associated with stock options, restricted stock units, and restricted stock awards granted, as reflected in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 15, Share-Based Compensation, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for the detail of the amounts of share-based compensation expense.
- (2) Loss on debt extinguishment represents the loss associated with the repayment of the credit agreement and subordinated notes in June 2019, as reflected in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 13, Debt, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on the extinguishment.
- (3) Other expenses consist of the following (in millions):

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Severance and employee benefits	\$ 3.6	\$ 2.3	\$ 0.3	\$ 3.5	\$ 0.6
Non-cash share based compensation	—	—	0.1	1.8	—
Transaction fees (1)	—	—	—	12.7	—
Restatement costs	—	—	—	1.2	2.5
Strategic initiatives (2)	19.8	19.7	3.1	—	3.8
Transitioned employees restructuring expense (3)	3.0	4.3	1.2	—	—
Digital Transformation Office (4)	8.6	3.6	—	—	—
Other	1.2	0.5	—	1.6	2.4
Total other	\$ 36.2	\$ 30.4	\$ 4.7	\$ 20.8	\$ 9.3

- (1) Costs related to retention payments and legal fees paid in connection with the closing of the Transaction.
- (2) Costs related to evaluating, pursuing and integrating acquisitions, performing portfolio analyses, and other inorganic business projects as part of the Company's growth strategy. Costs include employee time and expenses spent on activities, vendor spend and severance and retention amounts associated with integration activities.
- (3) As part of the transition of personnel to the Company under certain operating partner model contracts, the Company has agreed to reimburse, or directly pay the affected employees, for certain severance and retention costs related to certain employees who will not be transitioned to the Company, or whose jobs will be relocated after the employee transitions to the Company. At December 31, 2019, the Company's restructuring liability was \$1.1 million, offset by \$0.7 million of receivables.
- (4) Project costs related to the Company's effort to automate its transactional environment.

## **Item 7.        *Management's Discussion and Analysis of Financial Condition and Results of Operations***

*Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. Please review "Risk Factors" of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### **Overview**

We are a leading provider of RCM services to healthcare providers. We help healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for our customers.

While we cannot control the changes in the regulatory environment imposed on our customers, we believe that our role becomes increasingly more important to our customers as macroeconomic, regulatory and healthcare industry conditions continue to impose financial pressure on healthcare providers to manage their operations effectively and efficiently.

Our primary service offering consists of end-to-end RCM, which we deploy through an operating partner relationship or a co-managed relationship. Under an operating partner relationship, we provide comprehensive revenue cycle infrastructure to providers, including all revenue cycle personnel, technology and process workflow. Under a co-managed relationship, we leverage our customers' existing RCM staff and processes, and supplement them with our infused management, subject matter specialists, proprietary technology and other resources. For the year ended December 31, 2019, substantially all of our net operating and incentive fees from end-to-end RCM were generated under the operating partner model.

We also offer modular services, allowing customers to engage us for only specific components of our end-to-end RCM service offering, such as PAS, PM, and RIS. Our PAS offering assists healthcare organizations in complying with payer requirements regarding whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes. Our PM services offer administrative and operational support to allow healthcare providers to focus on delivering high quality patient care and outsource non-core functions to us. Our RIS offering includes charge capture, CDM maintenance and pricing services that help providers ensure they are capturing the maximum net compliant revenue for services delivered.

We operate our business as a single segment configured with our significant operations and offerings organized around the business of providing end-to-end RCM services to healthcare providers.

### ***Summary of Operations***

In 2019, we completed several initiatives which we expect to position us to better serve our customers and grow our business:

- In May, we announced that Quorum Health Corporation selected us to provide end-to-end RCM services across its hospitals and outpatient centers.
- In June, we opened a state-of-the-art technology innovation center in Salt Lake City in collaboration with Intermountain Healthcare. The 30,000 square foot facility will be used to evaluate, test, and design new RCM technologies for health systems, hospitals, and physician groups, as well as serve as a client experience center.



- In the third quarter, we signed an operating partner agreement with a large physician group aggregator with close to \$700 million in net patient revenue.
- In December, we signed Rush University Health System (RUSH) on our co-managed model. We will also collaborate with RUSH to launch an innovation lab that will focus on delivering value-based care, incorporating advanced analytics to help educate other healthcare institutions and preparing the healthcare workforce of the future. By combining RUSH's broad insights and thought leadership with our platform, the lab will deliver new and innovative solutions to the market.
- Throughout the year, we continued to invest in proprietary technology, including advancements in robotic process automation and patient experience capabilities, as part of our DTO initiative.

### *Net Services Revenue*

Our primary source of revenue is our end-to-end RCM services fees. We also generate revenue through modular RCM services, where customers will engage us for only specific components of our end-to-end RCM service offering on a fixed-fee or transactional basis. The following table summarizes the composition of our net services revenue for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,					
	2019		2018		2017	
	(In millions)					
Net operating fees	\$ 1,037.4	87.5%	\$ 760.2	87.5%	\$ 374.8	83.3%
Incentive fees	56.2	4.7%	38.3	4.4%	29.0	6.4%
Other	92.5	7.8%	70.0	8.1%	46.0	10.2%
Total net services revenue	\$ 1,186.1	100.0%	\$ 868.5	100.0%	\$ 449.8	100.0%

### *Cost of Services*

Our cost of services includes:

- **Infused management and technology expenses.** We incur costs related to our management and staff employees who are devoted to customer operations. These expenses consist primarily of the wages, bonuses, benefits, share-based compensation, travel and other costs associated with our employees who are assigned to specific customer sites related to our customers' revenue cycle operations. The employees assigned to customer sites typically have significant experience in revenue cycle operations, care coordination, technology, quality control or other management disciplines. Included in these expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite.
- **Global business services center costs.** We incur expenses related to salaries and benefits of employees in our global business services centers, as well as non-payroll costs associated with operating our global business services centers.
- **Other expenses.** We incur expenses related to our employees who manage PAS and other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation and other costs.

### *Estimates of Cost of Customers' Revenue Cycle Operations*

Cost of customers' revenue cycle operations consist of invoiced costs from customers and estimated costs not yet invoiced. These costs consist of payroll and third-party non-payroll costs. Customers' payroll costs are

reasonably estimable; however, we are at times dependent upon information generated from our customers' records to determine the amount of third-party non-payroll costs. We estimate the amount of non-payroll costs incurred but not invoiced in order to properly calculate net operating fees at the end of each reporting period. Such estimated costs are based on contractually allowable expenses, historical reimbursed costs and estimated lag in the timing of receipt of information for third-party non-payroll costs. The timing difference includes the lag between the services rendered by third-party vendors and their billings to our customers. The liabilities for such costs are included in accrued service costs and are part of the customer liabilities balance in the consolidated balance sheet. These estimates are based on the best available information and are subject to future adjustments based on additional information received from our customers.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of expenses for executives, sales, corporate IT, legal, regulatory compliance, finance and human resources personnel, professional service fees related to external legal, tax, audit and advisory services, insurance premiums, facility charges and other corporate expenses.

### ***Other Expenses***

Other expenses include reorganization-related expenses and certain other expenses. We have initiated restructuring plans consisting of reductions in our workforce in certain corporate, administrative, operations and management functions. Reorganization expenses consist primarily of severance payments, employee benefits and share-based compensation expense for accelerated awards. In 2019, 2018, and 2017, we incurred expenses relating to evaluating and pursuing acquisition opportunities and integrating completed acquisitions as part of our inorganic growth strategy. Additionally, as part of the transition of Ascension and Intermountain personnel to us, we have agreed to reimburse Ascension and Intermountain for certain severance and retention expenses related to certain Ascension employees who will not be transitioned to us.

### ***Interest Expense***

Interest expense reflects interest on debt arrangements, and the amortization of certain debt discounts and costs.

### ***Income Taxes***

Income tax provision (benefit) consists of federal and state income taxes in the United States and other foreign jurisdictions.

## **Application of Critical Accounting Policies and Use of Estimates**

Our consolidated financial statements reflect the assets, liabilities and results of operations of R1 RCM Inc. and our wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Our consolidated financial statements have been prepared in accordance with GAAP.

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base estimates on historical experience and on assumptions that we believe to be reasonable given our operating environment. Estimates are based on our best knowledge of current events and the actions we may undertake in the future. Although we believe all adjustments considered necessary for fair presentation have been included, our actual results may differ materially from our estimates.

We believe that the accounting policies described below involve our more significant judgments, assumptions and estimates, and therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated

financial statements contained in this Annual Report on Form 10-K. For further information on our critical and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Annual Report on Form 10-K.

## **Revenue Recognition**

The Company's primary source of revenue is its end-to-end RCM services fees. The Company also generates revenue through modular RCM services, where customers will engage the Company for only specific components of its end-to-end RCM service offering on a fixed-fee or transactional basis.

### *Revenue Cycle Management*

RCM services fees are primarily variable and performance related, and are generally viewed as the consideration earned in satisfaction of a single performance obligation which is considered a series. Variable consideration for end-to-end RCM services are allocated to and recognized over the related time period as the amounts reflect the consideration the Company is entitled to and relate specifically to the Company's efforts to satisfy its performance obligation. Fees for physician group and EMS provider RCM services include variable consideration contingent on customer collections, and inputs to the Company's revenue estimates typically include historical service fees and historical customer collection amounts. RCM services fees consist of net operating fees, incentive fees, and other fees.

#### *Net Operating Fees*

The Company's net operating fees consist of:

- i) gross base fees invoiced to customers; less
- ii) corresponding costs of customers' revenue cycle operations which the Company pays pursuant to its RCM agreements, including salaries and benefits for the customers' RCM personnel, and related third-party vendor costs; plus
- iii) fees accrued for physician group and EMS providers' RCM services.

The Company recognizes revenue related to net operating fees ratably as the performance obligation for the RCM services is satisfied. Base fees are typically billed in advance of the quarter and paid in three monthly payments as the entity performs and the customer simultaneously receives and consumes the benefits of the services provided. The costs of customers' revenue cycle operations, which the Company pays pursuant to its RCM agreements, are accrued based on the service period. Net operating fees for physician groups and EMS providers are invoiced on a monthly basis and payment terms are typically 30 days.

#### *Incentive Fees*

Incentive fees are structured to reflect quarterly or annual performance and are evaluated on a contract-by-contract basis. The Company estimates incentive fee revenue based on contractually agreed-upon financial or operating metrics. The Company recognizes revenue related to incentive fees ratably as the performance obligation for RCM services is satisfied, to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. Incentive fees are typically billed and paid on a quarterly basis.

#### *Other*

The Company recognizes revenue related to other fees as RCM services are provided. These services consist of an obligation to provide a specific component of its end-to-end RCM service offering. Fees are typically variable in nature with the entire amount being included in revenue in the month of service. The customer simultaneously receives and consumes the benefits provided by the services and the fees are typically

billed on a monthly basis and payment terms are typically 30 days. To the extent that certain service fees are fixed and not subject to refund, adjustment, or concession, these fees are generally recognized into revenue ratably as the performance obligation is satisfied.

The Company recognizes revenue from PAS in the period in which the service is performed. The Company's PAS arrangements typically consist of an obligation to provide specific services to customers on an if and when needed basis. These services are provided under a fixed price per unit arrangement. Fees for the Company's PAS arrangements are typically billed on a monthly basis with 30 to 60 day payment terms.

PM services arrangements include a single performance obligation, constituting a series, to manage and administer various non-clinical aspects of a customer's physician practice, which may be comprised of numerous physical office locations. Consideration for PM services is typically variable in nature and allocated to and recognized over the related time period as the amounts reflect the consideration the Company is entitled to and relate specifically to the Company's effort to satisfy its performance obligation. PM services fees are invoiced on a monthly basis and payment terms are typically 30 days.

#### *Bundled Services*

Modular RCM services may be sold separately or bundled in a contract. End-to-end RCM services are typically sold separately but may be bundled with PAS. PAS are commonly sold separately. The typical length of an end-to-end RCM contract is two to ten years (subject to the parties' respective termination rights) but varies from customer to customer. Modular RCM agreements generally vary in length between one and three years.

For bundled arrangements, the Company accounts for individual services as a separate performance obligation if a service is separately identifiable from other items in the bundled arrangement and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The transaction price is allocated between separate services in a bundle based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells its modular services. PAS are provided at a customer's election but do not represent material rights as the services are priced at standalone selling price throughout the life of the agreement.

#### **Cost of Services**

Costs associated with generating the Company's net services revenue, including the cost of operating its global business services centers, are expensed as incurred. Cost of services consist of (i) infused management, on site revenue cycle employees and technology costs, (ii) global business services costs and (iii) other costs. Infused management, on site revenue cycle employees and technology costs consist primarily of wages, bonuses, benefits, share-based compensation, travel and other costs associated with our employees who are assigned to specific customer sites related to our customers' revenue cycle operations. The other significant portion of such expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite. Global business services costs relate to the Company's global services centers in the U.S. and internationally that perform patient scheduling and pre-registration, medical transcription, cash posting, reconciliation of payments to billing records, patient follow-up and Medicaid eligibility determination for our customers. The Company incurs expenses related to salaries and benefits for employees in its global business services centers and non-payroll costs associated with operating its global business services centers. Other expenses consist of costs related to managing other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation and facilities costs.

#### **Income Taxes**

We account for income taxes under the asset and liability method. We record deferred tax assets and liabilities for future income tax consequences that are attributable to differences between the carrying amount of assets and liabilities for financial statement purposes and the income tax bases of such assets and liabilities. We base the

measurement of deferred tax assets and liabilities on enacted tax rates that we expect will apply to taxable income in the year we expect to settle or recover those temporary differences. We recognize the effect on deferred income tax assets and liabilities of any change in income tax rates in the period that includes the enactment date.

The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies, and are based on management's assumptions and estimates about future operating results and levels of taxable income, and judgments regarding the interpretation of the provisions of current accounting principles. We provide a valuation allowance for deferred tax assets if, based upon the weight of all available evidence, both positive and negative, it is more likely than not that some or all of the deferred tax assets will not be realized. We have established a valuation allowance with respect to certain separate state income net operating loss carryforward deferred tax assets.

The estimated effective tax rate for the year is applied to our quarterly operating results. In the event that there is a significant unusual or discrete item recognized, or expected to be recognized, in our quarterly operating results, the tax attributable to that item is calculated separately and recorded at the same time as the unusual or discrete item, such as the resolution of prior-year tax matters.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Interest and penalties related to income taxes are recognized in our tax provision in the consolidated statement of operations and comprehensive income (loss).

See Note 17, Income Taxes, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information on income taxes.

### **Share-Based Compensation Expense**

We determine the expense for all employee share-based compensation awards by estimating their fair value and recognizing that value as an expense, on a ratable basis, in our consolidated financial statements over the requisite service period in which our employees earn the awards. The fair value of performance and service condition stock options is calculated using the Black-Scholes option pricing model and, for market condition stock awards, the fair value is estimated using Monte Carlo simulations.

To determine the fair value of a share-based award using the Black-Scholes option pricing model, we make assumptions regarding the risk-free interest rate, expected future volatility and expected life of the award. These inputs are subjective and generally require significant analysis and judgment to develop. We aggregate all employees into one pool for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. We estimate the expected volatility of our share price by reviewing the historical volatility levels of our common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected volatility. We exercise judgment in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies. We calculate the expected term in years for each stock option using a simplified method based on the average of each option's vesting term and original contractual term.

To determine the fair value of a share-based award using Monte Carlo simulations, we make assumptions regarding the risk-free interest rate, expected future volatility, expected dividend yield and performance period. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. We estimate the expected volatility of the share price by reviewing the historical volatility levels of our common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward our future expected volatility. Dividend yield is determined based on our future

plans to pay dividends. We calculate the performance period based on the specific market condition to be achieved and derived from historical data and estimates of future performance.

We recognize compensation expense, net of forfeitures, using a straight-line method over the applicable vesting period. Each appropriate quarter, the share-based compensation expense is adjusted to reflect all options that vested or were forfeited during the period.

## **Goodwill**

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. The Company annually tests goodwill for impairment on the first day of its fiscal fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying value. The goodwill impairment test consists of a qualitative assessment of impairment indicators, followed by, if necessary, a quantitative assessment comparing the carrying amount to the reporting unit's fair value. To the extent that the carrying value exceeds the fair value, an impairment charge would be recorded.

## **Impairment of Long-Lived Assets**

Property, equipment, software and other acquired intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset or asset group be reviewed for possible impairment, the Company first compares undiscounted cash flows expected to be generated by each asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds the fair value.

## **New Accounting Standards**

For additional information regarding new accounting guidance, see Note 3, Recent Accounting Pronouncements, to our consolidated financial statements included in this Annual Report on Form 10-K, which provides a summary of recently adopted accounting standards and disclosures.

## **Results of Operations**

### **Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

The following table provides consolidated operating results and other operating data for the periods indicated:

	Year Ended December 31,		2019 vs. 2018 Change	
	2019	2018	Amount	%
(In millions)				
<b>Consolidated statement of operations Data:</b>				
Net operating fees	\$ 1,037.4	\$ 760.2	\$ 277.2	36.5 %
Incentive fees	56.2	38.3	17.9	46.7 %
Other	92.5	70.0	22.5	32.1 %
Total net services revenue	1,186.1	868.5	317.6	36.6 %
Operating expenses:				
Cost of services	987.8	770.6	217.2	28.2 %
Selling, general and administrative	104.4	97.9	6.5	6.6 %
Other	36.2	30.4	5.8	19.1 %
Total operating expenses	1,128.4	898.9	229.5	25.5 %
Income (loss) from operations	57.7	(30.4)	88.1	289.8 %
Loss on debt extinguishment	18.8	—	18.8	100.0 %
Net interest expense	29.1	26.3	2.8	10.6 %
Net income (loss) before income tax provision	9.8	(56.7)	66.5	117.3 %
Income tax provision (benefit)	(2.2)	(11.4)	9.2	(80.7)%
Net income (loss)	\$ 12.0	\$ (45.3)	\$ 57.3	126.5 %

The following table represents a reconciliation of adjusted EBITDA to net income (loss), the most comparable GAAP measure, for each of the periods indicated:

	Year Ended December 31,		2019 vs. 2018 Change	
	2019	2018	Amount	%
(In millions)				
<b>Net income (loss)</b>	\$ 12.0	\$ (45.3)	\$ 57.3	126.5 %
Net interest expense (income)	29.1	26.3	2.8	10.6 %
Income tax provision (benefit)	(2.2)	(11.4)	9.2	(80.7)%
Depreciation and amortization expense	55.7	38.8	16.9	43.6 %
Share-based compensation expense (1)	18.4	18.2	0.2	1.1 %
Loss on debt extinguishment (2)	18.8	—	18.8	100.0 %
Other (3)	36.2	30.4	5.8	19.1 %
<b>Adjusted EBITDA (non-GAAP)</b>	<b>\$ 168.0</b>	<b>\$ 57.0</b>	<b>\$ 111.0</b>	<b>194.7 %</b>

- (1) Share-based compensation expense represents the expense associated with stock options, restricted stock units, restricted stock awards and performance based restricted stock units granted, as reflected in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 15, Share-Based Compensation, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for the detail of the amounts of share-based compensation expense.
- (2) Loss on debt extinguishment represents the loss associated with the repayment of the credit agreement and subordinated notes in June 2019, as reflected in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 13, Debt, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on the extinguishment.
- (3) Other expenses consist of the following (in millions):

	Year Ended December 31,	
	2019	2018
Severance and employee benefits	\$ 3.6	\$ 2.3
Strategic initiatives (1)	19.8	19.7
Transitioned employees restructuring expense (2)	3.0	4.3
Digital Transformation Office (3)	8.6	3.6
Other	1.2	0.5
Total other	\$ 36.2	\$ 30.4

(1) Costs related to evaluating, pursuing and integrating acquisitions, performing portfolio analyses, and other inorganic business projects as part of the Company's growth strategy. Costs include employee time and expenses spent on activities, vendor spend, and severance and retention amounts associated with integration activities.

(2) As part of the transition of personnel to the Company under certain operating partner model contracts, the Company has agreed to reimburse, or directly pay the affected employees, for certain severance and retention costs related to certain employees who will not be transitioned to the Company, or whose jobs will be relocated after the employee transitions to the Company. At December 31, 2019, the Company's restructuring liability was \$1.1 million, offset by \$0.7 million of receivables.

(3) Project costs related to the Company's effort to automate its transactional environment.

### ***Net Services Revenue***

Net services revenue increased by \$317.6 million, or 36.6%, from \$868.5 million for the year ended December 31, 2018 to \$1,186.1 million for the year ended December 31, 2019. The increase was primarily driven by a \$185.6 million increase in net operating fees as a result of new customers onboarded or converted to an operating model contract since the beginning of 2018. In addition, we realized year-over-year growth of \$63.9 million as a result of the Intermedix acquisition.

### ***Cost of Services***

Cost of services increased by \$217.2 million, or 28.2%, from \$770.6 million for the year ended December 31, 2018, to \$987.8 million for the year ended December 31, 2019. The increase was primarily driven by a \$151.4 million increase in costs associated with new customers onboarded since the beginning of 2018. The Intermedix acquisition resulted in an increase in costs of services of \$52.3 million. In addition, we increased investments in information technology infrastructure, automation technology and central operations support and incurred additional employee benefits costs.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased by \$6.5 million, or 6.6%, from \$97.9 million for the year ended December 31, 2018 to \$104.4 million for the year ended December 31, 2019. The increase was primarily due to increased investments in sales and marketing expenses, as we have increased our efforts to pursue new business opportunities, and also increased investments in human resources spend to support scaling business operations.

### ***Other Expenses***

Other expenses increased by \$5.8 million, or 19.1%, from \$30.4 million for the year ended December 31, 2018, to \$36.2 million for the year ended December 31, 2019. The increase was primarily attributable to an additional \$5.0 million of costs associated with the DTO initiative.

### ***Income Tax Provision (Benefit)***

Income tax benefit decreased by \$9.2 million to \$2.2 million for the year ended December 31, 2019 from \$11.4 million for the year ended December 31, 2018. This was primarily due to higher pre-tax income, offset by higher tax benefit for share-based compensation.



## Results of Operations

### Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table provides consolidated operating results and other operating data for the periods indicated:

	Year Ended December 31,		2018 vs. 2017 Change	
	2018	2017	Amount	%
(In millions)				
<b>Consolidated Statement of Operations Data:</b>				
Net operating fees	\$ 760.2	\$ 374.8	\$ 385.4	102.8 %
Incentive fees	38.3	29.0	9.3	32.1 %
Other	70.0	46.0	24.0	52.2 %
<b>Total net services revenue</b>	<b>868.5</b>	<b>449.8</b>	<b>418.7</b>	<b>93.1 %</b>
Operating expenses:				
Cost of services	770.6	416.3	354.3	85.1 %
Selling, general and administrative	97.9	56.3	41.6	73.9 %
Other	30.4	4.7	25.7	546.8 %
<b>Total operating expenses</b>	<b>898.9</b>	<b>477.3</b>	<b>421.6</b>	<b>88.3 %</b>
<b>Income (loss) from operations</b>	<b>(30.4)</b>	<b>(27.5)</b>	<b>(2.9)</b>	<b>10.5 %</b>
Net interest expense (income)	26.3	(0.2)	26.5	(13,250)%
<b>Net income (loss) before income tax provision</b>	<b>(56.7)</b>	<b>(27.3)</b>	<b>(29.4)</b>	<b>107.7 %</b>
Income tax provision (benefit)	(11.4)	31.5	(42.9)	(136.2)%
<b>Net income (loss)</b>	<b>\$ (45.3)</b>	<b>\$ (58.8)</b>	<b>\$ 13.5</b>	<b>(23.0)%</b>

The following table represents a reconciliation of adjusted EBITDA to net income (loss), the most comparable GAAP measure, for each of the periods indicated:

	Year Ended December 31,		2018 vs. 2017 Change	
	2018	2017	Amount	%
(In millions)				
<b>Net income (loss)</b>	<b>\$ (45.3)</b>	<b>\$ (58.8)</b>	<b>\$ 13.5</b>	<b>(23.0)%</b>
Net interest expense (income)	26.3	(0.2)	26.5	(13,250)%
Income tax provision (benefit)	(11.4)	31.5	(42.9)	(136.2)%
Depreciation and amortization expense	38.8	16.3	22.5	138.0 %
Share-based compensation expense (1)	18.2	10.7	7.5	70.1 %
Other (2)	30.4	4.7	25.7	546.8 %
<b>Adjusted EBITDA (non-GAAP)</b>	<b>\$ 57.0</b>	<b>\$ 4.1</b>	<b>\$ 52.9</b>	<b>1,290.2 %</b>

Due to rounding, numbers presented in this table may not add up precisely to the totals provided.

- (1) Share-based compensation expense represents the expense associated with stock options, restricted stock units, restricted stock awards and performance based restricted stock units granted, as reflected in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 15, Share-Based Compensation, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for the detail of the amounts of share-based compensation expense.
- (2) Other expenses consist of the following (in millions)

	Year Ended December 31,	
	2018	2017
Severance and employee benefits	\$ 2.3	\$ 0.3
Non-cash share based compensation	—	0.1
Strategic initiatives (1)	19.7	3.1
Transitioned employees restructuring expense (2)	4.3	1.2
Digital Transformation Office (3)	3.6	—
Other	0.5	—
Total other	\$ 30.4	\$ 4.7

(1) Costs related to evaluating, pursuing and integrating acquisitions, performing portfolio analyses, and other inorganic business projects as part of the Company's growth strategy. Costs include employee time and expenses spent on activities, vendor spend, and severance and retention amounts associated with integration activities.

(2) As part of the transition of personnel to the Company under certain operating partner model contracts, the Company has agreed to reimburse, or directly pay the affected employees, for certain severance and retention costs related to certain employees who will not be transitioned to the Company, or whose jobs will be relocated after the employee transitions to the Company.

(3) Project costs related to the Company's effort to automate its transactional environment.

### *Net Services Revenue*

Net services revenue increased by \$418.7 million, or 93.1%, from \$449.8 million for the year ended December 31, 2017 to \$868.5 million for the year ended December 31, 2018. The increase was primarily driven by a \$282.6 million increase in net operating fees as a result of new customers onboarded to an operating partner model contract since the beginning of 2017. In addition, we realized year-over-year growth of \$119.2 million as a result of the Intermedix acquisition.

### *Cost of Services*

Cost of services increased by \$354.3 million, or 85.1%, from \$416.3 million for the year ended December 31, 2017, to \$770.6 million for the year ended December 31, 2018. The increase was primarily driven by a \$217.6 million increase in costs associated with new customers onboarded since the beginning of 2017. The Intermedix acquisition resulted in an increase in costs of services of \$86.6 million. In addition, we increased investments in IT infrastructure, automation technology and central operations support and incurred additional employee benefits costs.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$41.6 million, or 73.9%, from \$56.3 million for the year ended December 31, 2017 to \$97.9 million for the year ended December 31, 2018. The increase was primarily due to the Intermedix acquisition, which added \$27.2 million of cost in 2018. In addition, we increased investments in corporate IT and sales and marketing expenses, as we have increased our efforts to pursue new business opportunities, and also increased investments in finance and compliance to support scaling business operations.

### *Other Expenses*

Other expenses increased by \$25.7 million, from \$4.7 million for the year ended December 31, 2017, to \$30.4 million for the year ended December 31, 2018. The increase was primarily attributable to \$19.7 million in acquisition-related expenses as well as an increase in transitioned employees and severance expenses. Additionally, \$3.6 million of the increase relates to costs associated with the DTO initiative.

### ***Income Tax Provision (Benefit)***

Income tax provision decreased by \$42.9 million to an \$11.4 million benefit for the year ended December 31, 2018 from a \$31.5 million expense for the year ended December 31, 2017. This was primarily due to the impact of the Tax Act, which resulted in a one-time tax expense of \$38.2 million in 2017.

### **Liquidity and Capital Resources**

Cash flows from operating, investing and financing activities, as reflected in our Consolidated Statements of Cash Flows, are summarized in the following table:

	Year Ended December 31,		
	2019	2018	2017
	(In millions)		
Net cash provided by operating activities	\$ 113.9	\$ 18.3	\$ 20.9
Net cash used in investing activities	(61.0)	(496.3)	(33.6)
Net cash (used in) provided by financing activities	(25.3)	377.4	(4.2)
Effect of exchange rate changes in cash	(0.2)	(0.7)	0.6
Net increase (decrease) in cash, cash equivalents, and restricted cash	27.4	(101.3)	(16.3)

As of December 31, 2019 and 2018, we had cash and cash equivalents of \$92.0 million and \$62.8 million, respectively. These balances consist primarily of highly liquid money market funds. Our cash and cash equivalents, at any time, include amounts paid to us in advance by customers for the purpose of reimbursing their revenue cycle operations costs and amounts collected on behalf of the Company's physician group customers to be remitted within twelve months. See Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information. We expect that the combination of our current liquidity, expected additional cash generated from operations and to the extent necessary, new borrowing facilities will be sufficient to satisfy our anticipated cash requirement through at least the next twelve months. See Future Capital Needs and Debt and Financing Arrangement sections below for a discussion of our financing.

### **Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

#### ***Operating Activities***

Cash provided by operating activities improved by \$95.6 million, from cash provided of \$18.3 million for the year ended December 31, 2018, to cash provided of \$113.9 million for the year ended December 31, 2019. Cash provided by operating activities improved primarily due to improved operating results after adjusting for non-cash items, including adjustments for depreciation expense and loss on debt extinguishment, offset by changes in operating assets and liabilities.

#### ***Investing Activities***

Cash used in investing activities decreased by \$435.3 million from \$496.3 million for the year ended December 31, 2018, to \$61.0 million for the year ended December 31, 2019. Cash used in investing activities included the acquisition of Intermedix in 2018. The decrease was slightly offset by an increase in purchases of property, equipment and software in 2019.

### ***Financing Activities***

Cash provided by financing activities fell by \$402.7 million, from \$377.4 million for the year ended December 31, 2018, to cash used of \$25.3 million for the year ended December 31, 2019. This change was primarily due to obtaining new debt in 2018, whereas the new debt in 2019 was offset by the extinguishment of old debt.

### **Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

#### ***Operating Activities***

Cash provided by operating activities decreased by \$2.6 million, from cash provided of \$20.9 million for the year ended December 31, 2017, to cash provided of \$18.3 million for the year ended December 31, 2018. The decrease resulted from year-over-year unfavorable changes in overall working capital movement, offset by stronger operating performance as evidenced by the improvement in adjusted EBITDA for the year ended December 31, 2018 compared to 2017.

#### ***Investing Activities***

Cash used in investing activities increased by \$462.7 million from \$33.6 million for the year ended December 31, 2017, to \$496.3 million for the year ended December 31, 2018. Cash used in investing activities increased primarily due to the use of \$462.8 million to pay for the Intermedix acquisition.

#### ***Financing Activities***

Cash provided by financing activities increased by \$381.6 million from cash used in financing activities of \$4.2 million for the year ended December 31, 2017 to cash provided by financing activities of \$377.4 million for the year ended December 31, 2018. This change was primarily due to the issuance of the prior senior term loan and senior revolver and the subordinated notes, net of issuance costs, of \$358.2 million as well as the investment of \$20.0 million from Intermountain related to the securities purchase agreement with Intermountain, partially offset by \$0.8 million of issuance costs.

#### ***Future Capital Needs***

In June 2019, we refinanced our debt, paying off the prior senior credit facility and subordinated notes and replacing them with one senior secured credit facility, including a senior term loan of \$325.0 million and a senior revolving credit facility providing for borrowings of up to \$100.0 million. On January 9, 2020, in connection with the signing of the stock purchase agreement for the SCI Acquisition, we entered into a debt commitment letter for a \$150 million incremental first lien term loan facility (the "Incremental Term Loan"). The proceeds of the Incremental Term Loan will be used, together with cash on hand and borrowings under our revolving credit facility, to pay for the purchase price of the SCI Acquisition (including related fees and expenses). The Incremental Term Loan will have terms consistent with those of our senior term loan, including with respect to interest, maturity, amortization and prepayments.

We continue to invest capital in order to achieve our strategic initiatives. In addition, we plan to continue to enhance customer service by continuing our investment in technology to enable our systems to more effectively integrate with our customers' existing technologies in connection with our strategic initiatives. We plan to continue to deploy resources to strengthen our information technology infrastructure, including automation, in order to drive additional value for our customers. We also expect to continue to invest in our global business services infrastructure and capabilities, and selectively pursue acquisitions and/or strategic relationships that will enable us to broaden or further enhance our offerings.

New business development remains a priority as we plan to continue to boost our sales and marketing efforts. We plan to continue to add experienced personnel to our sales organization, develop more disciplined sales

processes and create an integrated marketing capability. Additionally, we expect to incur costs associated with implementation and transition costs to onboard new customers.

We believe that our available cash balances, cash flows expected to be generated from operations, and additional capacity under the revolving credit facility will be sufficient to satisfy our current and planned working capital and investment needs for the next twelve months. No assurance can be given, however, that this will be the case.

## **Debt and Financing Arrangements**

### *Senior Secured Credit Facilities*

On June 26, 2019, we entered into a new senior credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and the lenders named therein, for the new senior secured credit facilities (the “Senior Secured Credit Facilities”), consisting of a \$325.0 million senior secured term loan facility (the “Senior Term Loan”) issued at 99.66% of par and a \$100.0 million senior secured revolving credit facility (the “Senior Revolver”). In conjunction with entering into the Credit Agreement, we repaid in full the credit agreement dated May 8, 2018, the subordinated notes issued under the subordinated note purchase agreement dated May 8, 2018, and terminated all commitments and discharged all guarantees related to those agreements. We evaluated separately the previous credit agreement, subordinated notes, and revolver for debt modification and extinguishment guidance as indicated in ASC 470. We deemed the refinancing to be an extinguishment of the old debt, leading to a write-off of the prior issuance costs and recognition of new issuance costs, with the exception of a portion of the revolver which remained with the same lender. We recognized a loss on debt extinguishment of \$18.8 million in the second quarter of 2019.

The Senior Term Loan and Senior Revolver both have a five-year maturity. The Credit Agreement provides that we may make one or more offers to the lenders, and consummate transactions with individual lenders that accept the terms contained in such offers, to extend the maturity date of the lender’s term loans and/or revolving commitments, subject to certain conditions, and any extended term loans or revolving commitments will constitute a separate class of term loans or revolving commitments.

All of our obligations under the Senior Secured Credit Facilities are guaranteed by the subsidiary guarantors named therein (the “Subsidiary Guarantors”). Pursuant to (1) the Security Agreement, dated as of June 26, 2019 (the “Security Agreement”), among us, the Subsidiary Guarantors and Bank of America, N.A., as administrative agent, and (2) the Guaranty, dated as of June 26, 2019 (the “Guaranty”), among us, the Subsidiary Guarantors and Bank of America, N.A., as administrative agent, subject to certain exceptions, the obligations under the Senior Secured Credit Facilities are secured by a pledge of 100% of the capital stock of certain domestic subsidiaries owned by us and a security interest in substantially all of our tangible and intangible assets and the tangible and intangible assets of each Subsidiary Guarantor.

The Senior Revolver includes borrowing capacity available for letters of credit and for borrowings on same-day notice, referred to as the “swing loans.” Any issuance of letters of credit or making of a swing loan will reduce the amount available under the revolving credit facility. As of December 31, 2019, we had \$40.0 million in borrowings, no letters of credit outstanding, and \$60.0 million of availability under the Senior Revolver.

At our option, we may add one or more new term loan facilities or increase the commitments under the Senior Revolver (collectively, the “Incremental Borrowings”) in an aggregate amount of up to \$115.0 million plus any additional amounts so long as certain conditions, including a consolidated first lien leverage ratio (as defined in the Credit Agreement) of not more than 3.25 to 1.00 (on a *pari passu* basis) or compliance with the applicable financial covenants for such period (on a junior or unsecured basis), in each case on a pro forma basis, are satisfied.

Borrowings under the Senior Secured Credit Facilities bear interest, at our option, at: (i) an Alternate Base

Rate ("ABR") equal to the greater of (a) the prime rate of Bank of America, N.A., (b) the federal funds rate plus 0.50% *per annum*, and (c) the Eurodollar rate for an interest period of one-month beginning on such day plus 100 basis points, plus between 0.75% and 1.75% dependent on our Net Leverage Ratio (as defined below)(provided that the Eurodollar rate applicable to the Senior Term Loan shall not be less than 0.00% per annum); or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the Senior Term Loan shall not be less than 0.00% per annum), plus between 1.75% and 2.75%, dependent on our Net Leverage Ratio. The interest rate as of December 31, 2019 was 4.05%. We are also required to pay an unused commitment fee to the lenders under the Senior Revolver at a rate between 0.30% and 0.50% of the average daily unutilized commitments thereunder dependent on our net leverage ratio.

The Credit Agreement requires us to make mandatory prepayments, subject to certain exceptions, with: (i) beginning with fiscal year 2020, 50% (which percentage will be reduced upon our achievement of certain total net leverage ratios) of our annual excess cash flow; (ii) 100% of net cash proceeds of all non-ordinary course assets sales or other dispositions of property or casualty events, subject to certain exceptions and thresholds; and (iii) 100% of the net cash proceeds of any debt incurrence, other than debt permitted under the Credit Agreement. Commencing September 30, 2019, we are required to repay the Senior Term Loan portion of the Senior Secured Credit Facilities in quarterly principal installments of \$4.1 million through June 30, 2021, \$6.1 million through June 30, 2023, and \$8.1 million through March 31, 2024, with the balance payable at maturity.

The Credit Agreement contains two financial covenants. The first requires us maintain at the end of each fiscal quarter, commencing with the quarter ended September 30, 2019, a consolidated total net leverage ratio (the "Net Leverage Ratio") of not more than 4.75 to 1.00. The Net Leverage Ratio will step down in increments to 4.50 to 1.00 commencing with the fiscal quarter ending June 30, 2020, 4.25 to 1.00 commencing with the fiscal quarter ending June 30, 2021, and 3.50 to 1.00 commencing with the fiscal quarter ending June 30, 2022. The second requires us maintain at the end of each fiscal quarter, commencing with the quarter ended September 30, 2019, a consolidated interest coverage ratio (the "Coverage Ratio") of not less than 2.50 to 1.00. The Coverage Ratio will step up in increments to 2.75 to 1.00 commencing with the fiscal quarter ending June 30, 2020, 3.00 to 1.00 commencing with the fiscal quarter ending June 30, 2021, and 3.25 to 1.00 commencing with the fiscal quarter ending June 30, 2022.

The Credit Agreement also contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability and our subsidiaries' ability to: (i) incur additional indebtedness; (ii) create liens on assets; (iii) engage in mergers or consolidations; (iv) sell assets; (v) pay dividends and distributions or repurchase our capital stock; (vi) make investments, loans or advances; (vii) repay certain junior indebtedness; (viii) engage in certain transactions with affiliates; (ix) enter into sale and leaseback transactions; (x) amend material agreements governing certain of our junior indebtedness; (xi) change our lines of business; (xii) make certain acquisitions; and (xiii) limitations on the letter of credit cash collateral account. The Credit Agreement contains customary affirmative covenants and events of default. We were in compliance with all of the covenants in the Credit Agreement as of December 31, 2019.

## Contractual Obligations

The following table presents a summary of our contractual obligations as of December 31, 2019 (in millions):

	2020	2021	2022	2023	2024	Thereafter	Total
Operating leases (1)	\$ 20.4	\$ 18.1	\$ 15.8	\$ 15.5	\$ 15.1	\$ 49.2	\$ 134.1
Purchase and finance lease obligations (2)	\$ 9.8	\$ 4.8	\$ 5.2	\$ 4.0	\$ —	\$ —	\$ 23.8
Debt obligations (3)	\$ 16.3	\$ 20.3	\$ 24.4	\$ 28.4	\$ 267.5	\$ —	\$ 356.9
Interest on debt	\$ 14.0	\$ 13.3	\$ 12.5	\$ 11.8	\$ 5.2	\$ —	\$ 56.8
<b>Total</b>	<b>\$ 60.5</b>	<b>\$ 56.5</b>	<b>\$ 57.9</b>	<b>\$ 59.7</b>	<b>\$ 287.8</b>	<b>\$ 49.2</b>	<b>\$ 571.6</b>

- (1) Obligations and commitments to make future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year.
- (2) Includes obligations associated with IT software and service costs.
- (3) We expect to enter into a \$150 million Incremental Term Loan in connection with the closing of the SCI Acquisition, pursuant to a commitment letter entered into on January 9, 2020.

#### **Off-Balance Sheet Arrangements**

Other than the contractual obligations noted above, there were no off-balance sheet transactions, arrangements or other relationships with other persons in 2019, 2018 or 2017 that would have affected or are likely to affect our liquidity or the availability of, or requirements for, capital resources.

#### **Item 7A. *Qualitative and Quantitative Disclosures about Market Risk***

***Interest Rate Sensitivity.*** Our results of operations and cash flows are subject to fluctuations due to changes in interest rates due to our debt and banking arrangements, which can result in fluctuations in our interest income and expense. As of December 31, 2019, we have hedged \$100.0 million of our \$356.9 million outstanding floating rate debt to a fixed rate of 1.4% plus the applicable spread defined in the Credit Agreement. The remaining \$256.9 million is subject to an average variable rate of 4.05%.

As of December 31, 2019, \$256.9 million aggregate principal amount of our debt bears interest at floating rates. Assuming the current level of borrowings, a one percentage point increase or decrease in interest rates would increase or decrease our annual interest expense by approximately \$2.6 million.

Our interest income is primarily generated from variable rate interest earned on operating cash accounts.

***Foreign Currency Exchange Risk.*** Our results of operations and cash flows are subject to fluctuations due to changes in the Indian rupee and the Euro because a portion of our operating expenses are incurred by our subsidiaries in India and Lithuania, and are denominated in Indian rupees and Euros, respectively. We do not generate significant revenues outside of the United States. For the years ended December 31, 2019, 2018 and 2017, 8%, 7%, and 8% of our expenses were denominated in foreign currencies, respectively. As of December 31, 2019 and 2018, we had net assets of \$41.5 million and \$37.9 million in foreign entities, respectively.

The reduction in earnings from a 10% change in foreign currency spot rates would be \$9.7 million and \$6.9 million at December 31, 2019 and 2018, respectively. We have hedge positions that are designated cash flow hedges of certain intercompany charges which have maturities not exceeding December 31, 2020 and are intended to partially offset the impact of foreign currency movements on future costs relating to our global delivery resources. For additional information, see Note 24, Derivative Financial Instruments to our Consolidated Financial Statements under Item 8, Consolidated Financial Statements and Supplementary Data. These instruments are subject to fluctuations in foreign currency exchange rates and credit risk. Credit risk is managed through careful selection and ongoing evaluation of the financial institutions utilized as counterparties.

For designated cash flow hedges, gains and losses currently recorded in accumulated other comprehensive loss will be reclassified into earnings at the time when certain anticipated intercompany charges are accrued as cost of services. As of December 31, 2019, it was anticipated that approximately \$0.1 million of gains, net of tax, currently recorded in accumulated other comprehensive loss will be reclassified into cost of services within the next 12 months. As of December 31, 2019, the notional value of the outstanding derivative contracts totaled 3.84 billion Indian rupees.

We use sensitivity analysis to determine the effects that market foreign currency exchange rate fluctuations may have on the fair value of our hedge portfolio. The sensitivity of the hedge portfolio is computed based on the market value of future cash flows as affected by changes in exchange rates. This sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the offsetting gain or loss on the underlying

exposure. A 10% change in the levels of foreign currency exchange rates against the U.S. dollar (or other base currency of the hedge if not a U.S. dollar hedge) with all other variables held constant would have resulted in a change in the fair value of our hedge instruments of approximately \$4.8 million as of December 31, 2019.

We continually monitor our exposure to foreign currency fluctuations and may use additional derivative financial instruments and hedging transactions in the future if, in our judgment, circumstances warrant. There can be no guarantee that the impact of foreign currency fluctuations in the future will not be significant and will not have a material impact on our financial position or results of operations.

**Item 8. Consolidated Financial Statements and Supplementary Data**

The financial statements required by this Item are located beginning on page F-1 of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. Controls and Procedures**

This Item 9A includes information concerning the controls and controls evaluation referred to in the certifications of our Chief Executive Officer and Interim Chief Financial Officer required by Rule 13a-14 of the Exchange Act included in this Annual Report as Exhibits 31.1 and 31.2.

**Management's Report on Internal Control Over Financial Reporting**

Management has responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making its assessment, management has utilized the criteria set forth by the COSO of the Treadway Commission in Internal Control-Integrated Framework (2013). Management concluded that based on its assessment, our internal control over financial reporting was effective as of December 31, 2019. The Company's internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP as stated in their report which appears herein.

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management including its principal executive officer and principal financial officer to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of the Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. Our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of December 31, 2019, our disclosure controls and procedures were effective.



***Changes in Internal Control Over Financial Reporting***

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Report of Independent Registered Public Accounting Firm**

The Stockholders and Board of Directors of R1 RCM Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited R1 RCM Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, R1 RCM Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 20, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois  
February 20, 2020

**Item 9B.**      *Other Information*

None

## PART III

### **Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by this item with respect to our directors and executive officers will be contained in our 2020 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders" and is incorporated in this report by reference.

The information required by this item with respect to corporate governance matters will be contained in our 2020 Proxy Statement under the caption "Corporate Governance" and is incorporated in this report by reference.

### **Code of Integrity**

We have adopted a global code of integrity that applies to all employees, including our directors and officers (our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions). Copies of our Code of Integrity: Living Our Values are available without charge upon written request directed to Corporate Secretary, R1 RCM Inc., 401 N. Michigan Avenue, Suite 2700, Chicago, Illinois, 60611. Additionally, copies are available without charge online at [http://s22.q4cdn.com/852369931/files/doc\\_downloads/governance\\_documents/2019/R1-Code-of-Integrity.pdf](http://s22.q4cdn.com/852369931/files/doc_downloads/governance_documents/2019/R1-Code-of-Integrity.pdf).

### **Item 11. *Executive Compensation***

Information required to be furnished by Item 402 of Regulation S-K and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K regarding executive compensation will be included in our 2020 Proxy Statement under the caption "Executive Compensation" and is herein incorporated by reference.

### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

We maintain an Amended and Restated Stock Option Plan ("2006 Plan"), and a Second Amended and Restated 2010 Stock Incentive Plan (the "2010 Amended Plan"), and together with the 2006 Plan (the "Plans"). Under the 2010 Amended Plan we may issue up to a maximum of 46,374,756 shares, including any shares that remained available for issuance under the 2006 Plan as of the date of the IPO and any shares subject to awards that were outstanding under the 2006 Plan as of the date of the IPO that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by us without the issuance of shares thereunder. We will not make any further grants under the 2006 Plan. The 2010 Amended Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. As of December 31, 2019, 7,463,122 shares were available for future grants of awards under the 2010 Amended Plan. However, to the extent that previously granted awards under the 2006 Plan or 2010 Amended Plan expire, terminate or are otherwise surrendered, canceled or forfeited, the number of shares available for future awards under the 2010 Amended Plan will increase.

The following table summarizes information about the securities authorized for issuance under our equity compensation plans as of December 31, 2019:

<b>Plan Category</b>	<b>(a)</b> <b>Number of Securities to be Issued Upon Exercise of Outstanding Options and Restricted Stock Units</b>	<b>(b)</b> <b>Weighted-Average Exercise Price of Outstanding Options</b>	<b>(c)</b> <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities reflected in Column (a))</b>
Equity compensation plans approved by stockholders (1)	19,233,559	\$ 4.65	7,463,122
Equity compensation plans not approved by stockholders (2)	2,029,400	\$ 9.56	—
<b>Total</b>	<b>21,262,959</b>		<b>7,463,122</b>

(1) Includes 8,650,940 outstanding stock options, 1,373,356 restricted stock units and 9,209,263 performance-based restricted stock units ("PBRsUs") awarded under the Plans. The number of shares included for PBRsUs represents the maximum shares that could vest based on applicable price targets. Since the restricted stock units and PBRsUs have no exercise price, they are not included in the weighted-average exercise price calculation in column b.

(2) Represents stock option inducement grants made pursuant to the NYSE inducement grant rules.

The information required by this item with regard to security ownership of certain beneficial owners and management will be contained in our 2020 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders - Security Ownership of Certain Beneficial Owners and Management" and is incorporated in this report by reference.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this item will be contained in our 2020 Proxy Statement under the captions "Related-Party Transactions" and "Corporate Governance" and is incorporated in this report by reference.

**Item 14. *Principal Accountant Fees and Services***

The information required by this item will be contained in our 2020 Proxy Statement under the caption "Ratification of the Selection of Independent Registered Public Accounting Firm" and is incorporated in this report by reference.

## PART IV

### **Item 15.**        *Exhibits and Financial Statement Schedules*

a) The following documents are filed as a part of this report:

(1) *Financial Statements*: The financial statements and notes thereto annexed to this report beginning on page F-1.

(2) *Financial Statement Schedules*: Schedule II- Valuation and Qualifying Accounts Disclosure schedules have been omitted because they are not required or because the required information is in the Consolidated Financial Statements and notes thereto.

(3) *Exhibits*: The list of Exhibits filed as part of this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such Exhibits and is incorporated herein by this reference.

### **Item 16.**        *Form 10-K Summary*

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

R1 RCM INC.

By: /s/ Joseph Flanagan

Joseph Flanagan

President and Chief Executive Officer

By: /s/ Richard B. Evans, Jr.

Richard B. Evans, Jr.

Interim Chief Financial Officer

Date: February 20, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Joseph Flanagan</u> Joseph Flanagan	President, Chief Executive Officer and Director (Principal Executive Officer)	February 20, 2020
<u>/s/ Richard B. Evans, Jr.</u> Richard B. Evans, Jr.	Interim Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 20, 2020
<u>/s/ Michael C. Feiner</u> Michael C. Feiner	Director	February 20, 2020
<u>/s/ John B. Henneman III</u> John B. Henneman III	Director	February 20, 2020
<u>/s/ Alex J. Mandl</u> Alex J. Mandl	Lead Director	February 20, 2020
<u>/s/ Neal Moszkowski</u> Neal Moszkowski	Director	February 20, 2020
<u>/s/ Ian Sacks</u> Ian Sacks	Director	February 20, 2020
<u>/s/ Jill Smith</u> Jill Smith	Director	February 20, 2020
<u>/s/ Anthony J. Speranzo</u> Speranzo	Anthony J. Director	February 20, 2020
<u>/s/ Anthony R. Tersigni</u> Anthony R. Tersigni	Director	February 20, 2020
<u>/s/ Albert R. Zimmerli</u> Zimmerli	Albert R. Director	February 20, 2020



**R1 RCM Inc.**

**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors of R1 RCM Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of R1 RCM Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Revenue recognition - Incentive fee arrangements**

*Description of the Matter*

As described in Note 2 of the consolidated financial statements, the Company recognizes revenue related to financial performance-based incentive fees ratably as the performance obligation for revenue cycle management services is satisfied. Incentive fees are structured to reflect quarterly or annual performance and are evaluated on a contract-by-contract basis.

Auditing the Company's recognition and measurement of variable incentive fees revenues is subjective due to the estimation uncertainty in the calculations for amounts not yet settled. In these situations, the Company performs an assessment of the estimated total incentive fees expected and the related revenues to be recognized. Further, the nature and terms of each individual customer agreement for end-to-end revenue cycle management services varies, and each contract requires separate analysis to ensure that incentive fee revenue recognition is appropriate.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the review of customer agreements and related amendments and incentive fee calculations, including management's internal controls over the assessment of the estimated constraint applied to the incentive fee revenues.

To test the appropriateness of the timing of recognition and measurement of incentive fee revenues, our audit procedures included, among others, obtaining and reviewing the customer contracts and any related amendments, recalculating the estimated revenues using management's methodology, and independently confirming with external customers key operational measures that are included in the customer contract and utilized as inputs to the calculation. In addition, we compared historical estimated incentive fees to actual results to assess the accuracy of management's estimation process.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2004.

Chicago, Illinois  
February 20, 2020

**R1 RCM Inc.**  
**Consolidated Balance Sheets**  
(In millions, except per share data)

	December 31,	
	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92.0	\$ 62.8
Current portion of restricted cash equivalents	—	1.8
Accounts receivable, net	52.3	42.2
Accounts receivable, net - related party	30.8	55.2
Prepaid expenses and other current assets	41.6	34.8
Total current assets	216.7	196.8
Property, equipment and software, net	116.9	95.2
Operating lease right-of-use assets	77.9	—
Intangible assets, net	164.7	180.5
Goodwill	253.2	254.8
Non-current deferred tax assets	64.2	57.5
Non-current portion of restricted cash equivalents	0.5	0.5
Other assets	35.0	22.2
Total assets	<u>\$ 929.1</u>	<u>\$ 807.5</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 20.2	\$ 9.9
Current portion of customer liabilities	14.0	14.7
Current portion of customer liabilities - related party	34.1	51.1
Accrued compensation and benefits	95.1	77.0
Current portion of operating lease liabilities	12.8	—
Current portion of long-term debt	16.3	2.7
Other accrued expenses	40.0	40.8
Total current liabilities	232.5	196.2
Non-current portion of customer liabilities - related party	18.6	17.7
Non-current portion of operating lease liabilities	82.7	—
Long-term debt	337.7	251.0
Long-term debt - related party	—	105.0
Other non-current liabilities	10.4	22.9
Total liabilities	<u>681.9</u>	<u>592.8</u>
8.00% Series A convertible preferred stock, par value \$0.01, 370,000 shares authorized, 266,529 shares issued and outstanding as of December 31, 2019 (aggregate liquidation value of \$271.9); 370,000 shares authorized, 246,233 shares issued and outstanding as of December 31, 2018 (aggregate liquidation value of \$251.2)	229.1	208.4
<b>Stockholders' equity:</b>		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 127,807,546 shares issued and 114,021,280 shares outstanding at December 31, 2019; 123,353,656 shares issued and 110,541,901 shares outstanding at December 31, 2018	1.3	1.2
Additional paid-in capital	372.7	361.0
Accumulated deficit	(277.8)	(289.8)
Accumulated other comprehensive loss	(4.5)	(3.5)
Treasury stock, at cost, 13,786,266 shares as of December 31, 2019; 12,811,755 shares as of December 31, 2018	(73.6)	(62.6)
Total stockholders' equity	<u>18.1</u>	<u>6.3</u>
Total liabilities and stockholders' equity	<u>\$ 929.1</u>	<u>\$ 807.5</u>

See accompanying notes to consolidated financial statements.

**R1 RCM Inc.**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
(In millions, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Net services revenue (\$790.4 million, \$600.1 million and \$404.4 million from related party for the year ended December 31, 2019, 2018 and 2017, respectively)	\$ 1,186.1	\$ 868.5	\$ 449.8
Operating expenses:			
Cost of services	987.8	770.6	416.3
Selling, general and administrative	104.4	97.9	56.3
Other	36.2	30.4	4.7
Total operating expenses	1,128.4	898.9	477.3
Income (loss) from operations	57.7	(30.4)	(27.5)
Loss on debt extinguishment	18.8	—	—
Net interest expense (income)	29.1	26.3	(0.2)
Income (loss) before income tax provision (benefit)	9.8	(56.7)	(27.3)
Income tax provision (benefit)	(2.2)	(11.4)	31.5
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)
Net income (loss) per common share:			
Basic	\$ (0.08)	\$ (0.60)	\$ (0.75)
Diluted	\$ (0.08)	\$ (0.60)	\$ (0.75)
Weighted average shares used in calculating net income (loss) per common share:			
Basic	111,505,993	108,175,159	102,062,051
Diluted	111,505,993	108,175,159	102,062,051
<b>Consolidated statements of comprehensive income (loss)</b>			
Net income (loss)	12.0	(45.3)	(58.8)
Other comprehensive loss:			
Net change on derivatives designated as cash flow hedges, net of tax	(0.2)	0.5	—
Foreign currency translation adjustments	(0.8)	(2.4)	1.2
Comprehensive income (loss)	\$ 11.0	\$ (47.2)	\$ (57.6)
Basic:			
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)
Less dividends on preferred shares	(20.7)	(19.1)	(17.7)
Net income (loss) available/allocated to common shareholders - basic	\$ (8.7)	\$ (64.4)	\$ (76.5)
Diluted:			
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)
Less dividends on preferred shares	(20.7)	(19.1)	(17.7)
Net income (loss) available/allocated to common shareholders - diluted	\$ (8.7)	\$ (64.4)	\$ (76.5)

See accompanying notes to consolidated financial statements.

**R1 RCM Inc.**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
(In millions, except per share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated other comprehensive (loss)	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2017	116,425,524	\$ 1.2	(9,765,982)	\$ (55.2)	\$ 349.2	\$ (304.7)	\$ (2.8)	\$ (12.3)
Impact of adoption of Topic 606	—	—	—	—	—	113.4	—	113.4
Impact of adoption of ASU 2016-09	—	—	—	—	1.5	(0.9)	—	0.6
Adjusted balance at January 1, 2017	116,425,524	\$ 1.2	(9,765,982)	\$ (55.2)	\$ 350.7	\$ (192.2)	\$ (2.8)	\$ 101.7
Share-based compensation expense	—	—	—	—	11.2	—	—	11.2
Issuance of common stock related to share-based compensation plans	155,535	—	—	—	—	—	—	—
Exercise of vested stock options	69,329	—	—	—	0.2	—	—	0.2
Dividends paid/accrued on preferred stock	—	—	—	—	(17.7)	—	—	(17.7)
Acquisition of treasury stock related to equity award plans	—	—	(1,640,005)	(4.4)	—	—	—	(4.4)
Treasury stock purchases and forfeitures	—	—	(834,440)	—	—	—	—	—
Reclassification of excess share-based compensation	—	—	—	—	(6.5)	6.5	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	1.2	1.2
Net (loss) income	—	—	—	—	—	(58.8)	—	(58.8)
Balance at December 31, 2017	116,650,388	\$ 1.2	(12,240,427)	\$ (59.6)	\$ 337.9	\$ (244.5)	\$ (1.6)	\$ 33.4
Share-based compensation expense	—	—	—	—	17.4	—	—	17.4
Reclassification of equity award	—	—	—	—	1.3	—	—	1.3
Issuance of common stock related to share-based compensation plans	323,964	—	—	—	—	—	—	—
Issuance of common stock and stock warrants	4,665,594	—	—	—	19.2	—	—	19.2
Exercise of vested stock options	1,713,710	—	—	—	4.3	—	—	4.3
Dividends paid/accrued on preferred stock	—	—	—	—	(19.1)	—	—	(19.1)
Acquisition of treasury stock related to equity award plans	—	—	(499,069)	(3.0)	—	—	—	(3.0)
Forfeitures	—	—	(72,259)	—	—	—	—	—
Net change on derivatives designated as cash flow hedges, net of tax of \$0.2	—	—	—	—	—	—	0.5	0.5
Foreign currency translation adjustment	—	—	—	—	—	—	(2.4)	(2.4)
Net (loss) income	—	—	—	—	—	(45.3)	—	(45.3)
Balance at December 31, 2018	123,353,656	\$ 1.2	(12,811,755)	\$ (62.6)	\$ 361.0	\$ (289.8)	\$ (3.5)	\$ 6.3
Share-based compensation expense	—	—	—	—	18.8	—	—	18.8
Issuance of common stock related to share-based compensation plans	1,812,993	—	—	—	—	—	—	—
Exercise of vested stock options	2,640,897	0.1	—	—	13.6	—	—	13.7
Dividends paid/accrued on preferred stock	—	—	—	—	(20.7)	—	—	(20.7)
Acquisition of treasury stock related to equity award plans	—	—	(973,303)	(11.0)	—	—	—	(11.0)
Forfeitures	—	—	(1,208)	—	—	—	—	—
Net change on derivatives designated as cash flow hedges, net of tax of (\$0.1)	—	—	—	—	—	—	(0.2)	(0.2)
Foreign currency translation adjustment	—	—	—	—	—	—	(0.8)	(0.8)
Net (loss) income	—	—	—	—	—	12.0	—	12.0
Balance at December 31, 2019	127,807,546	\$ 1.3	(13,786,266)	\$ (73.6)	\$ 372.7	\$ (277.8)	\$ (4.5)	\$ 18.1

See accompanying notes to consolidated financial statements.

**R1 RCM Inc.**  
**Consolidated Statements of Cash Flows**  
(In millions)

	Year Ended December 31,		
	2019	2018	2017
<b>Operating activities</b>			
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)
Adjustments to reconcile net income (loss) to net cash used in operations:			
Depreciation and amortization	55.7	38.8	16.3
Amortization of debt issuance costs	1.6	1.5	—
Share-based compensation	18.6	18.4	10.7
Loss on disposal	0.1	0.4	0.2
Loss on debt extinguishment	18.8	—	—
Provision for doubtful receivables	2.9	0.8	0.3
Deferred income taxes	(5.1)	(14.0)	29.7
Non-cash lease expense	11.4	—	—
Changes in operating assets and liabilities:			
Accounts receivable and related party accounts receivable	11.5	(39.1)	(13.0)
Prepaid expenses and other assets	(17.9)	(17.0)	(2.6)
Accounts payable	9.9	(3.0)	(0.3)
Accrued compensation and benefits	18.2	31.9	12.9
Lease liabilities	(11.8)	—	—
Other liabilities	4.8	9.8	1.5
Customer liabilities and customer liabilities - related party	(16.8)	35.1	24.0
Net cash provided by operating activities	<u>113.9</u>	<u>18.3</u>	<u>20.9</u>
<b>Investing activities</b>			
Purchases of property, equipment, and software	(61.0)	(33.5)	(33.6)
Acquisition of Intermedix, net of cash acquired	—	(462.8)	—
Net cash used in investing activities	<u>(61.0)</u>	<u>(496.3)</u>	<u>(33.6)</u>
<b>Financing activities</b>			
Issuance of senior secured debt, net of discount and issuance costs	321.8	253.1	—
Issuance of subordinated notes, net of discount and issuance costs	—	105.5	—
Borrowings on revolver	60.0	—	—
Payment of debt issuance costs related to the Senior Revolver	—	(0.4)	—
Repayment of senior secured debt	(276.8)	(1.3)	—
Repayment of subordinated notes and prepayment penalty	(112.2)	—	—
Repayments on revolver	(20.0)	—	—
Issuance of common stock and stock warrants, net of issuance costs	—	19.2	—
Exercise of vested stock options	13.7	4.3	0.2
Purchase of treasury stock	—	—	(2.5)
Shares withheld for taxes	(11.0)	(3.0)	(1.9)
Finance lease payments	(0.8)	—	—
Net cash (used in) provided by financing activities	<u>(25.3)</u>	<u>377.4</u>	<u>(4.2)</u>
Effect of exchange rate changes in cash	<u>(0.2)</u>	<u>(0.7)</u>	<u>0.6</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	27.4	(101.3)	(16.3)
Cash, cash equivalents, and restricted cash at beginning of period	65.1	166.4	182.7
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 92.5</u>	<u>\$ 65.1</u>	<u>\$ 166.4</u>
<b>Supplemental disclosures of cash flow information</b>			
Accrued dividends payable to Preferred Stockholders	\$ 5.3	\$ 4.9	\$ 4.5
Accrued and other liabilities related to purchases of property, equipment and software	\$ 20.6	\$ 19.6	\$ 1.1
Accounts payable related to purchases of property, equipment and software	\$ 1.2	\$ 0.9	\$ 1.4
Interest paid	\$ 26.5	\$ 23.4	\$ —
Income taxes paid	\$ (4.0)	\$ (3.3)	\$ (1.6)

Income taxes refunded

\$

0.2

\$

0.5

\$

3.5

See accompanying notes to consolidated financial statements.



**R1 RCM Inc.**  
**Notes to Consolidated Financial Statements**

**1. Description of Business**

R1 RCM Inc. (the "Company") is a leading provider of technology-enabled revenue cycle management ("RCM") services to healthcare providers, including health systems and hospitals, physicians groups, and municipal and private emergency medical service ("EMS") providers. The Company helps healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for its customers.

The Company achieves these results for its customers by managing healthcare providers' revenue cycle operations, which encompass processes including patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections from patients and payers. The Company does so by deploying a unique operating model that leverages its extensive healthcare site experience, innovative technology and process excellence. The Company assists its RCM customers in managing their revenue cycle operating costs while simultaneously increasing the portion of the maximum potential services revenue they receive. Together, these benefits can generate significant and sustainable improvements in operating margins and cash flows for the Company's customers.

The Company's primary service offering consists of end-to-end RCM services for health systems, hospitals, physician groups, and EMS providers, which the Company deploys through an operating partner relationship or a co-managed relationship. Under an operating partner relationship, the Company provides comprehensive revenue cycle infrastructure to providers, including all revenue cycle personnel, technology solutions and process workflow. Under a co-managed relationship, the Company leverages its customers' existing RCM staff and processes, and supplement them with the Company's infused management, subject matter specialists, proprietary technology solutions and other resources. Under the operating partner model, the Company records higher revenue and expenses due to the fact that almost all of the revenue cycle personnel are employees of the Company and more third-party vendor contracts are controlled by the Company. Under the co-managed model, the majority of the revenue cycle personnel and more third-party vendor contracts remain with the customer and those costs are netted against the Company's co-managed revenue. For the years ended December 31, 2019, 2018, and 2017, substantially all of the Company's net operating and incentive fees from end-to-end RCM services were generated under the operating partner model.

The Company also offers modular services, allowing customers to engage the Company for only specific components of its end-to-end RCM service offering, such as physician advisory services ("PAS"), practice management ("PM"), revenue integrity services ("RIS"), patient experience, coding management, and business office. The Company's PAS offering assists healthcare organizations in complying with payer requirements regarding whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes. The Company's PM services offer administrative and operational support to allow healthcare providers to focus on delivering high quality patient care and outsource non-core functions to the Company. The Company's RIS offering includes charge capture, charge description master ("CDM") maintenance and pricing services that help providers ensure they are capturing the maximum net compliant revenue for services delivered. The Company's patient experience offering helps patients manage their data in one easy-to-use environment, enabling eligibility validation and insurance plan attribution, demographic accuracy, meeting authorization and referral requirements, medical necessity validation, and patient out-of-pocket cost estimation. The Company's coding management offering drives performance, quality, and consistent results via business intelligence and analysis, human capital management, an accountability framework, and a quality management program. The Company's business office service can help providers with the entire billing function or to specifically recoup revenue that may otherwise be lost by focusing skilled resources in lower priority areas with significant revenue potential.

Once implemented, the Company's technology solutions, processes and services are deeply embedded in its customers' day-to-day revenue cycle operations. The Company believes its service offerings are adaptable to meet an evolving healthcare regulatory environment, technology standards and market trends.

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*Ascension*

On February 16, 2016, the Company entered into a long-term strategic partnership with Ascension Health Alliance, the parent of the Company's largest customer and the nation's largest Catholic and non-profit health system, and TowerBrook Capital Partners ("TowerBrook"), an investment management firm (the "Transaction"). As part of the Transaction, the Company amended and restated its Master Professional Services Agreement ("A&R MPSA") with Ascension Health ("Ascension") effective February 16, 2016 with a term of ten years. Pursuant to the A&R MPSA and with certain limited exceptions, the Company is the exclusive provider of RCM services and PAS with respect to acute care services provided by the hospitals affiliated with Ascension that execute supplement agreements with the Company.

*Intermountain*

On January 23, 2018, the Company entered into an Amended and Restated Services Agreement (the "Intermountain Services Agreement") with IHC Health Services, Inc. ("Intermountain") having a 10-year term. Pursuant to the Intermountain Services Agreement, the Company provides revenue cycle management services to Intermountain hospitals and medical group providers under the operating partner model. In addition, the Company provides revenue cycle management services to Intermountain's homecare, hospice and palliative care, durable medical equipment and infusion therapy business. In conjunction with the execution of the Intermountain Services Agreement, the Company entered into a Securities Purchase Agreement (the "Intermountain Purchase Agreement") with Intermountain, pursuant to which the Company sold to Intermountain, in private placements under the Securities Act of 1933, as amended (the "Securities Act"), (i) 4,665,594 shares of common stock and (ii) a warrant to acquire up to 1,500,000 shares of Common Stock at an initial exercise price of \$6.00 per share, on the terms and subject to the conditions set forth in the warrant, for an aggregate purchase price of \$20 million.

*Intermedix*

On May 8, 2018, the Company completed the acquisition of Intermedix Holdings, Inc. ("Intermedix") through the merger of Project Links Merger Sub, Inc. ("Merger Sub"), a wholly-owned indirect subsidiary of the Company, with and into Intermedix, with Intermedix surviving the merger as a wholly-owned indirect subsidiary of the Company (the "Acquisition"). The purchase price for the Acquisition was \$469.2 million. The Company funded the purchase price for the Acquisition and the Company's associated transaction expenses with a combination of cash on hand and the incurrence of indebtedness. Intermedix is one of the largest providers of RCM and PM services to physician groups and EMS providers in the United States ("U.S."). Intermedix has a diverse customer base of approximately 700 customers and 1,500 employees located in offices within the U.S., Lithuania, the United Kingdom, and New Zealand. Refer to Note 5, Acquisition, and Note 13, Debt, for further discussion on the Intermedix Acquisition and related financing.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with the United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results can differ from those estimates.

### **Segments**

Reporting segments are identified as components of an enterprise about which separate discrete financial information is available and is evaluated by the chief operating decision maker, or decision-making group, relating to resource allocation and performance assessments. All of the Company's significant operations are organized

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around the single business of providing revenue cycle operations for healthcare providers. The Company views its operations and manages its business as one operating and reportable segment.

**Revenue Recognition**

The Company's primary source of revenue is its end-to-end RCM services fees. The Company also generates revenue through modular RCM services, where customers will engage the Company for only specific components of its end-to-end RCM service offering on a fixed-fee or transactional basis.

*Revenue Cycle Management*

RCM services fees are primarily variable and performance related, and are generally viewed as the consideration earned in satisfaction of a single performance obligation which is considered a series. Variable consideration for end-to-end RCM services are allocated to and recognized over the related time period as the amounts reflect the consideration the Company is entitled to and relate specifically to the Company's efforts to satisfy its performance obligation. Fees for physician group and EMS provider RCM services include variable consideration contingent on customer collections, and inputs to the Company's revenue estimates typically include historical service fees and historical customer collection amounts. RCM services fees consist of net operating fees, incentive fees, and other fees.

*Net Operating Fees*

The Company's net operating fees consist of:

- i) gross base fees invoiced to customers; less
  - ii) corresponding costs of customers' revenue cycle operations which the Company pays pursuant to its RCM agreements, including salaries and benefits for the customers' RCM personnel, and related third-party vendor costs; plus
  - iii) fees accrued for physician group and EMS providers' RCM services.

The Company recognizes revenue related to net operating fees ratably as the performance obligation for the RCM services is satisfied. Base fees are typically billed in advance of the quarter and paid in three monthly payments as the entity performs and the customer simultaneously receives and consumes the benefits of the services provided. The costs of customers' revenue cycle operations, which the Company pays pursuant to its RCM agreements, are accrued based on the service period. Net operating fees for physician groups and EMS providers are invoiced on a monthly basis and payment terms are typically 30 days.

*Incentive Fees*

Incentive fees are structured to reflect quarterly or annual performance and are evaluated on a contract-by-contract basis. The Company estimates incentive fee revenue based on contractually agreed-upon financial or operating metrics. The Company recognizes revenue related to incentive fees ratably as the performance obligation for RCM services is satisfied, to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. Incentive fees are typically billed and paid on a quarterly basis.

*Other*

The Company recognizes revenue related to other RCM fees as RCM services are provided. These services consist of an obligation to provide a specific component of its end-to-end RCM service offering. Fees are typically variable in nature with the entire amount being included in revenue in the month of service. The customer simultaneously receives and consumes the benefits provided by the services and the fees are typically

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billed on a monthly basis and payment terms are typically 30 days. To the extent that certain service fees are fixed and not subject to refund, adjustment, or concession, these fees are generally recognized into revenue ratably as the performance obligation is satisfied.

The Company recognizes revenue from PAS in the period in which the service is performed. The Company's PAS arrangements typically consist of an obligation to provide specific services to customers on an if and when needed basis. These services are provided under a fixed price per unit arrangement. Fees for the Company's PAS arrangements are typically billed on a monthly basis with 30 to 60 day payment terms.

PM services arrangements include a single performance obligation, constituting a series, to manage and administer various non-clinical aspects of a customer's physician practice, which may be comprised of numerous physical office locations. Consideration for PM services is typically variable in nature and allocated to and recognized over the related time period as the amounts reflect the consideration the Company is entitled to and relate specifically to the Company's effort to satisfy its performance obligation. PM services fees are invoiced on a monthly basis and payment terms are typically 30 days.

*Bundled Services*

Modular RCM services may be sold separately or bundled in a contract. End-to-end RCM services are typically sold separately but may be bundled with PAS. PAS are commonly sold separately. The typical length of an end-to-end RCM contract is two to ten years (subject to the parties' respective termination rights) but varies from customer to customer. Modular RCM agreements generally vary in length between one and three years.

For bundled arrangements, the Company accounts for individual services as a separate performance obligation if a service is separately identifiable from other items in the bundled arrangement and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The transaction price is allocated between separate services in a bundle based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells its modular services. PAS are provided at a customer's election but do not represent material rights as the services are priced at standalone selling price throughout the life of the agreement.

**Cost of Services**

Costs associated with generating the Company's net services revenue, including the cost of operating its global business services centers, are expensed as incurred, with the exception of deferred contract costs, which are discussed further in Note 22. Cost of services consist of (i) infused management, on-site revenue cycle employees and technology costs, (ii) global business services costs and (iii) other costs. Infused management, on-site revenue cycle employees and technology costs consist primarily of wages, bonuses, benefits, share-based compensation, travel and other costs associated with employees who are assigned to customer sites to help manage the Company's customers' revenue cycle operations. The other significant portion of such expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite. Global business services costs relate to the Company's global business services centers in the U.S. and internationally that perform patient scheduling and pre-registration, medical transcription, cash posting, reconciliation of payments to billing records, patient follow-up and Medicaid eligibility determination for our customers. The Company incurs expenses related to salaries and benefits for employees in its global business services centers and non-payroll costs associated with operating its global business services centers. Other expenses consist of costs related to managing other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation and facilities costs.

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**Comprehensive Income (Loss)**

Comprehensive income (loss) is the net income (loss) of the Company combined with other changes in stockholders' equity (deficit) not involving ownership interest changes. For the Company, such changes are foreign currency translation adjustments and changes in derivatives designated as cash flow hedges.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Restricted Cash Equivalents**

In 2019 and 2018, restricted cash equivalents represent the amount of cash or certificate of deposits ("CDs") that the Company is unable to access for operational purposes as it collateralizes certain Company expenses or derivatives. At December 31, 2019 and 2018, the Company had \$0.5 million and \$2.3 million in restricted cash equivalents, respectively.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable is comprised of unpaid balances pertaining to modular services and end-to-end RCM services. The Company maintains an estimated allowance for doubtful accounts to reduce its accounts receivable to the amount that it believes will be collected. This allowance is based on the Company's historical experience, its assessment of each customer's ability to pay, the length of time a balance has been outstanding, input from key customer resources assigned to each customer and the status of any ongoing operations with each applicable customer.

**Property, Equipment and Software**

Property, equipment and software are stated at cost, and related depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets.

The Company capitalizes qualifying internal and third-party costs and hardware and software costs related to the Company's software development activities in accordance with ASC 350-40. The Company amortizes the capitalized software development costs over their estimated life on a straight-line basis.

The major classifications of property, equipment and software and their expected useful lives are as follows:

Buildings and land	39 years and indefinite
Computers and other equipment	3 to 5 years
Leasehold improvements	Shorter of 10 years or lease term
Office furniture	5 years
Software	3 to 5 years

**Goodwill**

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. The Company annually tests goodwill for impairment on the first day of its fiscal fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying value. The goodwill impairment test consists of a qualitative assessment of impairment indicators, followed by, if necessary, a quantitative assessment comparing the carrying amount to the reporting unit's fair value. To the extent that the

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carrying value exceeds the fair value, and impairment charge would be recorded. The Company has determined there to be one reporting unit, consistent with its operating and reportable segment. As part of its annual impairment analysis, the Company performed a qualitative assessment and determined there was no impairment of goodwill for the year ended December 31, 2019.

**Impairment of Long-Lived Assets**

Property, equipment, software, right-of-use ("ROU") assets, deferred contract costs, and other acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset or asset group be reviewed for possible impairment, the Company first compares undiscounted cash flows expected to be generated by each asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds the fair value. There was no material impairment of property, equipment, software, ROU assets, deferred contract costs, or other acquired intangible assets for the years ended December 31, 2019, 2018, and 2017.

**Accrued Compensation and Benefits**

Accrued compensation and benefits consists of accrued payroll, bonus, paid time off, health benefits, severance, and compensation and benefits related taxes. Total accrued payroll and bonus was \$62.3 million and \$51.1 million at December 31, 2019 and 2018, respectively.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using current tax laws and enacted tax rates in effect for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance for deferred tax assets if, based upon the weight of all available evidence, both positive and negative, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the relevant tax authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest amount of benefit that has a greater than 50% percent likelihood of being realized upon ultimate settlement. Interest and penalties relating to income taxes are recognized in our income tax provision in the consolidated statements of operations and comprehensive income (loss).

**Legal and Other Contingencies**

In the normal course of business, the Company is subject to regulatory investigations or legal proceedings, as well as demands, claims and threatened litigation. The Company records an estimated loss for any claim, lawsuit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of the probability and whether the loss can be reasonably estimated. Actual expenses could differ from such estimates.

**Foreign Currency Translation and Transaction Gains (Losses)**

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where such local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at average exchange rates during the year which approximates the

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rates in effect at the transaction dates. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss).

**Share-Based Compensation Expense**

The Company determines the expense for all employee share-based compensation awards by estimating their fair value and recognizing such value as an expense, on a ratable basis, in the consolidated financial statements over the requisite service period in which the employees earn the awards. The fair value of performance and service condition stock options is calculated using the Black-Scholes option pricing model and, for market condition stock awards, the fair value is estimated using Monte Carlo simulations.

To determine the fair value of a share-based award using the Black-Scholes option pricing model, the Company makes assumptions regarding the risk-free interest rate, expected future volatility and expected life of the award. These inputs are subjective and generally require significant analysis and judgment to develop. The Company aggregates all employees into one pool based on the grant date for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company estimates the expected volatility of the share price by reviewing the historical volatility levels of its common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected volatility. The Company exercises judgment in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies. The Company calculates the expected term in years for each stock option using a simplified method based on the average of each option's vesting term and original contractual term. The simplified method was used due to the lack of sufficient historical data available to provide a reasonable basis upon which to estimate the expected term of each stock option.

To determine the fair value of a share-based award using Monte Carlo simulations, the Company makes assumptions regarding the risk-free interest rate, expected future volatility, expected dividend yield and performance period. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company estimates the expected volatility of the share price by reviewing the historical volatility levels of its common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected volatility. Dividend yield is determined based on the Company's future plans to pay dividends. The Company had no plans to pay dividends at December 31, 2019. The Company calculates the performance period based on the specific market condition to be achieved and derived from historical data and estimates of future performance.

The Company recognizes compensation expense using a straight-line method over the applicable service or performance period. During each quarter, the share-based compensation expense is adjusted to reflect options that vested or were forfeited during the period; however, compensation expense already recognized is not adjusted if market conditions are not met.

**Derivative Financial Instruments**

The Company is actively managing the risk of changes in foreign currency exchange rates and change in interest rates through foreign currency forward contracts and interest rate swap contracts traded in over-the-counter markets governed by International Swaps and Derivatives Association, Inc. (ISDA) agreements. Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored using techniques such as market value and sensitivity analyses. The Company does not enter into derivative transactions for trading purposes.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a cash flow hedge by documenting the relationship between the derivative and the hedged item. The documentation includes a description of the hedging instrument, the hedged item, the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge, and the method for assessing the effectiveness of the hedge. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in the cash flows of the hedged item at both inception of the hedge and on an ongoing basis. Prospective and retrospective

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hedge effectiveness will be assessed by a comparison of the critical terms of the hedging instrument and the hedged transaction. In the event that the Company's ongoing assessment demonstrates that the critical terms of the hedging instrument or the hedged transaction have changed and no longer match, hedge effectiveness is assessed by use of a Hypothetical Derivative Method, which assesses hedge effectiveness based on a comparison of the change in fair value of the actual derivative designated as the hedging instrument and the change in fair value of a perfectly effective hypothetical derivative. The perfectly effective hypothetical derivative would have terms that identically match the critical terms of the hedged item.

The Company's derivative financial instruments consist of non-deliverable foreign currency forward contracts and interest rate swaps. Fair values for derivative financial instruments are based on prices computed using third-party valuation models and are classified as Level 2 in accordance with the three-level hierarchy of fair value measurements. The change in fair value of a hedging instrument is recorded in accumulated other comprehensive loss as a separate component of stockholders' equity and is reclassified into cost of services in the consolidated statement of operations and comprehensive income (loss) during the period in which the hedged transaction impacts earnings.

### **Treasury Stock**

The Company records treasury stock at the cost to acquire such shares, including commissions paid to brokers. Treasury stock is included as a component of stockholders' equity.

### **Earnings (Loss) Per Share**

Basic net income per share is computed by dividing net income, less any dividends, accretion or decrction, redemption or induced conversion on the Preferred Stock, by the weighted average number of common shares outstanding during the period. As the Preferred Stock (as defined in Note 14) participates in dividends alongside the Company's common stock (per their participating dividends), the Preferred Stock would constitute participating securities under ASC 260-10 and are applied to earnings per share using the two-class method. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends.

Diluted net income per share is calculated using the more dilutive of the if-converted or the two-class method. For the year ended December 31, 2019 and 2018, the two-class method was more dilutive and was computed by adjusting the denominator used in the basic net income per share computation by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period plus, when their effect if dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance-based restricted stock units ("PBRsUs"), and shares issuable upon conversion of preferred stock.

## **3. Recent Accounting Pronouncements**

### **Recently Issued Accounting Standards and Disclosures**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which supersedes existing guidance on accounting for leases in Topic 840, Leases. ASU 2016-02 generally requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The Company adopted ASU 2016-02 effective January 1, 2019 using the modified retrospective transition method, utilizing a cumulative-effect adjustment, without restating prior period comparative financial statements. The Company elected the package of practical expedients upon transition that retained the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. Adoption of the new standard resulted in the recording of additional ROU assets and lease liabilities of approximately \$75.2 million and \$90.8 million, respectively, as of January 1, 2019. The adoption had no impact on prior period retained earnings. See Note 8 Leases for more information on the Company's leasing arrangements.



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In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"). The Company adopted ASU 2018-15 effective January 1, 2019 using the prospective method of adoption. ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification ("ASC") 350-40 to determine which implementation costs to defer and recognize as an asset. Adoption of ASU 2018-15 resulted in \$2.4 million of assets capitalized into other assets on the balance sheet for the year ended December 31, 2019.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. The change will result in earlier recognition of credit losses. The Company will adopt ASU 2016-13 effective January 1, 2020 utilizing a modified retrospective transition method and does not expect a material impact to retained earnings upon transition. The adjustment is not expected to have a material impact on the consolidated financial statements at the date of transition.

#### **4. Fair Value of Financial Instruments**

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value (i) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date, (ii) establishes a framework for measuring fair value, (iii) establishes a hierarchy of fair value measurements based upon the ability to observe inputs used to value assets and liabilities, (iv) requires consideration of nonperformance risk and (v) expands disclosures about the methods used to measure fair value. The accounting standard establishes a three-level hierarchy of measurements based upon the reliability of observable and unobservable inputs used to arrive at fair value. Observable inputs are independent market data, while unobservable inputs reflect the Company's assumptions about valuation. The three levels of the hierarchy are defined as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amounts of the Company's financial instruments, which include financial assets such as cash and cash equivalents, restricted cash equivalents, accounts receivable, net, and certain other current assets, as well as financial liabilities such as accounts payable, accrued service costs, accrued compensation and benefits and certain other accrued expenses, approximate their fair values, due to the short-term nature of these instruments. See Note 24, Derivative Financial Instruments, for a discussion of the fair value of the Company's forward currency derivative contracts.

The Company believes the carrying value of the senior term loan entered into in 2019 (see Note 13, Debt) approximates fair value as it is variable rate bank debt. The fair value of the Company's senior term loan entered into in 2018 was estimated based on the quoted market prices for the same or similar issue, and was considered a Level 2 measurement. The fair value of the Company's subordinated notes issued in 2018 was estimated based on market indications compared to the inputs of the existing agreement and was considered a Level 2 measurement.

Other than the items discussed above, the Company does not have any financial assets or liabilities that are required to be measured at fair value on a recurring basis.

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**5. Acquisition**

*Intermedix Holdings, Inc.*

On May 8, 2018, the Company completed the acquisition of Intermedix. The Intermedix acquisition has been accounted for under ASC 805, Business Combinations. Accordingly, the accounts of the acquired company, after adjustments to reflect fair values assigned to assets and liabilities, have been included in the Company's consolidated financial statements since the date of the Intermedix acquisition.

The purchase price for the Intermedix acquisition was \$469.2 million. The Company funded the purchase price for the Intermedix acquisition and the Company's associated transaction expenses with a combination of cash on hand and the incurrence of additional indebtedness through a senior term loan and subordinated debt (see Note 13, Debt). The purchase price has been allocated to assets acquired and liabilities assumed based on their established fair values as of the completion of the acquisition date. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

The final fair value of assets acquired and liabilities assumed is (in millions):

	<b>Purchase Price Allocation</b>
Total purchase consideration	\$ 469.2
Allocation of consideration to assets acquired and liabilities assumed:	
Cash, cash equivalents, and restricted cash	\$ 6.4
Accounts receivable	35.5
Prepaid expenses and other current assets	11.6
Property, equipment and software	25.4
Intangible assets	191.1
Goodwill	253.2
Other assets	0.3
Accounts payable	(6.4)
Current portion of customer liabilities	(8.6)
Accrued compensation and benefits	(7.7)
Other accrued expenses	(6.2)
Deferred income tax liabilities	(25.4)
Net assets acquired	\$ 469.2

The goodwill recognized is primarily attributable to synergies that are expected to be achieved from the integration of Intermedix. None of the goodwill is expected to be deductible for income tax purposes.

The Company retained Bank of America to provide both advisory and financing services related to the Intermedix acquisition. The amount of debt issuance costs paid to Bank of America was \$4.1 million.

*Measurement period adjustments*

The Company had various measurement period adjustments due to tax return information and additional knowledge gained since the acquisition. The significant adjustments included a reduction to deferred income tax

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liabilities of \$1.7 million related to updated tax return information. No subsequent adjustments were made after the measurement period closed in the second quarter of 2019.

*Pro Forma Results (Unaudited)*

The following table summarizes, on a pro forma basis, the combined results of the Company as though the Intermedix acquisition had occurred as of January 1, 2017. These pro forma results are not necessarily indicative of either the actual consolidated results had the Intermedix acquisition occurred as of January 1, 2017 or of the future consolidated operating results. Pro forma results are (in millions):

	Year Ended December 31,	
	2018	2017
Net services revenue	\$ 938.5	\$ 642.8
Net income (loss)	\$ (57.8)	\$ (74.7)

Supplemental pro-forma earnings were adjusted to exclude \$11.9 million of acquisition-related costs incurred by the Company in 2018 and include those costs in 2017. Adjustments were also made to earnings to adjust depreciation and amortization to reflect fair value of identified assets acquired, to remove the impairment charges recognized by Intermedix on intangible assets which were revalued as of the acquisition date, to record the effects of extinguishing the debt of Intermedix and replacing it with the debt of the Company, and to record the income tax effect of these adjustments.

**6. Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable is comprised of unpaid balances pertaining to modular services and end-to-end RCM services, net receivable balances for end-to-end RCM services after considering cost reimbursements owed to customers, including related accrued balances, and amounts due from physician RCM and PM customers.

The Company maintains an estimated allowance for doubtful accounts to reduce its accounts receivable to the amount that it believes will be collected. This allowance is based on the Company's historical experience, its assessment of each customer's ability to pay, the length of time a balance has been outstanding, input from key Company resources assigned to each customer, and the status of any ongoing operations with each applicable customer.

Movements in the allowance for doubtful accounts are as follows (in millions):

	Year Ended December 31,	
	2019	2018
Beginning balance	\$ 1.1	\$ 0.4
Provision (recoveries)	3.1	0.7
Write-offs	(1.4)	—
Ending balance	\$ 2.8	\$ 1.1

**7. Property, Equipment and Software**

Property, equipment and software consist of the following (in millions):

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	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Buildings and land	\$ 4.6	\$ 4.6
Computer and other equipment	50.7	48.6
Leasehold improvements	31.1	27.9
Software	123.0	85.9
Office furniture	9.4	9.7
Property, equipment and software, gross	218.8	176.7
Less accumulated depreciation and amortization	(101.9)	(81.5)
Property, equipment and software, net	<u>\$ 116.9</u>	<u>\$ 95.2</u>

Property, equipment and software, net, located internationally was \$14.8 million and \$15.6 million as of December 31, 2019 and 2018, respectively. The remaining property, equipment and software was located in the U.S. in each of those years.

The following table summarizes the allocation of depreciation and amortization expense between cost of services and selling, general and administrative expenses (in millions):

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cost of services	\$ 37.8	\$ 23.9	\$ 14.5
Selling, general and administrative	4.0	4.3	1.8
Total depreciation and amortization	<u>\$ 41.8</u>	<u>\$ 28.2</u>	<u>\$ 16.3</u>

## 8. Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current portion of operating lease liabilities, and long-term portion of operating lease liabilities on the consolidated balance sheets. Finance lease ROU assets are included in property, equipment and software, net, and the current and non-current portion of financing lease liabilities are included in other accrued expenses and other non-current liabilities, respectively, on the consolidated balance sheets.

ROU assets represent the Company's right to control the use of the underlying assets for the lease term and lease liabilities represent the Company's obligations to make lease payments arising from the Company's portfolio of leases. Operating and finance lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the incremental borrowing rate, determined based on the information available at the lease commencement date, is used in calculating the present value of lease payments. ROU assets also include any lease prepayments made and excludes any lease incentives. The Company's leases may include options to extend the lease term and the Company's determination of the likely lease term incorporates these options when it is reasonably certain that they will be exercised.

The Company elected to not separate lease and non-lease components for building and equipment leases. The Company will account for the lease and non-lease components, such as fixed service charges, as a single lease component. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense is recognized for these short-term leases on a straight-line basis over the lease term.

The Company has operating and finance leases for corporate offices, operational facilities, global business services centers, and certain equipment. Leases have remaining lease terms of 1 year to 14 years, some of which include options to extend the leases for up to 10 years. In circumstances where there are significant foreign tax

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incentives, the Company has determined it to be reasonably certain to exercise the renewal options. The Company subleases certain office spaces to third parties.

The Company elected to not separate lease and non-lease components for equipment leased to customers as part of certain service arrangements. The lease components are combined with the non-lease components and accounted for under ASC 606.

The components of lease costs are as follows (in millions):

	<u>Year Ended December 31, 2019</u>
Operating lease cost	\$ 19.1
Finance lease cost:	
Amortization of right-of-use assets	0.8
Interest on lease liabilities	0.1
Sublease income	(2.2)
<b>Total lease cost</b>	<b>\$ 17.8</b>

Supplemental cash flow information related to leases are as follows (in millions):

	<u>Year Ended December 31, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 18.7
Operating cash flows for finance leases	0.1
Financing cash flows for finance leases	0.8
ROU assets obtained in exchange for lease obligations:	
Operating leases	17.3
Finance leases	0.7

The Company presents all non-cash transactions related to adjustments to the lease liability or ROU asset as non-cash transactions. This includes all non-cash charges related to any modification or reassessment events triggering remeasurement.

Supplemental balance sheet information related to leases are as follows (in millions):

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	December 31, 2019	
<b>Operating leases</b>		
Operating lease right-of-use assets	\$	77.9
Current portion of operating lease liabilities	\$	12.8
Non-current portion of operating lease liabilities		82.7
Total operating lease liabilities	\$	95.5
<b>Finance leases</b>		
Property, equipment and software, gross	\$	3.0
Accumulated depreciation		(1.2)
Property, equipment and software, net	\$	1.8
Other accrued expenses	\$	0.8
Other non-current liabilities		0.6
Total finance lease liabilities	\$	1.4
<b>Weighted average remaining lease term:</b>		
Operating leases		8 years
Finance leases		2 years
<b>Weighted average incremental borrowing rate:</b>		
Operating leases		8.84%
Finance leases		6.45%

Maturities of lease liabilities as of December 31, 2019 are as follows (in millions):

	Operating Leases		Finance Leases	
2020	\$	20.4	\$	0.9
2021		18.1		0.5
2022		15.8		0.1
2023		15.5		—
2024		15.1		—
Thereafter		49.2		—
Total		134.1		1.5
Less:				
Imputed interest		38.6		0.1
Present value of lease liabilities	\$	95.5	\$	1.4

## 9. Intangible Assets

In conjunction with the acquisition of Intermedix, the Company acquired certain intangible assets. Prior to the acquisition of Intermedix on May 8, 2018, the Company did not have any intangible assets. The following table

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provides the gross carrying value and accumulated amortization for each major class of intangible asset at December 31, 2019 and December 31, 2018 (in millions, except weighted average useful life):

	December 31, 2019			December 31, 2018			
	Weighted Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	17 years	\$ 160.9	\$ (15.6)	\$ 145.3	\$ 160.9	\$ (6.1)	\$ 154.8
Tradename	1 year	1.1	(1.1)	—	1.1	(1.1)	—
Technology	6 years	26.8	(7.4)	19.4	26.8	(2.9)	23.9
Favorable leasehold interests (1)	1-8 years	—	—	—	2.3	(0.5)	1.8
<b>Total intangible assets</b>		<u>\$ 188.8</u>	<u>\$ (24.1)</u>	<u>\$ 164.7</u>	<u>\$ 191.1</u>	<u>\$ (10.6)</u>	<u>\$ 180.5</u>

(1) Favorable leasehold interests were derecognized and the ROU assets were adjusted by the corresponding amount upon adoption of Topic 842.

The fair value of the identifiable intangible assets was derived utilizing the following valuation methodology:

<b>Valuation Methodology</b>	
Customer relationships	Income approach to derive the present value of future cash flows from customer relationship.
Tradename	Relief from royalty method was utilized to determine the present value of savings from owning the asset.
Technology	The cost, market, and income approaches were used. <ul style="list-style-type: none"> <li>• Cost approach - value is based on the current technology cost.</li> <li>• Market approach - value is based on sales of similar technologies.</li> <li>• Income approach - value based on identifiable discrete cash flows related to the technology.</li> </ul>
Favorable leasehold interests	Income approach to derive the present value of the market versus contractual rent.

Intangible asset amortization expense was \$13.9 million and \$10.6 million for the year ended December 31, 2019 and 2018, respectively.

Estimated annual amortization expense related to intangible assets with definite lives as of December 31, 2019 is as follows (in millions):

2020	\$ 13.9
2021	13.9
2022	13.9
2023	13.9
2024	11.0
Thereafter	98.1
<b>Total</b>	<u><u>\$ 164.7</u></u>

## 10. Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2019 were (in millions):

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	<b>Goodwill</b>	
Balance as of December 31, 2018	\$	254.8
Measurement period adjustments		(1.6)
Balance as of December 31, 2019	\$	253.2

There was no impairment of goodwill in 2019 and 2018.

**11. Revenue Recognition**

The Company follows the guidance under Topic 606, Revenue from Contracts with Customers, (“Topic 606”). Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service to a customer, which is typically over the contract term. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. See Note 2, Summary of Significant Accounting Policies, for further discussion.

**Disaggregation of Revenue**

In the following table, revenue is disaggregated by source of revenue (in millions):

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net operating fees	\$ 1,037.4	\$ 760.2
Incentive fees	56.2	38.3
Other	92.5	70.0
Net services revenue	\$ 1,186.1	\$ 868.5

**Contract Balances**

The following table provides information about receivables, contracts assets, and contract liabilities from contracts with customers (in millions):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Receivables (1)	\$ 83.1	\$ 97.4
Contract assets (2)	2.0	1.2
Contract liabilities (2)	25.3	22.3

(1) Receivables are included in accounts receivable, net. The balance includes accounts receivable, net - related party.

(2) Contract assets and contract liabilities are included in other current assets and customer liabilities, respectively. The contract liabilities balance contains related party amounts, including \$4.2 million of current customer liabilities and \$18.6 million of non-current customer liabilities.

The Company recognized an increase of revenue of \$1.4 million and \$0.4 million for the year ended December 31, 2019 and 2018 related to changes in transaction price estimates. The Company recognized revenue of \$4.0 million and \$0.2 million for the year ended December 31, 2019 and 2018, related to services performed in periods prior to the parties reaching an agreement that creates enforceable rights and obligations.

A receivable is recognized in the period the Company provides services when the Company’s right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-60 days.



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Significant changes in the contract assets and the contract liabilities balances during the year ended December 31, 2019 and 2018 are as follows (in millions):

	December 31, 2019		December 31, 2018	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Revenue recognized that was included in the contract liability balance at the beginning of the period	\$ —	\$ 69.7	\$ —	\$ 51.8
Increases due to cash received, excluding amounts recognized as revenue during the period	—	2.4	—	5.8
Acquisitions	—	—	1.2	2.1

The Company recognized revenue of \$69.7 million and \$51.8 million during the year ended December 31, 2019 and 2018, which amounts were included in contract liabilities at the beginning of the respective periods. These revenue amounts include \$66.7 million and \$47.8 million for the year ended December 31, 2019 and 2018, respectively, related to advanced billings which become accounts receivable and contract liabilities on the first day of the respective service period.

**Transaction Price Allocated to the Remaining Performance Obligation**

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period (in millions). The estimated revenue does not include amounts of variable consideration that are constrained.

	Net operating fees		Incentive fees	
2020	\$	63.3	\$	18.0
2021		18.7		—
2022		9.2		—
2023		7.3		—
Thereafter		8.4		—
<b>Total</b>	<b>\$</b>	<b>106.9</b>	<b>\$</b>	<b>18.0</b>

The amounts presented in the table above include variable fee estimates for the non-cancellable term of the Company's physician groups and EMS providers, RCM services contracts, fixed fees which are typically recognized ratably as the performance obligation is satisfied, and incentive fees which are measured cumulatively over the contractually defined performance period.

Estimates of revenue expected to be recognized in future periods also exclude unexercised customer options to purchase services within the Company's PAS contracts that do not represent material rights to the customer. Customer options that do not represent a material right are only accounted for in accordance with Topic 606 when the customer exercises its option to purchase additional goods or services.

The Company does not disclose information about remaining performance obligations with an original expected duration of one year or less. The Company has elected certain of the optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. Accordingly, the Company applies a practical expedient to its modular RCM services and does not disclose information about variable consideration from remaining performance obligations when the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. PAS performance obligations are typically short in duration (often less than 1 day) with any uncertainty related to the associated variable consideration resolved as each increment of service (completion of a level of care review or an appeal) is completed

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which reflects the value the customer receives from the Company's fulfillment of the performance obligation. Modular RCM services performance obligations for variable consideration are of short duration with fees corresponding to the value the customer has realized, for example, patient accounts collected on behalf of the customer or medical record lines transcribed.

For end-to-end RCM contracts, the Company does not disclose information about remaining, wholly unsatisfied performance obligations for variable consideration that the Company is able to allocate to one or more, but not all, of the performance obligations in its contracts. The Company's end-to-end RCM services performance obligations are satisfied over time and are substantially the same from period to period under either a co-managed or operating partner model. Fees are variable and consist of net operating fees and incentive fees, with the uncertainty related to net operating fees and certain incentive fees being resolved quarterly, and with the uncertainty of other incentive fees being resolved annually. The information presented in the table above includes estimates for incentive fees where the uncertainty related to the final fee is resolved on longer than a quarterly basis and to the extent the Company does not believe the associated consideration is constrained.

**12. Customer Liabilities**

Customer liabilities include (i) accrued service costs (amounts due and accrued for cost reimbursements), (ii) collections payable to clients (consisting primarily of amounts collected on behalf of the Company's physician group customers to be remitted within twelve months), (iii) refund liabilities (amounts potentially due as a refund to the Company's customers on incentive fees), (iv) customer deposits (consisting of amounts due as a refund to the Company's customers on incentive fees) and (v) deferred revenue (contract liabilities) (fixed or variable fees amortized to revenue over the service period).

Customer liabilities consist of the following (in millions):

	December 31, 2019	December 31, 2018
Accrued service costs, current	\$ 33.3	\$ 51.0
Collections payable to clients, current	5.4	9.1
Customer deposits, current	1.7	—
Refund liabilities, current	1.0	0.6
Deferred revenue (contract liabilities), current	6.7	5.1
Current portion of customer liabilities (1)	48.1	65.8
Refund liabilities, non-current	—	0.4
Deferred revenue (contract liabilities), non-current	18.6	17.3
Non-current portion of customer liabilities (1)	18.6	17.7
Total customer liabilities	\$ 66.7	\$ 83.5

(1) Current and non-current portion of customer liabilities include amounts for a related party. See Note 21, Related Party Transactions, for further discussion.

**13. Debt**

The carrying amounts of debt consist of the following (in millions):

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	December 31, 2019	December 31, 2018
Senior Revolver	\$ 40.0	\$ —
Senior Term Loan	316.9	268.7
Notes (primarily with related parties)	—	110.0
Unamortized discount and issuance costs	(2.9)	(20.0)
<b>Total debt</b>	<b>354.0</b>	<b>358.7</b>
Less: Current maturities	(16.3)	(2.7)
<b>Total long-term debt</b>	<b>\$ 337.7</b>	<b>\$ 356.0</b>

*Senior Secured Credit Facilities*

On June 26, 2019, the Company and certain of its subsidiaries entered into a new senior credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and the lenders named therein, for the new senior secured credit facilities (the “Senior Secured Credit Facilities”), consisting of a \$325.0 million senior secured term loan facility (the “Senior Term Loan”) issued at 99.66% of par and a \$100.0 million senior secured revolving credit facility (the “Senior Revolver”). In conjunction with entering into the Credit Agreement, the Company repaid in full the credit agreement dated May 8, 2018, the subordinated notes issued under the Subordinated Note Purchase Agreement dated May 8, 2018, and terminated all commitments and discharged all guarantees related to those agreements. The Company evaluated separately the previous credit agreement, subordinated notes, and revolver for debt modification and extinguishment guidance as indicated in ASC 470. The Company deemed the refinancing to be an extinguishment of the old debt, leading to a write-off of the prior issuance costs and recognition of new issuance costs, with the exception of a portion of the revolver which remained with the same lender. The Company recognized a loss on debt extinguishment of \$18.8 million in the second quarter of 2019.

The Senior Term Loan and Senior Revolver both have a five-year maturity. The Credit Agreement provides that the Company may make one or more offers to the lenders, and consummate transactions with individual lenders that accept the terms contained in such offers, to extend the maturity date of the lender’s term loans and/or revolving commitments, subject to certain conditions, and any extended term loans or revolving commitments will constitute a separate class of term loans or revolving commitments.

All of the Company’s obligations under the Senior Secured Credit Facilities are guaranteed by the subsidiary guarantors named therein (the “Subsidiary Guarantors”). Pursuant to (1) the Security Agreement, dated as of June 26, 2019 (the “Security Agreement”), among the Company, the Subsidiary Guarantors and Bank of America, N.A., as administrative agent, and (2) the Guaranty, dated as of June 26, 2019 (the “Guaranty”), among the Company, the Subsidiary Guarantors and Bank of America, N.A., as administrative agent, subject to certain exceptions, the obligations under the Senior Secured Credit Facilities are secured by a pledge of 100% of the capital stock of certain domestic subsidiaries owned by the Company and a security interest in substantially all of the Company’s tangible and intangible assets and the tangible and intangible assets of each Subsidiary Guarantor.

The Senior Revolver includes borrowing capacity available for letters of credit and for borrowings on same-day notice, referred to as the “swing loans.” Any issuance of letters of credit or making of a swing loan will reduce the amount available under the revolving credit facility. As of December 31, 2019, the Company had \$40.0 million in borrowings, no letters of credit outstanding, and \$60.0 million of availability under the Senior Revolver.

At the Company’s option, the Company may add one or more new term loan facilities or increase the commitments under the Senior Revolver (collectively, the “Incremental Borrowings”) in an aggregate amount of up to \$115.0 million plus any additional amounts so long as certain conditions, including a consolidated first lien leverage ratio (as defined in the Credit Agreement) of not more than 3.25 to 1.00 (on a *pari passu* basis) or

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compliance with the applicable financial covenants for such period (on a junior or unsecured basis), in each case on a pro forma basis, are satisfied.

Borrowings under the Senior Secured Credit Facilities bear interest, at the Company's option, at: (i) an Alternate Base Rate ("ABR") equal to the greater of (a) the prime rate of Bank of America, N.A., (b) the federal funds rate plus 0.50% *per annum*, and (c) the Eurodollar rate for an interest period of one-month beginning on such day plus 100 basis points, plus between 0.75% and 1.75% dependent on the Company's Net Leverage Ratio (as defined below) (provided that the Eurodollar rate applicable to the Senior Term Loan shall not be less than 0.00% per annum); or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the Senior Term Loan shall not be less than 0.00% per annum), plus between 1.75% and 2.75%, dependent on the Company's Net Leverage Ratio. The interest rate as of December 31, 2019 was 4.05%. The Company is also required to pay an unused commitment fee to the lenders under the Senior Revolver at a rate between 0.30% and 0.50% of the average daily unutilized commitments thereunder dependent on the Company's net leverage ratio.

The Credit Agreement requires the Company to make mandatory prepayments, subject to certain exceptions, with: (i) beginning with fiscal year 2020, 50% (which percentage will be reduced upon the Company's achievement of certain total net leverage ratios) of the Company's annual excess cash flow; (ii) 100% of net cash proceeds of all non-ordinary course assets sales or other dispositions of property or casualty events, subject to certain exceptions and thresholds; and (iii) 100% of the net cash proceeds of any debt incurrence, other than debt permitted under the Credit Agreement. Commencing September 30, 2019, the Company is required to repay the Senior Term Loan portion of the Senior Secured Credit Facilities in quarterly principal installments of \$4.1 million through June 30, 2021, \$6.1 million through June 30, 2023, and \$8.1 million through March 31, 2024, with the balance payable at maturity.

The Credit Agreement contains two financial covenants. The first requires the Company to maintain at the end of each fiscal quarter, commencing with the quarter ended September 30, 2019, a consolidated total net leverage ratio (the "Net Leverage Ratio") of not more than 4.75 to 1.00. The Net Leverage Ratio will step down in increments to 4.50 to 1.00 commencing with the fiscal quarter ending June 30, 2020, 4.25 to 1.00 commencing with the fiscal quarter ending June 30, 2021, and 3.50 to 1.00 commencing with the fiscal quarter ending June 30, 2022. The second requires the Company to maintain at the end of each fiscal quarter, commencing with the quarter ended September 30, 2019, a consolidated interest coverage ratio (the "Coverage Ratio") of not less than 2.50 to 1.00. The Coverage Ratio will step up in increments to 2.75 to 1.00 commencing with the fiscal quarter ending June 30, 2020, 3.00 to 1.00 commencing with the fiscal quarter ending June 30, 2021, and 3.25 to 1.00 commencing with the fiscal quarter ending June 30, 2022.

The Credit Agreement also contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability and the ability of its subsidiaries to: (i) incur additional indebtedness; (ii) create liens on assets; (iii) engage in mergers or consolidations; (iv) sell assets; (v) pay dividends and distributions or repurchase the Company's capital stock; (vi) make investments, loans or advances; (vii) repay certain junior indebtedness; (viii) engage in certain transactions with affiliates; (ix) enter into sale and leaseback transactions; (x) amend material agreements governing certain of the Company's junior indebtedness; (xi) change the Company's lines of business; (xii) make certain acquisitions; and (xiii) limitations on the letter of credit cash collateral account. The Credit Agreement contains customary affirmative covenants and events of default. The Company was in compliance with all of the covenants in the Credit Agreement as of December 31, 2019.

*Debt Issuance Costs*

The Company incurred debt issuance costs of \$2.8 million in relation to the Credit Agreement which were allocated to the Senior Term Loan and Senior Revolver, respectively.

*Debt Maturities*

Scheduled maturities of the Company's long-term debt for each of the five years succeeding December 31, 2019 and thereafter are summarized as follows (in millions):

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	<b>Scheduled Maturities</b>	
2020	\$	16.3
2021		20.3
2022		24.4
2023		28.4
2024		267.5
Total	\$	356.9

#### **14. Stockholders' Equity (Deficit)**

##### **Preferred Stock and Warrant**

The Company has 5,000,000 shares of authorized preferred stock, each with a par value of \$0.01. The preferred stock may be issued from time to time in one or more series. The board of directors of the Company ("Board") is authorized to determine the rights, preferences, privileges and restrictions of the Company's authorized but unissued shares of preferred stock. On February 16, 2016, at the close of the Transaction, the Company issued to TCP-ASC ACHI Series LLLP, a limited liability limited partnership jointly owned by Ascension Health Alliance and investment funds affiliated with TowerBrook (the "Investor"): (i) 200,000 shares of its 8.00% Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock" or "Preferred Stock"), for an aggregate price of \$200 million and (ii) an exercisable warrant to acquire up to 60 million shares of its common stock with an exercise price of \$3.50 per common share and a term of ten years. The Series A Preferred Stock is immediately convertible into shares of common stock. As of December 31, 2019 and December 31, 2018, the Company had 266,529 and 246,233 shares of Preferred Stock outstanding, respectively. See Note 18, 8.00% Series A Convertible Preferred Stock, for additional information.

##### **Common Stock**

Each outstanding share of the Company's common stock, par value \$0.01 per share ("common stock"), is entitled to one vote per share on all matters submitted to a vote by shareholders. Subject to the rights of any preferred stock which may from time to time be outstanding, the holders of outstanding shares of common stock are entitled to receive dividends and, upon liquidation or dissolution, are entitled to receive pro rata all assets legally available for distribution to stockholders. No dividends were declared or paid on the common stock during 2019 or 2018.

##### **Treasury Stock**

On November 13, 2013, the Board authorized a repurchase of up to \$50.0 million of the Company's common stock in the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time at the sole discretion of the Board. Any repurchased shares will be available for use in connection with the Company's stock plans and for other corporate purposes. The Company funds the repurchases from cash on hand. During the years ended December 31, 2019 and December 31, 2018, no shares were repurchased. No shares have been retired. As of December 31, 2019 and 2018, the Company held in treasury 5,321,393 shares of repurchased stock.

Treasury stock also includes repurchases of Company stock related to employees' tax withholding upon vesting of restricted shares. For the years ended December 31, 2019 and 2018, the Company repurchased 973,303 and 499,069 shares related to employees' tax withholding upon vesting of restricted shares, respectively. Additionally, treasury stock includes restricted stock awards that have been canceled or forfeited. See Note 15, Share-Based Compensation.

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**15. Share-Based Compensation**

The Company maintains two stock incentive plans: the Amended and Restated Stock Option Plan (the "2006 Plan") and the Second Amended and Restated Stock 2010 Incentive Plan (the "2010 Amended Plan", together with the 2006 Plan, the "Plans"). In December 2016, the Company's stockholders approved the Second Amended and Restated 2010 Stock Incentive Plan, which authorized the issuance of an additional 17 million shares of the Company's common stock pursuant to awards.

Under the Plans, the Company is authorized to issue up to a maximum of 46,374,756 shares of common stock. This number includes any shares that remained available for issuance under the 2006 Plan as of the date of the IPO and any shares subject to awards that were outstanding under the 2006 Plan as of the date of the IPO that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company without the issuance of shares thereunder. The Company will not make any further grants under the 2006 Plan. The 2010 Amended Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, RSAs, RSUs, and other share-based awards. As of December 31, 2019, 7,463,122 shares were available for future grants of awards under the 2010 Amended Plan. To the extent that previously granted awards under the 2006 Plan or 2010 Amended Plan expire, terminate or are otherwise surrendered, canceled or forfeited, the number of shares available for future awards under the 2010 Amended Plan will increase.

Under the terms of the Plans, all stock options will expire if they are not exercised within ten years of their grant date. Generally all employee options, RSAs and RSUs vest ratably between one and four years.

For the years ended December 31, 2019, 2018, and 2017, the Company recognized \$8.2 million, \$2.4 million, and \$(0.9) million, respectively, of income tax benefit (expense) from windfalls (shortfalls) associated with vesting and exercises of equity awards

The Company uses the Black-Scholes option pricing model to estimate the fair value of its service-based options as of its grant date. The Company uses the Monte Carlo simulations to estimate the fair value of its RSAs with vesting based on market-based performance conditions as of their respective grant dates. Expected life is based on the market condition to which the vesting is tied. Monte Carlo simulations are also used to estimate the fair value of its market-based PBRsUs. The market-based PBRsUs vest upon satisfaction of both time-based requirements and market targets based on share price. Expected life is based on the market condition to which the vesting is tied.

The following table sets forth the significant assumptions used in the Black-Scholes option pricing model and the Monte Carlo simulations and the calculation of share-based compensation expense during 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018	2017
Expected dividend yield	—%	—%	—%
Risk-free interest rate	1.5% to 2.5%	2.3% to 3.0%	1.8% to 2.4%
Expected volatility	40% to 45%	40% to 45%	40% to 45%
Expected term (in years)	2.0 to 5.5	2.6 to 6.3	2.3 to 6.3

Total share-based compensation costs that have been included in the Company's consolidated statements of operations were as follows (in millions):

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	Year Ended December 31,		
	2019	2018	2017
<b>Share-Based Compensation Expense Allocation Details:</b>			
Cost of services	\$ 6.1	\$ 5.8	\$ 4.5
Selling, general and administrative	12.3	12.4	6.1
Other	0.2	0.2	0.1
Total share-based compensation expense (1)	\$ 18.6	\$ 18.4	\$ 10.7

(1) In addition to the share-based compensation expense recorded above, \$0.2 million, \$0.3 million, and \$0.5 million of share-based compensation expense was capitalized to deferred contract costs for the year ended December 31, 2019, 2018, and 2017, respectively. See Note 22, Deferred Contract Costs, for further discussion.

**Stock options**

The following table sets forth a summary of all option activity under all plans for the years ended December 31, 2019, 2018, and 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2017	20,418,607	\$ 6.26	7.9	\$ 0.3
Granted	3,683,406	3.34		
Exercised	(69,329)	2.38		
Canceled/forfeited	(6,289,718)	9.01		
Outstanding at December 31, 2017	17,742,966	4.70	7.9	\$ 23.7
Granted	274,162	6.51		
Exercised	(1,713,710)	2.54		
Canceled/forfeited	(2,418,948)	2.60		
Outstanding at December 31, 2018	13,884,470	5.36	6.6	\$ 49.2
Granted	52,986	10.06		
Exercised	(2,640,897)	5.20		
Canceled/forfeited	(612,299)	2.55		
Expired	(3,920)	12.98		
Outstanding at December 31, 2019	10,680,340	5.59	5.5	\$ 81.1
Outstanding, vested and exercisable at December 31, 2017	5,778,376	\$ 8.87	5.5	\$ 17.7
Outstanding, vested and exercisable at December 31, 2018	7,712,264	\$ 7.37	5.4	\$ 17.7
Outstanding, vested and exercisable at December 31, 2019	7,868,280	\$ 6.57	4.9	\$ 52.5

The weighted-average grant date fair value of options granted during the years ended December 31, 2019, 2018, and 2017 was \$4.25, \$3.01, and \$1.34 per share, respectively. The weighted-average grant date fair value excludes the options granted under the option exchange discussed further below. The total intrinsic value of the options exercised in the years ended December 31, 2019, 2018, and 2017 was \$16.4 million, \$9.6 million, and \$0.1 million, respectively. The total fair value of options vested during the years ended December 31, 2019, 2018, and 2017 was \$3.4 million, \$4.2 million, and \$4.9 million, respectively.

On May 12, 2017, the Company offered certain employees and directors an opportunity to elect to exchange certain stock options for new options covering a fewer number of shares of common stock. Under this

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offer, the Company accepted for exchange 4,279,463 options. All surrendered options were canceled and the Company issued 1,728,795 new stock options in exchange for such tendered options. The exchange ratios were established with the intent not to generate incremental share-based compensation expense and were established just prior to commencement of the offer. The incremental compensation associated with the fluctuations in the Company's common stock price between the date the exchange ratios were established and the commencement of the offer was insignificant.

**Restricted stock awards**

The following table sets forth a summary of the activity during the years ended December 31, 2019, 2018, and 2017:

	Shares		Weighted- Average Grant Date Fair Value
Outstanding and unvested at January 1, 2017	5,862,712	\$	3.01
Vested	(2,675,782)		3.50
Forfeited	(834,440)		1.52
Outstanding and unvested at December 31, 2017	2,352,490	\$	3.03
Vested	(1,184,687)		3.07
Forfeited	(72,259)		3.24
Outstanding and unvested at December 31, 2018	1,095,544	\$	3.02
Vested	(1,094,336)		3.02
Forfeited	(1,208)		5.38
Outstanding and unvested at December 31, 2019	—	\$	—

The total fair value of RSAs vested during the years ended December 31, 2019, 2018, and 2017 was \$3.3 million, \$3.6 million, and \$9.3 million, respectively. The Company's RSA agreements allow employees to deliver to the Company shares of stock upon vesting of their RSAs in lieu of their payment of the required personal employment-related taxes. The Company does not withhold taxes in excess of maximum required statutory requirements. During the years ended December 31, 2019, 2018, and 2017, employees delivered to the Company 380,564, 404,466, and 733,769 shares of stock, respectively, which the Company recorded at a cost of approximately \$3.8 million, \$2.3 million, and \$1.8 million, respectively. As of December 31, 2019, the Company held 3,048,736 shares of surrendered common stock in treasury related to the vesting of RSAs.

Forfeited and canceled RSAs are added to treasury stock. For the years ended December 31, 2019, 2018, and 2017, 1,208, 72,259, and 834,440 shares were added to treasury stock due to canceled RSAs, respectively.

**Restricted stock units**

In the fourth quarter of 2016, the Company began to grant RSUs to its employees. A summary of the activity during the years ended December 31, 2019, 2018, and 2017 is shown below:



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	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at January 1, 2017	1,346,774	\$ 2.35
Granted	285,527	2.96
Vested	(155,535)	2.35
Forfeited	(293,266)	2.35
Outstanding and unvested at December 31, 2017	1,183,500	\$ 2.50
Granted	441,849	7.99
Vested	(323,964)	2.48
Forfeited	(174,704)	3.49
Outstanding and unvested at December 31, 2018	1,126,681	\$ 4.50
Granted	830,668	10.60
Vested	(422,770)	4.07
Forfeited	(161,223)	7.00
Outstanding and unvested at December 31, 2019	1,373,356	\$ 8.03

The Company's RSU agreements allow employees to surrender to the Company shares of common stock upon vesting of their RSUs in lieu of their payment of the required personal employment-related taxes. During the years ended December 31, 2019, 2018, and 2017, employees delivered to the Company 109,112, 94,603, and 50,762 shares of stock, respectively, which the Company recorded at a cost of approximately \$1.1 million, \$0.7 million, and \$0.2 million, respectively. Shares surrendered for payment of personal employment-related taxes are held in treasury.

**Performance-based restricted stock units**

In the third quarter of 2017, the Company began to grant PBRsUs to its employees. PBRsUs issued prior to May 2019 vest upon satisfaction of both time-based requirements and market targets based on share price with certain awards vesting between December 31, 2019 and December 31, 2022. Depending on the percentage level at which the market-based condition is satisfied, the number of shares vesting could be between 0% and 350% of the number of PBRsUs originally granted. PBRsUs issued subsequent to April 2019 vest on December 31, 2021 upon satisfaction of both time-based and performance-based conditions. These conditions include cumulative adjusted EBITDA and end-to-end RCM agreement growth targets. Depending on the percentage level at which the performance-based conditions are satisfied, the number of shares vesting could be between 0% and 200% of the number of PBRsUs originally granted. Based on the established price targets, 9,209,263 is the maximum number of shares that could vest.

A summary of the PBRsU activity during the years ended December 31, 2019, 2018, and 2017 is shown below:

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	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at January 1, 2017	—	\$ —
Granted	4,894,817	3.35
Vested	—	—
Forfeited	(108,917)	2.38
Outstanding and unvested at December 31, 2017	4,785,900	\$ 3.37
Granted	1,472,677	6.12
Vested	—	—
Forfeited	(1,648,129)	3.34
Outstanding and unvested at December 31, 2018	4,610,448	\$ 4.26
Granted	1,282,797	9.99
Performance factor adjustment	463,408	2.06
Vested	(1,390,223)	2.06
Forfeited	(846,994)	5.08
Outstanding and unvested at December 31, 2019	4,119,436	\$ 6.37

**16. Other expenses**

For the year ended December 31, 2019, 2018, and 2017, other expenses consist of the following (in millions):

	Year Ended December 31,		
	2019	2018	2017
Severance and employee benefits	\$ 3.6	\$ 2.3	\$ 0.3
Non-cash share based compensation	—	—	0.1
Strategic initiatives (1)	19.8	19.7	3.1
Transitioned employees restructuring expense (2)	3.0	4.3	1.2
Digital Transformation Office (3)	8.6	3.6	—
Other	1.2	0.5	—
Total other	\$ 36.2	\$ 30.4	\$ 4.7

(1) Costs related to evaluating, pursuing and integrating acquisitions, performing portfolio analyses, and other inorganic business projects as part of the Company's growth strategy. Costs include employee time and expenses spent on activities, vendor spend, and severance and retention amounts associated with integration activities.

(2) As part of the transition of personnel to the Company under certain operating partner model contracts, the Company has agreed to reimburse, or directly pay the affected employees, for certain severance and retention costs related to certain employees who will not be transitioned to the Company, or whose jobs will be relocated after the employee transitions to the Company. At December 31, 2019, the Company's restructuring liability was \$1.1 million, offset by \$0.7 million of receivables.

(3) Project costs related to the Company's effort to automate its transactional environment.

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**17. Income Taxes**

The domestic and foreign components of income (loss) before income taxes consist of the following (in millions):

	Year Ended December 31,		
	2019	2018	2017
Domestic	\$ 5.0	\$ (65.5)	\$ (33.9)
Foreign	4.8	8.8	6.6
Total income (loss) before income taxes	<u>\$ 9.8</u>	<u>\$ (56.7)</u>	<u>\$ (27.3)</u>

For the years ended December 31, 2019, 2018, and 2017, the Company's current and deferred income tax expense (benefit) attributable to income (loss) from operations are as follows (in millions):

	Current	Deferred	Total
<b>Year Ended December 31, 2017</b>			
U.S. Federal	\$ 0.1	\$ 32.4	\$ 32.5
State & Local	0.2	(2.3)	(2.1)
Foreign	1.5	(0.4)	1.1
	<u>\$ 1.8</u>	<u>\$ 29.7</u>	<u>\$ 31.5</u>
<b>Year Ended December 31, 2018</b>			
U.S. Federal	\$ —	\$ (10.3)	\$ (10.3)
State & Local	0.9	(2.6)	(1.7)
Foreign	1.9	(1.3)	0.6
	<u>\$ 2.8</u>	<u>\$ (14.2)</u>	<u>\$ (11.4)</u>
<b>Year Ended December 31, 2019</b>			
U.S. Federal	\$ (0.3)	\$ (2.2)	\$ (2.5)
State & Local	0.7	(0.9)	(0.2)
Foreign	2.5	(2.0)	0.5
	<u>\$ 2.9</u>	<u>\$ (5.1)</u>	<u>\$ (2.2)</u>

Reconciliation of the difference between the actual tax rate and the statutory U.S. federal income tax rate is as follows:

	Year Ended December 31,		
	2019	2018	2017
Federal statutory tax rate	21 %	21 %	35 %
Increase in income tax rate resulting from:			
State and local income taxes, net of federal tax benefits	(2)%	2 %	5 %
U.S. Tax Reform	18 %	(3)%	(140)%
Stock-based Compensation	(71)%	3 %	(17)%
Other	12 %	(3)%	2 %
Actual tax rate	<u>(22)%</u>	<u>20 %</u>	<u>(115)%</u>

The following table sets forth the Company's net deferred tax assets as of December 31, 2019 and 2018 (in millions):

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	As of December 31,	
	2019	2018
<b>Deferred tax assets and liabilities:</b>		
Net operating loss carryforwards	\$ 64.1	\$ 60.5
Share-based compensation	12.4	13.3
Accrued bonus	8.3	8.6
Advanced billing revenue	5.9	5.3
Other reserves	0.7	0.7
Alternative minimum tax	4.0	3.1
Interest expense limitation	10.2	5.3
Deferred rent liabilities	25.6	4.3
Other	3.8	3.8
<b>Total gross deferred tax assets</b>	<b>135.0</b>	<b>104.9</b>
Intangible assets	(37.0)	(36.1)
Fixed assets	(4.4)	(4.1)
Contract implementation costs	(6.2)	(5.1)
Deferred rent assets	(21.3)	—
Less valuation allowance	(1.9)	(2.1)
<b>Net deferred tax asset</b>	<b>\$ 64.2</b>	<b>\$ 57.5</b>

At December 31, 2019, the Company had cumulative U.S. federal and state net operating loss carryforwards of approximately \$245.9 million and \$252.2 million, respectively, which are available to offset U.S. federal and state taxable income in future periods. These amounts include net operating losses acquired in the Intermedix acquisition which are subject to Section 382 of the Internal Revenue Code. The general limitation rules allow the Company to utilize the net operating losses subject to an annual limitation that is determined by multiplying the federal long-term tax-exempt rate by the Company's value immediately before the ownership change. The federal net operating losses will start to expire in 2033.

The Company finalized the accounting impacts of the Tax Cuts and Jobs Act in connection with filing its 2017 U.S. federal income tax return during the fourth quarter 2018. This resulted in a decrease to income tax expense of \$0.1 million, offsetting its original \$38.2 million tax expense estimated under SAB 118 during the fourth quarter 2017. The Company also elected to report Global Intangible Low-Taxed Income ("GILTI") in income tax expense as part of the current income tax provision.

A valuation allowance is required to be established when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The guidance on accounting for income taxes provides important factors in determining whether a deferred tax asset will be realized, including whether there has been sufficient taxable income in recent years and whether sufficient income can reasonably be expected in future years in order to utilize the deferred tax asset. Consideration is given to the weight of all available evidence, both positive and negative. The Company estimates its already contracted business growth will be profitable and allow the Company to utilize its NOL carryforwards and other deferred tax assets. Accordingly, the Company believes that it is more likely than not that the remaining deferred tax assets will be realized. Should the Company not operationally execute as expected, and the growth in business not be as profitable as expected, such realizability assessment may change.

The Company has recorded valuation allowances at December 31, 2019 and 2018 of \$1.9 million and \$1.8 million, respectively, based on its assessment that it is more likely than not that a portion of the Company's separate state income tax net operating loss will not be realized because the Company no longer has business activities in that state, or where the activity level has decreased to such a level where the Company believes the NOL will not be realized.

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The Company has the ability and intent to maintain its investments in India. The Company has not provided for any additional outside basis difference inherent in its foreign subsidiaries where the indefinite reinvestment assertion has been applied.

No deferred income taxes have been provided on the applicable undistributed earnings of the non-U.S. subsidiaries where the indefinite reinvestment assertion has not been applied. Pursuant to changes made by the Tax Cuts and Jobs Act, the Company reported its previously unremitted foreign earnings. Future distributions are generally not subject to U.S. income taxation. These remittances are either excluded from U.S. taxable income as earnings that have already been subjected to taxation, or alternatively are subject to a 100% foreign dividends received deduction.

The 2019, 2018, and 2017 current tax provision includes \$1.9 million, \$1.5 million, and \$1.4 million, respectively, for income taxes arising from the pre-tax income of the Company's India subsidiaries. The tax provisions are net of the impact of a tax holiday in India. The Company's benefits from this tax holiday were \$2.2 million, \$1.6 million, and \$1.0 million for the year ended December 31, 2019, 2018, and 2017, respectively. The Company expanded its operations in India during the year and was awarded new tax holiday agreements. The tax holidays are set to expire between March 31, 2021 and March 31, 2027.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company's unrecognized tax benefits as of December 31, 2019, 2018, and 2017 were not material.

In connection with tax return examinations, contingencies can arise that generally result from different interpretations of tax laws and regulations as they pertain to the amount, timing or inclusion of revenues and expenses in taxable income, or the ability to utilize tax credits to reduce income taxes payable. While it is probable, based on the potential outcome of the Company's federal and state tax examinations or the expiration of the statute of limitations for specific jurisdictions, that the liability for unrecognized tax benefits may increase or decrease within the next 12 months, the Company does not expect any such change would have a material effect on its financial condition, results of operations or cash flow.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. U.S. federal income tax returns for 2016 and all subsequent years are currently open for examination. State jurisdictions vary for open tax years. The statute of limitations for most states ranges from three to six years. Certain income tax returns since fiscal year 2009 for the Company's India subsidiaries are currently open for final determination.

**18. 8.00% Series A Convertible Preferred Stock**

At the close of the Transaction on February 16, 2016 (as described in Note 1), the Company issued to the Investor: (i) 200,000 shares of Preferred Stock, for an aggregate price of \$200 million, and (ii) a warrant with a term of ten years to acquire up to 60 million shares of common stock at an exercise price of \$3.50 per share, on the terms and subject to the conditions set forth in the Warrant Agreement ("Warrant"). The Preferred Stock is immediately convertible into shares of common stock.

During the twelve months ended December 31, 2016, the Company incurred direct and incremental expenses of \$21.3 million (including \$14.0 million in closing fees paid to the Investor) relating to financial advisory fees, closing costs, legal expenses and other offering-related expenses in connection with the Transaction. These direct and incremental expenses reduced the carrying amount of the Preferred Stock. In connection with the issuance of the Preferred Stock, a beneficial conversion feature of \$48.3 million was recognized. Since the Preferred Stock is presently convertible into common stock, this amount was subsequently accreted to the carrying amount of the Preferred Stock, and treated as a deemed preferred stock dividend in the calculation of earnings per share.

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***Dividend Rights***

The holders of the Preferred Stock are entitled to receive cumulative dividends January 1, April 1, July 1, and October 1 of each year (dividend payment dates), which commenced on April 1, 2016, at a rate equal to 8% per annum (preferred dividend) multiplied by the liquidation preference per share, initially \$1,000 per share adjusted for any unpaid cumulative preferred dividends. For the first seven years after issuance, the dividends on the Preferred Stock will be paid-in-kind. As of December 31, 2019 and 2018, the Company had accrued dividends of \$5.3 million and \$4.9 million associated with the Preferred Stock, respectively, of which \$5.3 million and \$4.9 million was paid in additional shares and \$580 and \$660 was paid in cash in January of the following year, respectively. For the year ended December 31, 2019 and 2018, the dividends paid, or accrued, in additional shares of Preferred Stock totaled \$20.7 million and \$19.1 million, respectively.

***Conversion Features***

Each share of the Preferred Stock may be converted to common stock on any date at the option of the holder into the per share amount (as defined in the Certificate of Designations of the 8.00% Series A Convertible Preferred Stock (the "Series A COD")). Fractional shares resulting from any conversion will be rounded to the nearest whole share.

***Redemption Rights***

Since the redemption of the Preferred Stock is contingently or optionally redeemable and therefore not certain to occur, the Preferred Stock is not required to be classified as a liability under ASC 480, *Distinguishing Liabilities from Equity*. As the Preferred Stock is redeemable at the option of the holders upon a fundamental change (as defined in the Series A COD) and is redeemable in certain circumstances upon the occurrence of an event that is not solely within the Company's control, the Company has classified the Preferred Stock in mezzanine equity on the Consolidated Balance Sheets. In the event the Company believes that redemption of the Preferred Stock is probable, the Company would be required to accrete changes in the carrying value to the redemption value over the period until the expected redemption date.

***Voting Rights***

Each holder of the Preferred Stock is entitled to vote with the common stock on an as-converted basis on all matters submitted to a vote of shareholders of the Company, and has full voting rights and powers equal to the voting rights and powers of the holders of common stock.

The following summarizes the Preferred Stock activity for the year ended December 31, 2019 and 2018 (in millions, except per share data):

	<b>Preferred Stock</b>	
	<b>Shares Issued and Outstanding</b>	<b>Carrying Value</b>
Balance at January 1, 2017	210,160	\$ 171.6
Dividends paid/accrued dividends	17,323	17.7
Balance at December 31, 2017	227,483	\$ 189.3
Dividends paid/accrued dividends	18,750	19.1
Balance at December 31, 2018	246,233	\$ 208.4
Dividends paid/accrued dividends	20,296	20.7
Balance at December 31, 2019	266,529	\$ 229.1

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**19. Earnings (Loss) Per Share**

Basic net income per share is computed by dividing net income, less any dividends, accretion or decrction, redemption or induced conversion on the Preferred Stock, by the weighted average number of common shares outstanding during the period. As the Preferred Stock participates in dividends alongside the Company's common stock (per their participating dividends), the Preferred Stock would constitute participating securities under ASC 260-10 and are applied to earnings per share using the two-class method. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends.

Diluted net income per share is calculated using the more dilutive of the if-converted or the two-class method. For the years ended December 31, 2019, 2018, and 2017, the two-class method was more dilutive and was computed by adjusting the denominator used in the basic net income per share computation by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of RSAs, RSUs, PBRsUs and shares issuable upon conversion of preferred stock.

Basic and diluted net income (loss) per common share are calculated as follows (in millions, except share and per share data):

	Year Ended December 31,		
	2019	2018	2017
<i>Basic EPS:</i>			
Net income (loss)	\$ 12.0	\$ (45.3)	\$ (58.8)
Less dividends on preferred shares	(20.7)	(19.1)	(17.7)
Less income allocated to preferred shareholders	—	—	—
Net income (loss) available/(allocated) to common shareholders - basic	<u>\$ (8.7)</u>	<u>\$ (64.4)</u>	<u>\$ (76.5)</u>
<i>Diluted EPS:</i>			
Net income (loss)	12.0	(45.3)	(58.8)
Less dividends on preferred shares	(20.7)	(19.1)	(17.7)
Less income allocated to preferred shareholders	—	—	—
Net income (loss) available/(allocated) to common shareholders - diluted	<u>\$ (8.7)</u>	<u>\$ (64.4)</u>	<u>\$ (76.5)</u>
Basic weighted-average common shares	111,505,993	108,175,159	102,062,051
Add: Effect of dilutive equity awards	—	—	—
Add: Effect of dilutive warrants	—	—	—
Diluted weighted average common shares	<u>111,505,993</u>	<u>108,175,159</u>	<u>102,062,051</u>
Net income (loss) per common share (basic)	<u>\$ (0.08)</u>	<u>\$ (0.60)</u>	<u>\$ (0.75)</u>
Net income (loss) per common share (diluted)	<u>\$ (0.08)</u>	<u>\$ (0.60)</u>	<u>\$ (0.75)</u>

Because of their anti-dilutive effect, 21,262,959, 25,725,761, 26,064,856 common share equivalents comprised of stock options, RSAs, PBRsUs, and RSUs have been excluded from the diluted earnings per share calculation for the years ended December 31, 2019, 2018, and 2017, respectively. Additionally, the Investor's and Intermountain's exercisable warrants to acquire up to 60 million and 1.5 million shares, respectively, of the Company's common stock has been excluded from the diluted earnings per share calculation because they are anti-dilutive for all periods presented.

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**20. Commitments and Contingencies**

**Legal Proceedings**

Other than as described below, the Company is not presently a party to any material litigation or regulatory proceeding and is not aware of any pending or threatened litigation or regulatory proceeding against the Company which, individually or in the aggregate, could have a material adverse effect on its business, operating results, financial condition or cash flows.

In May 2016, the Company was served with a False Claims Act case brought by a former emergency department service associate who worked at a hospital of one of the Company's customers, MedStar Inc.'s Washington Hospital Center ("WHC"), along with WHC and three other hospitals that were PAS clients and a place holder, John Doe hospital, representing all PAS clients (*U.S. ex rel. Graziosi vs. Accretive Health, Inc. et. al.*), and seeking money damages, False Claims Act penalties and plaintiff's attorneys' fees. The Third Amended Complaint alleges that the Company's PAS business violates the federal False Claims Act. The case was originally filed under seal in 2013 in the federal district court in Chicago, was presented to the U.S. Attorney in Chicago, and the U.S. Attorney declined to intervene. The Company believes that it has meritorious defenses to all claims in the case and intends to vigorously defend itself against these claims. Discovery on liability issues has been completed and on October 11, 2019 the Company filed a motion for summary judgment that is fully briefed and pending decision by the district court. The outcome is not presently determinable.

**21. Related Party Transactions**

As a result of the closing of the Transaction with Ascension Health Alliance on February 16, 2016 and Ascension Health Alliance's ownership interest in the Investor, Ascension became a related party to the Company. This note, encompasses transactions between Ascension and its affiliates, including AMITA Health, and the Company pursuant to the A&R MPSA, including all supplements, amendments and other documents entered into in connection therewith. See Note 1, Business Description and Basis of Presentation and Note 18, 8.00% Series A Convertible Preferred Stock for further discussion about the agreements with Ascension.

Net services revenue from services provided to Ascension included in the Company's consolidated statements of operations were (in millions):

<b>Year Ended December 31,</b>		
<b>2019</b>	<b>2018</b>	<b>2017</b>
\$ 790.4	\$ 600.1	\$ 404.4



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Amounts included in the Company's consolidated balance sheets for Ascension, excluding debt, are (in millions):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounts receivable, net - related party	\$ 30.8	\$ 55.2
Accrued service costs, current	\$ 28.9	\$ 47.7
Refund liabilities, current	1.0	0.6
Deferred revenue (contract liabilities), current	4.2	2.8
Current portion of customer liabilities	34.1	51.1
Refund liabilities, non-current	—	0.4
Deferred revenue (contract liabilities), non-current	18.6	17.3
Non-current portion of customer liabilities	18.6	17.7
<b>Total customer liabilities</b>	<b>\$ 52.7</b>	<b>\$ 68.8</b>

Since Ascension is the Company's largest customer, a significant percentage of the Company's cost of services is associated with providing services to Ascension. However, due to the nature of the Company's global business services and information technology operations, it is impractical to assign the dollar amount associated with services provided to Ascension.

As of December 31, 2018, \$105.0 million of the subordinated notes were due to Ascension and TowerBrook. The related party subordinated notes, along with a \$2.2 million prepayment penalty, were repaid upon execution of the Credit Agreement on June 26, 2019. For the year ended December 31, 2019 and 2018, \$7.2 million and \$9.5 million, respectively, of interest expense was attributable to related parties.

## 22. Deferred Contract Costs

Certain costs associated with the initial phases of customer contracts and the related transition of customer organizations are deferred. These fulfillment costs relate directly to the Company's responsibilities under the corresponding customer contracts, generate or enhance resources of the Company that will be used in satisfying its performance obligations in the future, and are expected to be recovered through the margins realized. The following table summarizes the breakout of deferred contract costs (in millions):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Prepaid expenses and other current assets	\$ 4.0	\$ 2.8
Other assets	20.8	17.4
<b>Total deferred contract costs</b>	<b>\$ 24.8</b>	<b>\$ 20.2</b>

The associated assets are amortized as services are transferred to the customer over the remaining life of the contracts. For the year ended December 31, 2019 and 2018, total amortization was \$3.3 million and \$2.2 million, respectively, and there were no associated impairment losses.

## 23. Segments and Customer Concentrations

The Company has determined that it has a single operating segment in accordance with how its business activities are managed and evaluated. All of the Company's significant operations are organized around the single

**R1 RCM Inc.**  
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business of providing end-to-end management services of revenue cycle operations for U.S.-based healthcare providers. Accordingly, for purposes of segment disclosures, the Company has only one reportable segment.

Healthcare providers affiliated with Ascension have accounted for a significant portion of the Company's net services revenue each year since the Company's formation. For the year ended December 31, 2019, 2018, and 2017, net services revenue from healthcare organizations affiliated with Ascension accounted for 67%, 69%, and 90% of the Company's total net services revenue, respectively. The loss of customers within the Ascension health system would have a material adverse impact on the Company's operations. For the year ended December 31, 2019, 2018, and 2017, Intermountain Healthcare accounted for 15%, 14%, and 4% of the Company's total net services revenue, respectively.

As of December 31, 2019 and 2018, the Company had a concentration of credit risk of customers affiliated with Ascension accounting for 37% and 57% of accounts receivable, respectively.

#### **24. Derivative Financial Instruments**

The Company utilizes cash flow hedges to mitigate its currency risk arising from its global delivery resources and to reduce variability in interest cash flows from its outstanding debt. As of December 31, 2019, the Company has recorded \$0.1 million and \$0.3 million of existing gains in accumulated other comprehensive income for the foreign currency hedges and interest rate swap, respectively. The Company estimates that \$0.1 million and \$0.3 million of gains reported in accumulated other comprehensive income are expected to be reclassified into earnings within the next 12 months for the foreign currency hedges and interest rate swap, respectively. The amounts related to foreign currency hedges that were reclassified into cost of services were a net gain of \$1.3 million and a net loss of \$1.3 million for the years ended December 31, 2019 and December 31, 2018, respectively. The amount related to the interest rate swap that was reclassified into cost of services was a net gain of \$0.2 million for the year ended December 31, 2019.

The Company classifies cash flows from its derivative programs as cash flows from operating activities in the consolidated statements of cash flows. As of December 31, 2019, the Company's currency forward contracts have maturities extending no later than December 31, 2020. The Company's interest rate swap extends through August of 2022.

As of December 31, 2019, the notional amounts of the Company's open foreign currency forward contracts and interest rate swap were approximately \$52.6 million and \$100.0 million, respectively. As of December 31, 2018, the notional amounts of the Company's open foreign currency forward contracts and interest rate swap were approximately \$52.0 million and \$0.0 million, respectively. As of December 31, 2019, the Company held no derivatives, or non-derivative hedging instruments, that were designated in fair value or net investment hedges.

#### **25. Retirement Plan**

The Company maintains a 401(k) retirement plan (the "401(k) plan") that is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. In general, all employees are eligible to participate. In conjunction with the acquisition of Intermedix, the company continued to maintain the pre-existing Intermedix 401(k) retirement plan ("Intermedix 401(k) plan"). Both 401(k) plans include a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by up to the statutorily prescribed limit, equal to \$19,000 in 2019, \$18,500 in 2018, and \$18,000 in 2017, and have the amount of the reduction contributed to the 401(k) plan.

The Company currently matches employee contributions up to 50% of the first 6% of base compensation that a participant contributes to the 401(k) plan, including director-level and above employees. For the years ended December 31, 2019, 2018, and 2017, total Company contributions to the 401(k) plan were \$6.6 million, \$5.2 million, and \$2.2 million, respectively.

**R1 RCM Inc.**  
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The Company matches 100% of employee contributions on the first 1% of deferrals and 50% of the next 5% that a participant contributes to the Intermedix 401(k) plan. For the year ended December 31, 2019, total Company contributions to the Intermedix 401(k) plan were \$1.7 million. From the acquisition date, total Company contributions to the Intermedix 401(k) plan were \$1.1 million for the year ended December 31, 2018.

**26. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets is comprised of the following (in millions):

	Year Ended December 31,	
	2019	2018
Prepaid expenses	\$ 16.7	\$ 13.6
Security deposits	5.1	4.8
Lease-related receivables	4.3	4.2
Deferred contract costs	4.0	2.8
Notes receivable	0.8	4.0
Other current assets	10.7	5.4
Ending balance	<u>\$ 41.6</u>	<u>\$ 34.8</u>

**27. Other Accrued Expenses**

Other accrued expenses is comprised of the following (in millions):

	Year Ended December 31,	
	2019	2018
Accrued expenses	\$ 30.0	\$ 22.4
Notes payable	8.0	14.5
Other	2.0	3.9
Ending balance	<u>\$ 40.0</u>	<u>\$ 40.8</u>

**28. Quarterly Financial Information (Unaudited)**

The following tables provide the Company's Quarterly Condensed Consolidated Statements of Operations (in millions except per share data):

**R1 RCM Inc.**  
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	1st Quarter Ended March 31,		2nd Quarter Ended June 30,		3rd Quarter Ended September, 30		4th Quarter Ended December 31,	
	2019	2018	2019	2018	2019	2018	2019	2018
Net services revenue	\$ 275.9	\$ 147.3	\$ 295.0	\$ 207.9	\$ 301.2	\$ 250.4	\$ 314.0	\$ 262.9
Total operating expenses	268.5	158.1	282.6	225.6	277.6	256.2	299.7	259.0
Income (loss) from operations	7.4	(10.8)	12.4	(17.7)	23.6	(5.8)	14.3	3.9
Net income (loss)	\$ 0.2	\$ (23.3)	\$ (5.2)	\$ (2.9)	\$ 9.2	\$ (13.4)	\$ 7.8	\$ (5.7)
Net income (loss) per common share								
Basic	\$ (0.04)	\$ (0.26)	\$ (0.09)	\$ (0.07)	\$ 0.02	\$ (0.17)	\$ 0.01	\$ (0.10)
Diluted	\$ (0.04)	\$ (0.26)	\$ (0.09)	\$ (0.07)	\$ 0.01	\$ (0.17)	\$ 0.01	\$ (0.10)

## 29. Subsequent Event

### *SCI Solutions, Inc. Acquisition*

On January 9, 2020, the Company entered into a Stock Purchase Agreement with ClearSight Intermediate Holdings, Inc. (“Seller Blocker”) and ClearSight Group Holdings, LLC (the “Seller”) providing for the purchase (the “SCI Acquisition”) by the Company from the Seller of all of the issued and outstanding equity interests of Seller Blocker, which owns all of the issued and outstanding equity interests of scheduling.com, Inc. d/b/a SCI Solutions, Inc. (“SCI”).

Pursuant to the terms of the Stock Purchase Agreement, the Company will acquire Seller Blocker and SCI for \$190 million in cash, subject to customary adjustments for working capital, cash, debt and transaction expenses, plus an earn-out payment of up to \$10 million if certain financial and operational targets are met twelve months following the closing date. The Company intends to fund the SCI Acquisition and the related fees and expenses with the proceeds of an incremental term loan facility (the “Financing”) together with cash on hand and borrowings under the Company’s revolving credit facility. Concurrently with the execution of the Stock Purchase Agreement, the Company entered into a debt financing commitment letter for the Financing (as described in more detail below). Pursuant to the Stock Purchase Agreement, the Company has agreed to customary covenants to obtain the Financing, and the Seller has agreed to provide reasonable cooperation with the Company in the Company’s efforts to obtain the Financing. There is no financing condition to the consummation of the SCI Acquisition. The Stock Purchase Agreement contains customary representations, warranties and closing conditions.

Either the Company or the Seller may terminate the Stock Purchase Agreement (i) if the transactions have not been consummated on or before May 9, 2020 (the “Outside Date”) or (ii) if any governmental authority issues a judgment, order, decree or other ruling enjoining, or otherwise prohibiting, the transactions contemplated by the Stock Purchase Agreement. The Company may terminate the Stock Purchase Agreement if there has been a material violation or breach by the Seller of any covenant, representation or warranty contained in the Stock Purchase Agreement that has prevented, or would prevent, the satisfaction of any condition to the obligations of the Company at the closing. The Seller may terminate the Stock Purchase Agreement (i) if there has been a material violation or breach by the Company of any covenant, representation or warranty contained in the Stock Purchase Agreement that has prevented, or would prevent, the satisfaction of any condition to the obligations of Seller Blocker or the Seller at the closing, in which case the Company may be required to pay to the Seller a termination fee of \$20 million, or (ii) if all conditions to the Company’s obligation to close have been satisfied or waived and the Company fails to consummate the SCI Acquisition within two business days of following confirmation by the Seller in writing that it is prepared to close, in which case the Company may be required to pay to the Seller a termination fee of \$20 million. The Stock Purchase Agreement may also be terminated by mutual written consent of the Company and the Seller.

The transaction is expected to close in the second quarter of 2020.

## EXHIBIT INDEX

Exhibit Number	Description
<a href="#"><u>2.1</u></a>	<a href="#"><u>Agreement and Plan of Merger by and among Intermedix Holdings, Inc., the Registrant, Project Links Parent, Inc., Project Links Merger Sub, Inc. and solely in its capacity as Securityholder Representative, Thomas H. Lee Equity Fund VI, L.P. dated as of February 23, 2018 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (file No. 001-34746) filed on February 26, 2018) (Exhibits and schedules were omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished to the Securities and Exchange Commission upon request)</u></a>
<a href="#"><u>2.2</u></a>	<a href="#"><u>Stock Purchase Agreement, dated as of January 9, 2020, by and among the Registrant, ClearSight Intermediate Holdings, Inc. and ClearSight Group Holdings, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (file No. 001-34746) filed on January 13, 2020) (Exhibits and schedules were omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished to the Securities and Exchange Commission upon request)</u></a>
<a href="#"><u>3.1</u></a>	<a href="#"><u>Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)</u></a>
<a href="#"><u>3.3</u></a>	<a href="#"><u>Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)</u></a>
<a href="#"><u>3.4</u></a>	<a href="#"><u>Amendment No.1 to the Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)</u></a>
<a href="#"><u>3.5</u></a>	<a href="#"><u>Certificate of Designations of the Registrant's 8.00% Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)</u></a>
<a href="#"><u>3.6</u></a>	<a href="#"><u>Certificate of Amendment to Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)</u></a>
<a href="#"><u>3.7</u></a>	<a href="#"><u>Certificate of Amendment to Certificate of Designation of 8.00% Series A Convertible Preferred Stock, Par Value \$0.01 per Share, of the Company (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)</u></a>
<a href="#"><u>3.8</u></a>	<a href="#"><u>Amendment No. 2 to the Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Description of Common Stock</u></a>
<a href="#"><u>10.1*</u></a>	<a href="#"><u>Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)</u></a>
<a href="#"><u>10.2*</u></a>	<a href="#"><u>Form of Acknowledgment of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)</u></a>
<a href="#"><u>10.3*</u></a>	<a href="#"><u>Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)</u></a>
<a href="#"><u>10.4*</u></a>	<a href="#"><u>Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)</u></a>

- [10.5\\*](#) [Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer \(incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K \(File No. 001-34746\) filed on February 16, 2016\)](#)
- [10.6\\*](#) [Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 \(File No. 333-162186\) filed on April 26, 2010\)](#)
- [10.7\\*](#) [Form of Restricted Stock Unit Grant Agreement under the Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 \(File No. 001-34746\) filed on November 2, 2016\)](#)
- [10.8\\*](#) [Form of Performance Based Restricted Stock Unit Grant Agreement under the Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 \(File No. 001-34746\) filed on November 2, 2016\)](#)
- [10.9\\*](#) [Form of Nonstatutory Stock Option Agreement under the Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 \(File No. 001-34746\) filed on November 2, 2016\)](#)
- [10.10\\*](#) [Accretive Health, Inc. Second Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on December 12, 2016\)](#)
- [10.11\\*](#) [Form of Grant of Performance Based Restricted Stock Unit Awards pursuant to the Second Amended and Restated 2010 Stock Incentive Plan \(to be used for awards to a senior vice president or executive vice president\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on October 31, 2017\)](#)
- [10.12\\*](#) [Form of Grant of Performance Based Restricted Stock Unit Awards pursuant to the Second Amended and Restated 2010 Stock Incentive Plan \(to be used for awards to a vice president or director-level employee\) \(incorporated by reference to Exhibit 10.3 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on October 31, 2017\)](#)
- [10.13\\*](#) [Form of Letter Agreement \(to be used for executive vice presidents\) \(incorporated by reference to Exhibit 10.4 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on October 31, 2017\)](#)
- [10.14](#) [Third Amended and Restated Stockholders' Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended \(incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 \(File No. 333-172707\) filed on March 9, 2011\)](#)
- [10.15](#) [Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust \(incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 \(File No. 333-162186\) filed on September 29, 2009\)](#)
- [10.16\\*](#) [Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 \(File No. 333-162186\) filed on April 26, 2010\)](#)
- [10.17+](#) [Amended and Restated Master Professional Services Agreement by and between Ascension Health and the Registrant effective as of February 16, 2016 \(incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 \(File No. 001-34746\) filed on May 10, 2016\)](#)
- [10.18+](#) [Amendment No. 1 to the Amended and Restated Master Professional Services Agreement by and between the Company and Ascension Health, dated May 4, 2017 \(incorporated by reference to Exhibit 10.1 to Quarterly Report on 10-Q for the quarter ended June 30, 2017 \(File No. 001-34746\) filed on August 2, 2017\)](#)
- [10.19\\*](#) [Employment Agreement, dated April 2, 2013, between Registrant and Stephen F. Schuckenbrock \(incorporated by reference to Exhibit 10.16 to Annual Report on Form 10-K filed for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.20\\*](#) [Stock Option Agreement, dated April 3, 2013, between Registrant and Stephen F. Schuckenbrock \(incorporated by reference to Exhibit 10.17 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.21\\*](#) [Offer Letter, dated April 27, 2013, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.18 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
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- [10.22\\*](#) [Restricted Stock Award, dated June 3, 2013, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.19 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.23\\*](#) [Nonstatutory Stock Option Award Agreement, dated June 3, 2013, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.20 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.24\\*](#) [Amendment to Offer Letter, dated April 29, 2014, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.25 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.25\\*](#) [Nonstatutory Stock Option Award Agreement, dated April 29, 2014, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.26 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.26\\*](#) [Restricted Stock Award Agreement, dated April 29, 2014, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.27 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 \(File No. 001-34746\) filed on December 30, 2014\)](#)
- [10.27\\*](#) [Offer Letter, dated January 9, 2015, between Registrant and Richard Evans \(incorporated by reference to Exhibit 10.37 to Annual Report on Form 10-K for the fiscal year ended December 31, 2014 \(File No. 001-34746\) filed on June 23, 2015\)](#)
- [10.28\\*](#) [Form of Restricted Stock Award Agreement under the Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.43 to Annual Report on Form 10-K for the fiscal year ended December 31, 2015 \(File No. 001-34746\) filed on March 10, 2016\)](#)
- [10.29\\*](#) [Letter Agreement, dated December 7, 2015, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K for the year ended December 31, 2015 \(File No. 001-34746\) filed on March 10, 2016\)](#)
- [10.30\\*](#) [Restricted Stock Award Agreement, dated December 31, 2015, between Registrant and Joseph Flanagan \(incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K for the year ended December 31, 2015 \(File No. 001-34746\) filed on March 10, 2016\)](#)
- [10.31](#) [Securities Purchase Agreement, dated as of December 7, 2015, by and among Accretive Health, Inc., TCP-ASC ACHI Series LLLP, and, solely for the purposes set forth therein, Ascension Health Alliance d/b/a Ascension \(incorporated by reference to Exhibit 10.1 to Current Report on 8-K \(File No. 001-34746\) filed December 8, 2015\).](#)
- [10.32](#) [Investor Rights Agreement, dated as of February 16, 2016, by and among the Registrant, TCP-ASC ACHI Series LLLP, and the other parties thereto \(incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 \(File No. 001-34746\) filed on May 10, 2016\)](#)
- [10.33](#) [Registration Rights Agreement, dated as of February 16, 2016, by and between the Registrant and TCP-ASC ACHI Series LLLP \(incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 \(File No. 001-34746\) filed on May 10, 2016\)](#)
- [10.34](#) [Warrant, dated as of February 16, 2016, by and between the Registrant and TCP-ASC ACHI Series LLLP \(incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 \(File No. 001-34746\) filed on May 10, 2016\)](#)
- [10.35](#) [Agreement by and between TCP-ASC ACHI Series LLLP and the Registrant dated September 9, 2016 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on September 9, 2016\)](#)
- [10.36\\*](#) [Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Christopher Ricaurte and the Registrant \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on October 5, 2016\)](#)
- [10.37\\*](#) [Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Christopher Ricaurte and the Registrant \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K \(file No. 001-34746\) filed on October 5, 2016\)](#)
- [10.38\\*](#) [Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Joseph G. Flanagan and the Registrant \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K \(file No. 001-34746\) filed on October 5, 2016\)](#)
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- [10.39\\*](#) [Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Joseph G. Flanagan and the Registrant \(incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K \(file No. 001-34746\) filed on October 5, 2016\)](#)
- [10.40\\*](#) [Employment Offer Letter Agreement by and between the Registrant and Thomas A. Lesica \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on October 31, 2017\)](#)
- [10.41\\*](#) [Employment Offer Letter Agreement by and between the Registrant and Gary Long.](#)
- [10.42\\*](#) [Amended and Restated Grant of Performance Based Awards pursuant to the R1 RCM Inc. Second Amended and Restated 2010 Stock Incentive Plan to Joseph Flanagan \(incorporated by reference to Exhibit 10.1 to the Current Report on 8-K/A \(file No. 001-34746\) filed on January 18, 2018\)](#)
- [10.43\\*](#) [Amended and Restated Grant of Performance Based Awards pursuant to the R1 RCM Inc. Second Amended and Restated 2010 Stock Incentive Plan to Christopher Ricaurte \(incorporated by reference to Exhibit 10.2 to the Current Report on 8-K/A \(file No. 001-34746\) filed on January 18, 2018\)](#)
- [10.44](#) [Amended and Restated Registration Rights Agreement among the Registrant, IHC Health Services, Inc. and TCP-ASC ACHI Series LLLP dated as of January 23, 2018 \(incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on January 24, 2018\)](#)
- [10.45](#) [Securities Purchase Agreement between the Company and IHC Health Services, Inc. dated as of January 23, 2018 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on January 24, 2018\)](#)
- [10.46](#) [Warrant between the Company and IHC Health Services, Inc. dated as of January 23, 2018 \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K \(file No. 001-34746\) filed on January 24, 2018\)](#)
- [10.47](#) [Credit Agreement, dated as of May 8, 2018, by and among the Registrant, the other parties party thereto as Credit Parties \(as defined therein\), Bank of America, N.A., as administrative agent and the financial institutions party thereto as lenders \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K \(file No. 001-34746\) filed on May 8, 2018\)](#)
- [10.48+](#) [Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of January 23, 2018 \(incorporated by reference to Exhibit 10.7 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on May 10, 2018\)](#)
- [10.49+](#) [Exhibits to the Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of January 23, 2018 \(incorporated by reference to Exhibit 10.8 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on May 10, 2018\)](#)
- [10.50+](#) [Addendum No. 1 to Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of April 30, 2018 \(incorporated by reference to Exhibit 10.9 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on May 10, 2018\)](#)
- [10.51\\*](#) [Form of Grant of Performance Based Restricted Stock Unit Awards - 2018 Form pursuant to the Second Amended and Restated 2010 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Current Report on 8-K \(file No. 001-34746\) filed on May 31, 2018\)](#)
- [10.52+](#) [Addendum No. 2 to Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of June 18, 2018 \(incorporated by reference to Exhibit 10.4 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on August 9, 2018\)](#)
- [10.53+](#) [Supplement 26 to Amended and Restated Master Professional Services Agreement between the Registrant and Ascension Health dated as of June 24, 2018 \(incorporated by reference to Exhibit 10.5 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on August 9, 2018\)](#)
- [10.54+](#) [Amendment No. 2 to Amended and Restated Master Professional Services Agreement between the Registrant and Ascension Health dated as of June 24, 2018 \(incorporated by reference to Exhibit 10.6 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on August 9, 2018\)](#)
- [10.55+](#) [Amendment No. 3 to Amended and Restated Master Professional Services Agreement between the Registrant and Ascension Health dated as of July 5, 2018 \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on 10-Q \(file No. 001-34746\) filed on November 7, 2018\)](#)
- [10.56+](#) [Addendum No. 3 to Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of October 1, 2018 \(incorporated by reference to Exhibit 10.72 to Annual Report on Form 10-K for the fiscal year ended December 31, 2018 \(file No. 001-34746\) filed on February 22, 2019\)](#)
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<a href="#"><u>10.57*</u></a>	<a href="#"><u>Form of Grant of Performance-Based Restricted Stock Unit Awards Agreement pursuant to the Second Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 001-34746) filed on April 10, 2019)</u></a>
<a href="#"><u>10.58*</u></a>	<a href="#"><u>Amendment No. 2 to Offer Letter, dated March 6, 2019, between the Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (file No. 001-34747) filed on May 9, 2019)</u></a>
<a href="#"><u>10.59</u></a>	<a href="#"><u>Credit Agreement, dated as of June 26, 2019, by and among the Registrant, the other parties party thereto as Credit Parties (as defined therein), Bank of America, N.A., as administrative agent and the financial institutions party thereto as lenders (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No.001-34746) filed on June 26, 2019)</u></a>
<a href="#"><u>10.60+</u></a>	<a href="#"><u>Addendum No. 4 to the Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of April 30, 2010 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (file No. 001-34746) filed on August 6, 2019)</u></a>
<a href="#"><u>10.61+</u></a>	<a href="#"><u>Amendment No. 4 to Amended and Restated Master Professional Services Agreement between the Registrant and Ascension Health dated as of December 20, 2019</u></a>
<a href="#"><u>10.62+</u></a>	<a href="#"><u>Amendment No. 5 to Amended and Restated Services Agreement between the Registrant and IHC Health Services, Inc. dated as of December 31, 2019</u></a>
<a href="#"><u>21.1</u></a>	<a href="#"><u>Subsidiaries of the Registrant</u></a>
<a href="#"><u>23.1</u></a>	<a href="#"><u>Consent of Ernst &amp; Young LLP</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

+ Portions of this exhibit (indicated therein by asterisks) have been omitted for confidential treatment.

## Description of Registrant's Common Stock

### General

Under the Restated Certificate of Incorporation, as amended (the "Charter") of R1 RCM Inc. (the "Company" or "R1"), R1 is authorized to issue 500 million of shares of common stock, par value \$0.01 per share (the "Common Stock"), and 5 million shares of preferred stock, par value \$0.01 per share. Of its authorized preferred stock, R1 has previously designated 370,000 shares as its 8.00% Series A Convertible Preferred Stock (the "Series A Preferred Stock").

### Common Stock

#### *Voting Rights*

The holders of Common Stock are entitled to one vote for each share held on all matters submitted to a vote of the stockholders and do not have any cumulative voting rights. Additionally, the holders of the Series A Preferred Stock are entitled to vote with the holders of the Common Stock on an as-converted basis and have certain special consent rights so long as shares of the Series A Preferred Stock remain outstanding.

#### *Dividend Rights*

Subject to the rights of holders of Series A Preferred Stock, holders of Common Stock are entitled to receive dividends when, as and if declared by the Company's board of directors out of funds legally available for this purpose.

The Company does not currently pay quarterly cash dividends on shares of Common Stock. The payment of dividends in the future, if any, will be at the discretion of the Company's board of directors, will be subject to the approval of holders of the Series A Preferred Stock and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Company's board of directors may deem to be relevant.

#### *Liquidation Rights*

Subject to the rights of holders of the Series A Preferred Stock which ranks senior to the Common Stock, in the event of a liquidation, dissolution or winding up of R1, the holders of Common Stock will be entitled to receive, after payment or provision for payment of all of its debts and liabilities (including the payment of the liquidation preference and all accrued but unpaid dividends on the Series A Preferred Stock), all of the assets of the Company legally available for distribution to stockholders.

#### *Other Rights*

Holders of Common Stock are not entitled to preemptive rights with respect to any shares which may be issued, and there are no conversion rights or redemption, purchase, retirement or sinking fund provisions with respect to Common Stock.

#### *Anti-Takeover Effects of Delaware Law and the Company's Charter and Bylaws*

Delaware law, the Charter and the Company's Amended and Restated Bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of the Company. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of the Company to first negotiate with the Company's board of directors.

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### ***Board of Directors; Removal of Directors***

The Charter and Amended and Restated Bylaws provide that a director may be removed with or without cause and only by the affirmative vote of the holders of at least two-thirds of the votes that all the stockholders would be entitled to cast in an election of directors. Any vacancy on the Company's board of directors, including a vacancy resulting from an enlargement of the board of directors, may be filled only by vote of a majority of the directors then in office, although less than a quorum. At each annual meeting, the entire board will stand for election for a one-year term. The limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of the Company.

### ***Stockholder Action by Written Consent; Special Meetings***

The Charter provides that any action required or permitted to be taken by the Company's stockholders must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. The Charter and Amended and Restated Bylaws also provide that, except as otherwise required by law, special meetings of the Company's stockholders can only be called by the Company's chairman of the board, chief executive officer or board of directors.

### ***Advance Notice Requirements for Stockholder Proposals***

The Amended and Restated Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of persons for election to the board of directors. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors or by a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely written notice in proper form to the Company's secretary of the stockholder's intention to bring such business before the meeting. This written notice must contain certain information specified in the Amended and Restated Bylaws. These provisions could have the effect of delaying until the next stockholder meeting stockholder actions that are favored by the holders of a majority of the Company's outstanding voting securities.

### ***Delaware Business Combination Statute***

The Company is subject to Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prevents a publicly-held Delaware corporation from engaging in a "business combination" with any "interested stockholder" for three years following the date that the person became an interested stockholder, unless the interested stockholder attained such status with the approval of the Company's board of directors or unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger or consolidation involving the Company and the "interested stockholder" and the sale of more than 10% of the Company's assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of the Company's outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

### ***Amendment of Certificate of Incorporation and Bylaws***

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws,

unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. The Amended and Restated Bylaws may be amended or repealed by a majority vote of the Company's board of directors or by the affirmative vote of the holders of at least two-thirds of the votes which all the Company's stockholders would be entitled to cast in any election of directors. In addition, the affirmative vote of the holders of at least two-thirds of the votes which all the Company's stockholders would be entitled to cast in any election of directors is required to amend or repeal or to adopt any provisions inconsistent with any of the provisions of the Charter described above under "—Board of Directors; Removal of Directors" and "— Stockholder Action by Written Consent; Special Meetings".

***Transfer Agent and Registrar***

The transfer agent and registrar for the Common Stock is American Stock Transfer and Trust Company, LLC.

***Exchange Listing***

The Common Stock is listed on the Nasdaq Capital Market under the symbol "RCM."

**AMENDMENT NO. 4 TO  
AMENDED AND RESTATED MASTER PROFESSIONAL SERVICES AGREEMENT  
BY AND BETWEEN  
ASCENSION HEALTH AND R1 RCM INC.**

This Amendment No. 4 to the Master Professional Services Agreement (this “**Amendment**”) by and between Ascension Health (“**Ascension Health**”) and R1 RCM Inc. (formerly known as Accretive Health, Inc.) (“**R1**”) is entered into effective this 20<sup>th</sup> day of December, 2019 (the “**Amendment Effective Date**”). Ascension Health and R1 are sometimes referred to in herein as a “**Party**” or collectively as the “**Parties**”. All capitalized terms used and not otherwise defined herein shall have the meaning ascribed to them in the MPSA (as defined below).

**WHEREAS**, Ascension Health and R1 entered into that certain Amended and Restated Master Professional Services Agreement dated February 16, 2016, as amended (the “**MPSA**”); and

**WHEREAS**, Ascension Health and Supplier desire to provide for new terms for determining the Base Fees and Incentive Fees for Dependent Services for certain hospitals that are acquired by or built by Ascension Health or an Eligible Recipient.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained in this Amendment, and of other good and valid consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

I. **Base Fee for Dependent Services**. Effective as of January 1, 2019, **Exhibit 4-A** to the MPSA is hereby amended as follows:

a. The following definitions are hereby added to **Section 1.3** of **Exhibit 4-A**:

“(x) “**Add-On Hospital**” means any New ABM having annual Cash Collections less than \$1 billion. An Add-On Hospital may be either (i) an Existing Add-On Hospital or (ii) a Start-Up Add-On Hospital.

(xi) “**Existing Add-On Hospital**” means any Add-On Hospital that has been in operation for at least two (2) years or is otherwise designated as such by the Parties.

(xii) “**Start-Up ABM Baseline Period**” means, with respect to any Start-Up Add-On Hospital, the period commencing with the date that R1 starts to provide Dependent Services to the Start-Up Add-On Hospital through the later of: (1) the one year anniversary of such start date; and (2) the date that patient volumes stabilize at such Start-Up Add-On Hospital, as mutually agreed by the Parties, acting reasonably.

(xiii) “**Start-Up Add-On Hospital**” means any Add-On Hospital that has been in operation for less than two (2) years or is otherwise designated as such by the Parties.

b. Section 5 of Exhibit 4-A is hereby deleted in its entirety and replaced with the following:

“5. **Implementation Fees.** Each Eligible Recipient shall pay Supplier implementation fees in the following amounts (each, an “**Implementation Fee**”): (i) each Additional Book Eligible Recipient shall pay Supplier an amount equal to [\*\*\*\*] of annual Cash Collections (measured as of the Baseline Year) of such Additional Book Eligible Recipient; and (ii) in addition (but without duplication) to the amount resulting from the foregoing clause (i), with respect to the implementation of Dependent Services at any New ABM (including, for the avoidance of doubt, any new hospitals), such Eligible Recipient shall pay Supplier an amount equal to: (a) with respect to any New ABM other than a Start-Up Add-On Hospital, [\*\*\*\*] of the annual Cash Collections (measured as of the last completed fiscal year of such Eligible Recipient) of such New ABM; and (b) with respect to any Start-Up Add-On Hospital, [\*\*\*\*] of the annual Cash Collections during the first consecutive twelve-month period following the Start-Up ABM Baseline Period. The applicable Eligible Recipients shall pay the Implementation Fees set forth herein in [\*\*\*\*] equal [\*\*\*\*] installments beginning on the Employment Effective Date for the first of the Transitioned Employees with respect to such Eligible Recipient or, if there are no Transitioned Employees, then on the first day following the Start-Up ABM Baseline Period.”

c. Section 9 of Exhibit 4-A is hereby deleted in its entirety and replaced with the following:

“9. **Base Fee for New ABMs.**

9.1 With respect to any New ABM other than an Add-On Hospital, (i) the Parties shall conduct an assessment of such New ABM that is consistent in scope with the Original Assessment, (ii) such assessment will identify any areas that may require investments in technology, employees, and other infrastructure that may improve the operational performance of the Services with respect to such New ABM, consistent with the process used for Additional Book Eligible Recipients, (iii) the results of any such assessment shall be submitted to the Cost Board, and (iv) the Cost Board shall determine the methodology for calculating the Base Fee for such New ABM in accordance with guidelines and principles that are consistent with those set forth in this Exhibit 4-A that are applicable to Additional Book Eligible Recipients.

9.2 With respect to any Existing Add-On Hospital, the Parties will not conduct an assessment of such Existing Add-On Hospital for purposes of determining the Base Fee. Upon execution of a new Supplement or addition to an existing Supplement with respect to any such Existing Add-On Hospital, the Additional Book Cost to Collect Factor applicable to such Existing Add-On Hospital shall be equal to the AB Floor and the I&I Factor shall be equal to [\*\*\*\*].

9.3 With respect to any Start-Up Add-On Hospital, the Parties will not conduct an assessment of such New ABM for purposes of determining the Base Fee. Upon execution of a new Supplement or addition to an existing Supplement, the Base Fees during the Start-Up ABM Baseline Period shall be equal to: [\*\*\*\*], *plus* (c) fees for Supplier’s provision of Shared Services for such New ABM as agreed to by the Parties in good faith [\*\*\*\*]. Following the Start-Up ABM Baseline Period, the Additional Book Cost to Collect Factor applicable to such New ABM shall be equal to the AB Floor and the I&I Factor shall be equal to [\*\*\*\*].

9.4 Following the addition of the [\*\*\*\*] New ABM having annual Cash Collections of [\*\*\*\*] million or less (calculated since January 1, 2019), the Parties agree to evaluate in good faith whether to adjust the Base Fees as described in Section 9.2 or 9.3 with respect to such New ABMs, as necessary to ensure that the Base Fees are fair and equitable to both Parties, taking into account the principles and methodology contained in Exhibit 4-A. Any adjustment to the Base Fees shall apply prospectively only.

II. **Incentive Fees.** Effective as of January 1, 2019, Exhibit 4-B is hereby amended as follows:

Section 3.3 of Exhibit 4-B is hereby deleted in its entirety and replaced with the following:

“Eligible Recipient Performance Targets will be calculated for each of the 7 Operating Metrics at the site level (e.g., for each Facility) in accordance with this Exhibit 4-B. Performance Targets will be calculated for each Additional Book Eligible Recipient and New ABM prior to the applicable Supplement Commencement Date, except as otherwise provided in this Section 3.3, and will remain in effect unchanged (other than the payer mix adjustments described in Section 3.2 above) unless modified in accordance with the process set forth in Section 3.4 below. The Performance Targets for each Operating Metric for the Current Book Eligible Recipients will be calculated in accordance with Sections 3.1 and 3.2 above using such Eligible Recipient’s average [\*\*\*\*] during the applicable portion (i.e., quarterly periods or annual, in accordance with Sections 3.1 and 3.2 above) of such Eligible Recipient’s [\*\*\*\*]. For Additional Book Eligible Recipients and New ABMs, except as otherwise provided in this Section 3.3, the Performance Targets will be calculated in accordance with Sections 3.1 and 3.2 above using such Eligible Recipient’s average [\*\*\*\*] during the applicable portion (i.e., quarterly periods or annual, in accordance with Sections 3.1 and 3.2 above) of such Eligible Recipient’s [\*\*\*\*]. The calculation of Operating Metrics will utilize the same definitions, data sources, and systems during the period(ds) utilized to set Performance Targets and all Measurement Periods for the Supplement Term. Any changes to the calculation or source data, definitions, or systems which the Supplier and Eligible Recipient agree are necessary to assure that the Performance Targets and the method of calculating the Performance Targets and actual Operating Metric performance fairly reflect operating performance during the Term of the Supplement will be incorporated into the Operating Metrics Scorecard on a timely basis, with such changes having effect for all subsequent Measurement Periods. Notwithstanding anything to the contrary in this Section 3.3, with respect to any Start-Up Add-On Hospital, the Parties shall determine the baseline period for calculation of Performance Targets for each Operating Metric for each such Start-Up Add-On Hospital. [\*\*\*\*].”

III. **Counterparts.** This Amendment may be executed in several counterparts, all of which taken together will constitute one single agreement between the Parties.

*[signature page follows]*

IN WITNESS WHEREOF, the Parties have executed and delivered this Amendment effective as of the Amendment Effective Date, first indicated above.

**Ascension Health**

By: /s/ Rhonda C. Anderson

Name: Rhonda C. Anderson

Title: SVP, Operational Finance

**R1 RCM Inc.**

By: /s/ John Sparby

Name: John Sparby

Title: EVP Customer Operations, R1

*[Signature Page to Amendment No. 4]*



**ADDENDUM NO. 5 TO  
AMENDED AND RESTATED SERVICES AGREEMENT**

This Addendum No. 5 (this “Addendum”) is made and entered into as of the 31 day of December, 2019 (the “Addendum Effective Date”) by and between IHC Health Services, Inc., a Utah non-profit corporation, (“IMH” or sometimes referred to as “Intermountain” or “Intermountain Healthcare”) and R1 RCM Inc., a Delaware corporation, formerly known as Accretive Health, Inc. (“R1”) (each a “Party” and collectively, the “Parties”), pursuant to and subject to that certain Amended and Restated Services Agreement (as amended, referred to herein as the “Services Agreement”) dated as of January 23, 2018, by and between the Parties.

WHEREAS, the Services Agreement was amended by (i) Addendum No. 1 to Amended and Restated Services Agreement, effective as of April 30, 2018, (ii) Addendum No. 2 to Amended and Restated Services Agreement, effective as of June 18, 2018, (iii) Addendum No. 3 to Amended and Restated Services Agreement, effective as of September 27, 2018 and (iv) Addendum No. 4 to Amended and Restated Services Agreement, effective as of April 30, 2019 (“Addendum No. 4”).

NOW THEREFORE, in consideration of the premises and mutual consents set forth below, the Parties hereby agree as follows:

**1. Purpose.**

This Addendum sets forth the Service Level criteria for Service Level 12 – Patient Registration Satisfaction Survey as contemplated by Addendum No. 4 and adjusts the Lower Bound for Metric No. 3 used to calculate Incentive Fees for [\*\*\*\*\*]. When signed by both Parties, this Addendum shall be attached to, and deemed a part of, the Services Agreement. All other terms and conditions of the Services Agreement shall remain in full force and effect.

**2. Service Levels.**

**2.2 Service Level Criteria.** Effective as of the Addendum Effective Date, the Parties agree to delete Section 3.12 of Exhibit 3.6 in its entirety and replace it with the following:

“3.12 Service Level 12 – Patient Registration Satisfaction Survey. This Service Level shall mean, for any Measurement Window for the IMH Facilities, each of (i) the Emergency Department Registration Survey Score and (ii) the Inpatient Registration Survey Score.

“Emergency Department Registration Survey Score” means, for any Measurement Window, the average response score to the Press Ganey patient survey question of “*Courtesy during pers/insur info*” or any similar question related to courtesy of the registrar during registration for emergency department service as reflected on the Emergency Department Report.

“Inpatient Registration Survey Score” means, for any Measurement Window, the average response score to the Press Ganey patient survey question of “*Courtesy of Person Admitting*” or any similar question related to courtesy of the registrar during registration for inpatient service as reflected on the Inpatient Report.

This Service Level measures performance with respect to the IMH Facilities.”

- 2.2 **Target Levels.** Effective as of the Addendum Effective Date, the Parties agree to delete Section 4.12 of Exhibit 3.6 in its entirety and replace it with the following:

“4.12 Service Level 12: ‘Patient Registration Satisfaction Survey’ –

(i) for all Measurement Windows in [\*\*\*\*\*], (a) for the Emergency Department Registration Survey Score, greater than or equal to [\*\*\*\*\*]; *and* (b) for the Inpatient Registration Survey Score, greater than or equal to [\*\*\*\*\*]. For the avoidance of doubt, R1 must meet (i) and (ii) to achieve the Target Level for this Service Level.

(ii) for all Measurement Windows beginning in [\*\*\*\*\*], (a) for the Emergency Department Registration Survey Score, greater than or equal to [\*\*\*\*\*]; *and* (b) for the Inpatient Registration Survey Score, greater than or equal to [\*\*\*\*\*]. For the avoidance of doubt, R1 must meet (i) and (ii) to achieve the Target Level for this Service Level.”

- 2.3 Effective as of the Addendum Effective Date, the Parties agree to add the following provision to the end of Section 5:

“Notwithstanding that R1’s performance for Service Level 12 has achieved the Target Level, in the event that the Emergency Department Registration Survey Score and/or the Inpatient Registration Survey Score falls below the [\*\*\*\*\*] percentile in the Press Ganey facilities comparison, the Parties agree [\*\*\*\*\*].”

3. **Incentive Fees.**

Effective as of Contract Year [\*\*\*\*\*], the Parties agree that the Lower Bound for Metric No. 3 for the IMH Facilities for [\*\*\*\*\*], as determined in accordance with Exhibit 11.1-B to the Services Agreement, shall be amended and restated as set forth in the updated table below.

	Metric	Weighting for [*****]	Weighting for [*****]	IMH Facilities	IMH Providers	IMH Facilities	IMH Providers
				Lower Bound for [*****]	Lower Bound for [*****]	Upper Bound for [*****]	Upper Bound for [*****]
1	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]
2	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]
3	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]
4	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]
5	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]	[*****]

SIGNATURE PAGE FOLLOWS

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[\*\*\*\*\*] Text omitted for confidential treatment. The redacted information has been excluded because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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IN WITNESS WHEREOF, the Parties have caused this Addendum to be executed by their respective duly authorized representatives as of the Addendum Effective Date.

IHC Health Services, Inc.

By: /s/ Todd E. Craghead

Name: Todd E. Craghead

Title: VP Revenue Cycle

R1 RCM Inc.

By: /s/ John Sparby

Name: John Sparby

Title: EVP Customer Operations, R1 RCM

SIGNATURE PAGE TO ADDENDUM 5 TO AMENDED AND RESTATED SERVICES AGREEMENT

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-170718) pertaining to the Amended and Restated Stock Option Plan, as amended and the 2010 Stock Incentive Plan of R1 RCM Inc.;
2. Registration Statement (Form S-8 No. 333-206482) pertaining to the Amended and Restated 2010 Stock Incentive Plan and the Inducement Stock Option Awards of R1 RCM Inc.; and
3. Registration Statement (Form S-8 No. 333-215094) pertaining to the Second Amended and Restated 2010 Stock Incentive Plan of R1 RCM Inc.

of our reports dated February 20, 2020, with respect to the consolidated financial statements of R1 RCM Inc., and the effectiveness of internal control over financial reporting of R1 RCM Inc., included in this Annual Report (Form 10-K) of R1 RCM Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Chicago, Illinois  
February 20, 2020

**Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Joseph Flanagan, certify that:

1. I have reviewed this Annual Report on Form 10-K of R1 RCM Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Joseph Flanagan  
Joseph Flanagan  
President and Chief Executive Officer  
(Principal Executive Officer)

**Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Richard B. Evans, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of R1 RCM Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Richard B. Evans, Jr.  
Richard B. Evans, Jr.  
Interim Chief Financial Officer  
(Principal Financial Officer)

**Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of R1 RCM Inc. (the “Company”) for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), the undersigned, Joseph Flanagan, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 20, 2020

/s/ Joseph Flanagan  
Joseph Flanagan  
President and Chief Executive Officer  
(Principal Executive Officer)



**Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of R1 RCM Inc. (the "Company") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, Richard B. Evans, Jr., Interim Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 20, 2020

/s/ Richard B. Evans, Jr.  
Richard B. Evans, Jr.  
Interim Chief Financial Officer  
(Principal Financial Officer)