

Alcon

Q4 23 Results: Not really a clean quarter, but FY24 guide meets expectations

Maintain Rating: NEUTRAL | PO: 71.00 CHF | Price: 70.94 CHF

5% EBIT miss in Q4, FY24 guide in-line

Alcon reported 4Q23 results where sales came broadly in-line with consensus at \$2.3bn (+10% CER vs 9.0% for cons.). Sales in Implantables were below expectations (+5% vs +5.6% at CER), and performance in the US for AT-IOL is likely to be a key focus for the call, especially given sales were driven by OUS markets. Every other sub-segment delivered growth above consensus, in particular Equipment (+14% or c700bps beat) supported by cataract and vitreoretinal. EBIT came 5% below consensus for Q4 (margin 18.9%, -90bps vs cons.) mainly due to gross margin (seasonality and higher-cost inventory) and 'other expenses', but EPS of \$0.70 beat by 4%, supported by lower tax rate of c14% and 'other financial income'. Investors' focus was on FY24 guidance which seems to have met expectations: +6-8% CER sales growth (cons. +6.2%), 20.5-21.5% margin (in-line) and \$3.00-3.10 EPS (1% above). Shares rallied into results (+8% in 1M) and trade on 27x 24' PE, leaving few room for re-rating in our view. Neutral rating maintained.

4Q23 results in details: Implantables falls short, EBIT miss

4Q23 saw +10% CER sales growth, driven by beats in all divisions apart from implantables. Equipment sales were strong at +14%, momentum in Contact Lenses remains solid (+10%). Group EBIT was 5% below (90bps margin miss), with FX headwind of -110bps.

Exhibit 1: Q4 revenue was in line however EBIT missed by c.-5%

Actuals vs Visible Alpha consensus, data in \$mn

\$mn	Actuals		Consensus		Diff	
	4Q 23	FY23	4Q 23	FY23	4Q 23	FY23
Net sales to third parties	2,332	9,370	2,337	9,376	-0.2%	-0.1%
%CC growth	10.0%	10.0%	9.0%	10.3%	101 bps	-30 bps
o/w implantables	5.0%	2.0%	5.6%	1.8%	-59 bps	15 bps
o/w consumables	9.0%	11.0%	8.1%	10.1%	94 bps	93 bps
o/w equipment/other	14.0%	12.0%	7.1%	9.9%	690 bps	209 bps
o/w contact lenses	10.0%	11.0%	8.6%	10.6%	142 bps	36 bps
o/w ocular health	17.0%	19.0%	16.3%	18.6%	72 bps	38 bps
EBIT	440	1,849	463	1,870	-4.9%	-1.1%
% margin	18.9%	19.7%	19.8%	19.9%	-93 bps	-21 bps
Diluted EPS	0.70	2.74	0.67	2.72	4.3%	0.7%

Source: Company reports, Visible Alpha

BofA GLOBAL RESEARCH

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Stock Data

Price (SWX / NYS)	70.94 CHF / 81.18 USD
Price Objective	71.00 CHF / 83.00 USD
Date Established	17-Jan-2024 / 17-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	58.30 CHF-75.40 CHF
Market Value (mn)	35,449 CHF
Shares Outstanding (mn)	499.7 / 499.7
Average Daily Value (mn)	61.59 USD
Free Float	100.0%
BofA Ticker / Exchange	XSLCF / SWX
BofA Ticker / Exchange	ALC / NYS
Bloomberg / Reuters	ALC SW / ALCCS
ROE (2023E)	6.7%
Net Dbt to Eqty (Dec-2022A)	18.6%
ESGMeter™	High

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Timestamp: 28 February 2024 12:30AM EST

Price objective basis & risk

Alcon (XSLCF / ALC)

Our CHF71/US\$83 price objective is based on an average of three core metrics: DCF (\$94), P/E (\$77), and EV/EBITDA (\$80). Our valuation methodologies are based on the following core assumptions:

Price / earnings: we use 25.5x (vs 32x) for ALC, or a c10% premium to EU MedTech, with ALC's FY23-25 EBITDA/EPS CAGR in line with EU peers. However, we think the c10 premium is deserved, giving credit to the margin turnaround story (5%p FY23-25). The multiple is applied to our one-year-forward earnings. Previously, we used a higher valuation premium (40%) to sector due to ALC's faster earnings growth vs our sector, helped by lower comps in FY21-22. As part of the business recovery has already happened, we lower the target premium.

EV / EBITDA: we use 16x (vs 19x) for ALC (a c10% premium to EU MedTech), based on similar rationale as above.

DCF: our DCF uses a market risk premium of 3.8% (largely in line with BofA internal estimates), beta of 0.95 (from Bloomberg), normalised risk-free rate of 4% (broadly in line with the rest of our sector), and terminal growth of +2% to reflect the relative structural growth of ALC's core end markets.

Upside risks: rapid adoption of premium (AT-IOLs) given relative benefits vs monos, reusable contact lenses regain market share following ALC innovation (Total30).

Downside risks: reimbursement of monofocal IOLs creating a roof for potential market penetration. Competitor strength in contact lens or IOL markets globally.

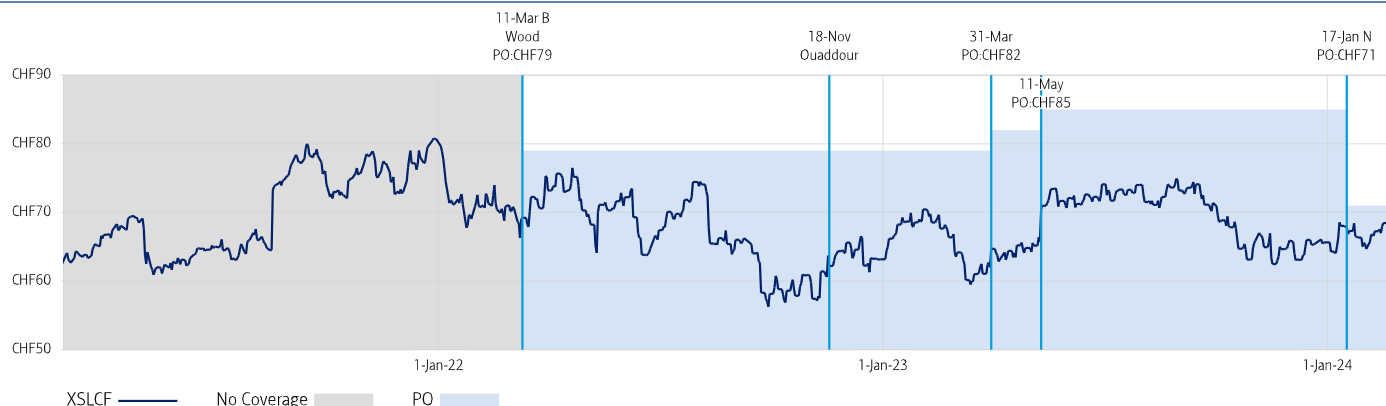
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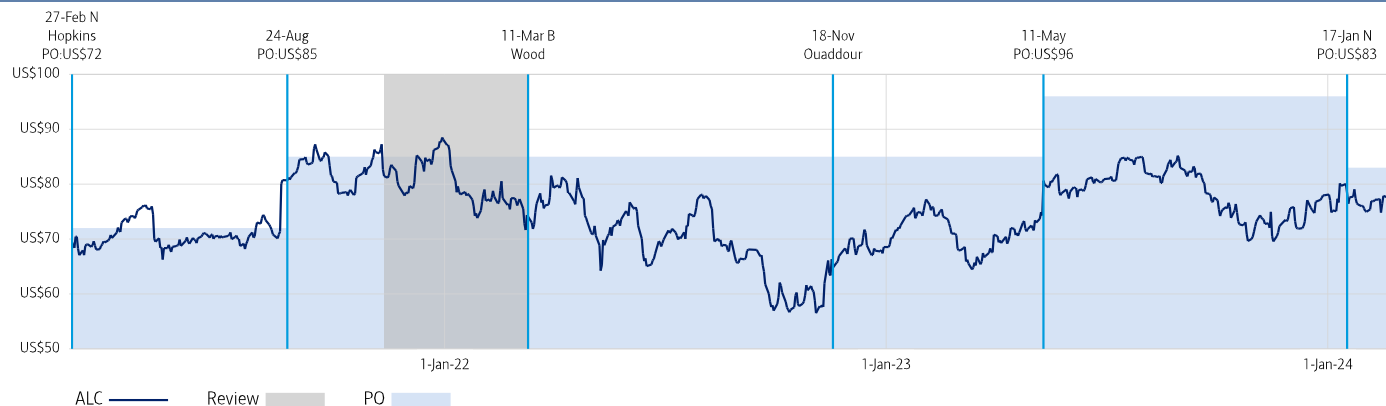
Alcon (XSLCF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Alcon (ALC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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