Henry Schein

Navigating near-term pressures

Reiterate Rating: UNDERPERFORM | PO: 75.00 USD | Price: 80.57 USD

27 February 2024

Equity

Cyber security threat contained, offset by core outlook

Henry Schein saw a recovery of revenue in the second half of the 4th quarter, and the broader impact from customer attrition appears contained, a clear positive heading into 2024. Somewhat offsetting this benefit is the core organic growth rate of the business. Henry Schein expects revenue growth of 8-12% in 2024, but 6 percentage points of growth is coming from cyber security normalization (+300bps) and M&A (+300bps), leaving core growth between 2% and 6%. Henry Schein continues to point to end-market growth toward the low end of its long-term guidance ranges, with weakness in dental driven in part by softness on equipment sales and pricing headwinds. Performance in the Value Added Services business has been a bright spot, and we do expect the company to be able to drive margins higher due in large part to growth in higher-margin specialty products over time. Given the containment of cybersecurity headwinds, we increase our target multiple to 11.5x CY24 EBITDA from 9.5x and our PO from $65 to $75 to reflect lower risk related to customer losses/attrition. We reiterate our Underperform rating.

Adjusting our near-term estimates

We reduce our FY24 revenue estimate from $13.372Bn to $13.330Bn. The reduction in our revenue estimate is driven by lower medical revenues, partially offset by higher dental revenue. On EPS, we reduce our FY24 estimate from $5.14 to $5.08 largely to reflect slightly higher SG&A spend in 1H'24 and to account for a $0.15 residual impact related to the cybersecurity incident in 1Q'24. With this note, we also roll out our FY24 quarterly and FY27 annual estimates.

Key themes for FY24: Cadence of growth through the year

Looking ahead, execution through FY24 will be key, especially given a back half-weighted ramp implied in the FY24 guide. We look to track incremental changes on the dental market, including inflections in patient volumes and Dental Service Organization (DSO) commentary on purchasing trends/buildouts, which will be important for the dental growth algorithm. Last, we also look for changes to medical utilization trends that have largely stabilized following headwinds from Covid/flu dynamics and staffing constraints.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	5.38	4.50	5.08	5.53	5.97
GAAP EPS	3.87	3.15	3.86	4.74	5.19
EPS Change (YoY)	6.7%	-16.4%	12.9%	8.9%	8.0%
Consensus EPS (Bloomberg)			5.12	5.58	6.33
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.0x	17.9x	15.9x	14.6x	13.5x
GAAP P/E	20.8x	25.6x	20.9x	17.0x	15.5x
EV / EBITDA*	12.7x	12.2x	12.8x	11.7x	10.8x
Free Cash Flow Yield*	4.8%	3.0%	7.2%	5.6%	6.5%

* For full definitions of *iQmethod*SM measures, see page 12.

Key Changes

(US$)	Previous	Current
Price Obj.	65.00	75.00
2024E EPS	5.14	5.08
2025E EPS	5.64	5.53
2026E EPS	6.16	5.97
2024E EBITDA (m)	1,099.6	1,089.0
2025E EBITDA (m)	1,199.8	1,188.7
2026E EBITDA (m)	1,296.7	1,288.1

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Stock Data

Price	80.57 USD
Price Objective	75.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-3-9
52-Week Range	60.01 USD - 85.75 USD
Mrkt Val (mn) / Shares Out (mn)	10,521 USD / 130.6
Free Float	98.6%
Average Daily Value (mn)	86.57 USD
BofA Ticker / Exchange	HSIC / NAS
Bloomberg / Reuters	HSIC US / HSIC.OQ
ROE (2024E)	14.8%
Net Dbt to Eqty (Dec-2023A)	37.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

DSO – dental services organization
PO – price objective
PPE – personal protective equipment

Refer to important disclosures on page 13 to 15. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.
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iQprofile℠ Henry Schein

iQ**method*℠ **– Bus Performance

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Return on Capital Employed	12.4%	9.7%	9.0%	9.4%	9.7%
Return on Equity	18.2%	14.1%	14.8%	14.9%	14.8%
Operating Margin	8.1%	7.2%	7.6%	7.8%	8.1%
Free Cash Flow	506	313	762	586	680

iQ**method*℠ **– Quality of Earnings

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash Realization Ratio	0.8x	0.8x	1.3x	1.0x	1.0x
Asset Replacement Ratio	0.5x	0.8x	1.7x	1.6x	1.5x
Tax Rate	24.8%	22.3%	28.2%	28.0%	27.8%
Net Debt-to-Equity Ratio	22.1%	37.2%	30.1%	26.9%	22.5%
Interest Cover	23.4x	10.2x	12.6x	19.3x	22.3x

Income Statement Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales	12,647	12,339	13,330	14,112	14,852
% Change	2.0%	-2.4%	8.0%	5.9%	5.2%
Gross Profit	3,831	3,861	4,183	4,318	4,552
% Change	4.3%	0.8%	8.4%	3.2%	5.4%
EBITDA	1,096	1,137	1,089	1,189	1,288
% Change	1.3%	3.8%	-4.2%	9.1%	8.4%
Net Interest & Other Income	(26)	(81)	(60)	(42)	(41)
Net Income (Adjusted)	**742**	**593**	**665**	**730**	**800**
% Change	**3.8%**	**-20.1%**	**12.1%**	**9.8%**	**9.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Net Income from Cont Operations (GAAP)	742	593	665	730	800
Depreciation & Amortization	212	248	80	88	93
Change in Working Capital	(281)	(290)	262	(48)	(28)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(71)	(51)	(112)	(43)	(44)
Capital Expenditure	(96)	(187)	(133)	(141)	(141)
Free Cash Flow	**506**	**313**	**762**	**586**	**680**
% Change	**-19.8%**	**-38.1%**	**143.3%**	**-23.1%**	**16.0%**
Share / Issue Repurchase	(483)	(249)	(191)	(241)	(241)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	259	1,050	(100)	(125)	(125)

Balance Sheet Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash & Equivalents	117	171	319	241	256
Trade Receivables	1,442	1,863	1,647	1,734	1,815
Other Current Assets	2,429	2,454	2,642	2,814	2,953
Property, Plant & Equipment	383	498	661	823	983
Other Non-Current Assets	4,236	5,587	5,891	6,157	6,419
Total Assets	**8,607**	**10,573**	**11,161**	**11,770**	**12,427**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,115	2,533	2,768	2,979	3,171
Long-Term Debt	1,149	2,087	1,987	1,862	1,737
Other Non-Current Liabilities	672	800	858	901	941
Total Liabilities	**3,936**	**5,420**	**5,612**	**5,741**	**5,848**
Total Equity	**4,671**	**5,153**	**5,548**	**6,029**	**6,578**
Total Equity & Liabilities	**8,607**	**10,573**	**11,161**	**11,770**	**12,427**

* For full definitions of *iQmethod*℠ measures, see page 12.

Company Sector

Healthcare Technology & Distribution

Company Description

HSIC is one of the world's largest distributors of dental and medical products. HSIC also provides additional value-added services, technology solutions and a broad range of financial services to its primarily fragmented customer base. The company is headquartered in Melville, New York and has operations in 33 countries.

Investment Rationale

Our Underperform rating on HSIC shares is based on concerns over relative growth given both softer dental market demand and tougher Medical comps. HSIC has been a multi-year share gainer and should still see steady growth across its markets, even with the loss of the PDS DSO. But with EBIT growth harder to come by and a premium multiple to PDCO, we expect shares to lag on an intermediate basis.

Stock Data

Average Daily Volume	1,074,429

Quarterly Earnings Estimates

	2023	**2024**
Q1	1.21A	0.82E
Q2	1.31A	1.22E
Q3	1.32A	1.51E
Q4	0.66A	1.53E

4Q'23 Call Takeaways

Prepared Remarks

- FY23 was in line with HSIC expectations and reflects solid recovery from last year's cybersecurity incident.
- 4Q results included strong growth in Technology and Value-Added Services and in global sales of implants and biomaterials, driven by acquisitions, and were negatively impacted by higher-than-usual acquisition-related expenses and adjustments.
- FY24 guidance reflects stability in underlying markets, recovery efforts from the cybersecurity incident, and execution of the strategic plan.
    - For FY24, HSIC should have some short-term residual impact on merchandise sales from the incident.
- HSIC introduced adj. EBITDA guidance, as this metric reflects performance of the business as HSIC pivots to higher-growth, higher-margin products and services.
- Global implants improved, supported by acquisitions.
- Cybersecurity incident:
    - It recovered well from the cyber incident in the second half – revenue impact was at the low end of the expectations, while EPS impact was on the high end.
    - HSIC feels good about the customer retention.
- Merchandise sales are running below pre-cyber security incident levels, having a low-single-digit % headwind. Some episodic customers have not returned yet. HSIC expects residual impact to be short-term and dimmish through the first half of the year.
- 2024 guidance reflects confidence in underlying markets served.
    - HSIC expects some residual impact from the cybersecurity incident.
    - It expects markets to grow toward the lower end of the range from investor day targets.
    - Lower PPE pricing is impacting 1Q'24 or first third of the year.
    - It is providing EBITDA guidance.
    - It expects low-double-digit operating income and EPS growth.
- Dental business
    - Patient traffic in North America (NA) picked up, but in January, weather/illness impacted.
    - It improved in February
    - Flu business impacted medical – benefit from late flu season. It expect to normalize by March.
- NA dental equipment – decrease in traditional and digital

    - It is shifting sales team to focus on cyber security-impacted equipment sales, shifting to 1Q'24.
    - It expects Intraoral scanner pricing declines to diminish.
    - It expects DSO growth to support equipment sales.
- Lower global equipment sales were offset by technical services globally
    - It is known for high-touch service with clients.
- Global dental specialties
    - There was an increase in market share in implants and bio-materials (for 4Q and FY23).
    - Implant markets in aggregate were generally flat versus FY22. Global implant and biomaterial sales grew by more than 30% due to acquisitions + some internal growth. EU/LatAm and Asia grew due to S.I.N and France acquisition.
    - There was Camelog growth in Germany and low-single-digit (LSD) growth in U.S. implant sales.
    - Endodontics sales slowed, and orthodontic slowed – replacement motion product was well received.
    - It expects growth above market in specialties.
- Technology
    - Double-digit growth driven by analytics and services.
    - Dentrix Ascend on cloud – cloud customers increased by 36% from beginning of year.
    - During the 4th quarter, it introduced artificial intelligence (AI) to one of the largest DSOs, now over 1000 customers.
    - It sees continued interest in DSO – had two large multi-site Dentrix Ascend accounts.
- Medical
    - Point of care and diagnostic sales were down in 4Q, but 1Q improved.
    - Late December – TriMed acquisition – upper/lower extremity orthopedic market. Blades/Saws business doing quite well. Expect to close in 1Q.
    - It expects to leverage ambulatory surgical center to drive growth.
- Invested almost a $1Bn dollars – acquisitions are growing in high single digits (HSD) to low double digits. On track to deliver 40% of operating profit from high-margin products. Would likely be in that range if not for cyber incident in 4Q and 2023 FY.

Financials

- 4Q net sales of $3.0Bn were down 10.5% y/y.

  - Internal sales decreased 12.0% (constant currency, excluding acquisitions and adjusting for the extra week in 2022).
  - Net sales reflect estimated reduction of $350-$400MM or 10-12% due to the cybersecurity incident.
  - Global Dental sales were $1.8Bn, down 10.9% y/y.
    - Merchandise sales were $1.3Bn, down 11.3% y/y.
    - Equipment sales were $0.5Bn, down 9.7% y/y.
  - Global Medical sales were $1.0Bn, down 17% y/y.
  - Global Technology and Value-Added Services sales were $0.2Bn, up 7.1% y/y.
  - Total sales were $3.0Bn, down 12% y/y.
- Extra week in 2024 was a holiday week.
- Local Currency Internal Sales growth excludes extra week in y/y comp.
- Cyber security impacted operating income by $120-$130MM in 4Q.
- Cyber impacted adj. EPS in 4Q by $0.70-$075.
- Global dental sales
  - Delays in processing new equipment orders, shifting some to 2024.
  - Tech/Vas – North America sales driven by practice management solutions Dentrix Ascend and international driven by Dentali cloud-based solution.
- Stock repurchases – 692 thousand (k) at $72.35 in 4Q. The company has $235MM authorized and available for repurchases.
- 4Q adj. net income was $86MM or $0.66 per diluted share versus $184MM or $1.35 in the prior year.
  - Includes acquisition expenses and acquisition-related adjustments of $0.05 versus $0.02 in the prior year.
- HSIC was negatively impacted by $0.70-$0.75 per diluted share due to business interruption impact and recovery from the cybersecurity incident.
- Operating cash flow decrease was impacted by delayed billings in the quarter – resulting in abnormally high accounts receivable balances in 4Q.
- Restructuring costs were related to exiting non-core business and severance mostly.
- 4Q recorded a $27MM charge for non-cash impairment for assets in Europe.
- Capital deployment
  - HSIC invested $287MM in acquisitions in 4Q and $955MM for the full year to accelerate the implementation of the 2022-2024 BOLD+1 Strategic Plan.

    - In 4Q, HSIC repurchased 692K shares of common stock at an average price of $72.32 per share for a total of $250MM.
    - At year-end, HSIC had $265MM authorized and available for future stock repurchases.

- FY24 guidance
    - Adj. EPS of $5.00-$5.16, reflecting growth of 11-15% versus $4.50 in 2023.
        - Cybersecurity impact of $0.15, which should primarily impact 1Q.
        - Increasing adj. tax rate from 23% to 25% or $0.13.
        - Non-GAAP effective tax rate to 25%.
        - Expect insurance claim proceeds in FY24 – 4Q, but not included in guide.
        - Expect some impact from PPE but normalized enough to not provide separate disclosure.
    - Sales growth of 8-12% reflecting expected merchandise sales recovery subsequent to the cybersecurity incident and sales from acquisitions completed in 2023.
        - Expect market growth rates to be toward lower end of target range provided at investor day.
        - Reflects a transition year following cyber incidents.
    - Adj. EBITDA to increase more than 15%.
    - Unable to provide estimates for direct expenses from cyber incident and restructuring for FY24.

Q&A

- End-market environment and push-out on equipment in 1Q?
    - Dental equipment backlog was generally flat from 3Q to 4Q. But NA backlog was down single digits, and EU backlog down HSD. Usually 4Q backlog declines a lot in 4Q as equipment sales in 4Q is generally highest.
    - Redeployed sales consultants to visit customers and deal with cyber incident. Was not focused on equipment sales.
    - Overall – view that traditional equipment market is flat, and that additional equipment sales results in further erosion of selling price, but past that. Potential round to bring digital scanners at a lower price in U.S. that can expand market. Demand for IOS is strong.
    - Lot of concerns about DSO's stopping to invest, but both national and regional DSOs are investing.

  - Some launches in traditional equipment sales area (leading manufacture to undertake this year). Annualization of IOS scanner price decreases should help.
  - Do expect good equipment sales growth in 1Q from orders that were pushed out from 4Q. Estimated the impact in cyber-security $0.15 cent impact (considers favorability from push out as well).
- Dental specialty launches and VAS – what is contribution from organic launches?
  - On the launches, in Endodontic, pediatric putty program and Aquofor. Bio ceramic sealer with Edge in North America. Orthodontic side- there was a patient expiration of motion flow – but new motion portfolio achieved class one approval (bit delayed), but seeing recovery there.
  - Bio Horizons surgical kit launch – optimistic on that.
  - Membrane side – roll out in Italy, Spain.
  - Implant kits in U.S. – bringing to market much more value implants in North America.
  - In software – AI, analytics side, and Dentrix.
  - Implant and biomaterials side and software now launched in the U.S.
  - S.I.N – Brazil market is tough, but introduction in U.S. important.
  - Acquisitions are doing really well.
- Revenue guidance- acquisitions contributing a few points, fx adding a little bit, are you thinking 2-5% local growth organically? What is estimated for core organic growth?
  - Estimates are generally accurate. Expect about 300bps of growth from recovery in cybersecurity and acquisitions another 300bps of growth or so.
  - Fx could get 50bps to 100bps, internal sales growth – accelerated growth in VAS, some core, and in specialty business.
- What does is account for in 1Q – if starting at the low end, how do you get to 4-5-6% growth in core?
  - Core includes specialty – direct to low-end of the market growth rates, but those are market growth rates. Guide considers out-performance of market growth.
- Margin assumptions on a base level – EBITDA margin expanding 30bps at mid-point? Growth organically getting to low single digit (LSD) core EBITDA growth?
  - Good general starting point.

  - There will be some margin pressure from recovery from cyber. Delaying projects in back-half of year in global ecommerce platform.
  - Other investments – but with recovery and revenue ramps, margins should improve through course of the year.
- Capital allocation – 2023 was above guide on M&A. in 2024 – any shift in capital deployment/debt paydown. No share repurchases in guide?
  - There will be some share repurchases – traditionally not included in guide. 2023 was a bit lighter in share repurchases.
  - Not expecting $1Bn in M&A – expect $300-400MM.
  - Do have debt paydown – so contemplating that as alternative use of capital.
- Getting to $5.30 normalized – revenue growth arguably solid? Got some acquisitions accretive in 2024? Why LSD growth in normalized EPS growth?
  - Some investments deferred from 2023 and investments for future growth.
- Some of the stuff is specific for 2024 – think about 2025, is 2025 the beneficiary from a growth perspective? And 1Q – equipment tailwind, and consumables headwind – so $0.15 net impact?
  - Confirming net impact.
  - Long-term goal was to revenue growth of 6-8%, and EPS growth.
- 3-4% organic core growth rate in 2024? 50bps-100bps of tailwind on Fx?
  - Tailwind on Fx.
  - 3-4% internal core growth is what goal is on revenues. When you back out the cybersecurity normalization, residual left in guidance in 3-4% range.
- As you move surgical stuff out, is that an incremental opportunity? Was some of this stuff already sold to general practitioners? Or is this a large opportunity?
  - On the endo side, portfolio of endo products sold through distribution historically is rather limited. So entered into specialty field – selling edge will be a very nice positive.
  - Henry Schein reps have had access to some biomaterials, but would not say they were focused on it. Should see nice progress in oral surgery community from specialty sales (equipment, materials, and general sales)
  - Sales have taken off somewhat but expect them to accelerate after summer.
- How do you see what the best opportunities are to drive share? And what are the biggest swing factors?

  - Continue with roll on helping practitioners buy better. Clinical workflow leads to greater sales in digital equipment units, scanners, 3D printers, and chair-side mill relatively flat. 3D printing/imaging all connected to software helps advance position on digital. Quite strong in U.S., Canada, and Internationally.
  - Expect to gain share in digital side.
  - On traditional side, edging forward with market share. Some international challenges – parts of western EU. National brands due to pricing have lost some market share – lower-priced products sales.
  - Equipment service doing well.
- IOS scanner pricing headwind on growth? Is pricing at bottom?
  - Will see some more pricing headwinds in early 2024 but expect it to stabilize.
  - Can see less feature-rich solutions in U.S., expand market. Only 40% or so dentists still using IOS. Replacement business growing.
  - Digital space is exciting – probably at bottom or close to it on pricing side.
- What type of customer purchases have you not seen come back yet due to cybersecurity incident? Do you expect pre-incident order levels by 2Q?
  - During cyber incident month or so website didn't work, a little longer internationally.
  - Customers that look for pricing/impulse shoppers – didn't have access to data to market.
  - That is back again and active in that area – these are customers that don't have deep relationships. Google ratings went down – working on this. Starting to see it improve already.
  - Most larger customers back – a few may have used competitors to get services in interim.
  - 2-4 months to get back to normal. Don't think lost many customers.
- 1Q expectations – how significant was weather/flu impact in January? Is the right way to think about a MSD-type decline in consumables business?
  - Some disruption to January traffic related to weather/illness. Flip side is increase in medical business (Flu diagnostic kits).
  - Improvements in February. Approaching a more normal traffic pattern.
  - Difficult to specify impact versus cyber. Believe reaching Q1 goals. PPE impact should not be pronounced, Q1 should have the biggest impact. PPE headwind in Q1. But expect to reach 1Q goals in line with overall guidance for the year.

- What investments do you need to make commercial front? S.I.N implants to U.S? Shields?
    - Not major investments to bring S.I.N to U.S. Just educating salesforce. Already has a specialty sales force. Expects it to be accretive.
    - Alignment of aligners between biotech and Henry Schein orthodontics – merging facilities. Some investments in that. Not material in context of full business
    - Shields is totally accretive – home health business is nice.
- Underlying demand for specialty dental business – clear aligners? Relatively small, but what needs to happen to see acceleration in specialty?
    - Clear aligners <10% of specialty business. Doing well with DSOs. Doing well in France/EU. Relatively small.
    - Wouldn't expect it to move numbers much.
    - Enables full-service portfolio.
    - Growing quite nicely.
- Software business great, Australia/New Zealand strong. Brazil somewhat challenged. Ability to service claims through alternative methodologies strong. Expect to continue grow market share in implant size (stable to slightly growing). Back on positive growth on endodontic side.
- Medical business in great position in homecare.

Price objective basis & risk

Henry Schein (HSIC)

Our $75 PO is based on about 11.5x CY24E EV/EBITDA. This is close to the company's historical trading range and accounts for a less visible growth/margin opportunity offset by demographically positive end markets and incremental contribution from increased technology revenue.

Upside risks to our PO are stronger-than-expected dental consumable/equipment sales (from either new relationships or ongoing equipment upgrade cycles), faster growth acceleration from specialty dental products and technology services, and cost rationalization leading to margin upside.

Downside risks incremental pressure from a slowdown in dental consumables/equipment growth tied to macro conditions, any supply constraints related to worldwide shortages, slowdown in overall demand tied to the Covid outbreak, new competition creating significant growth, and margin pressures in both segments.

Analyst Certification

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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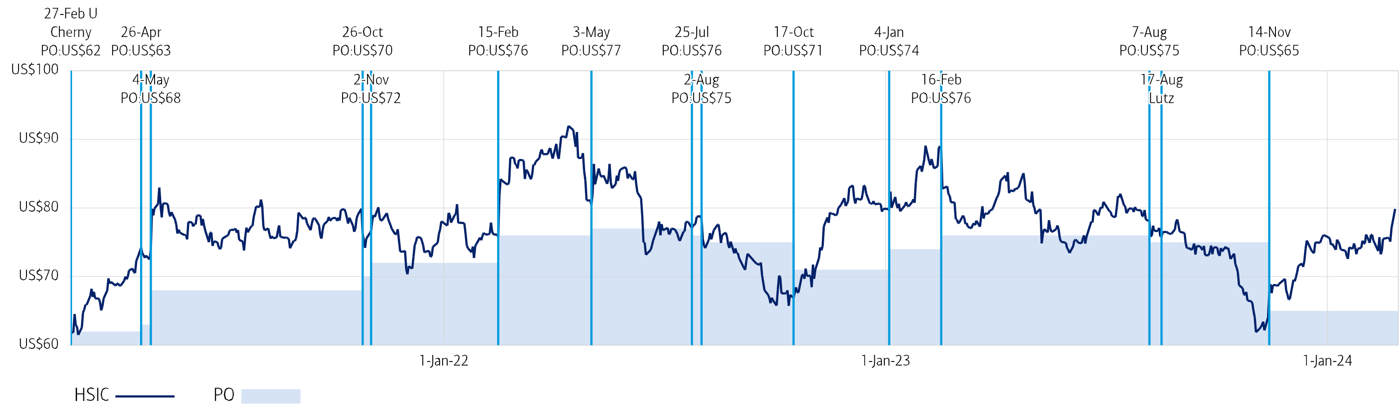
Henry Schein (HSIC) Price Chart



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

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

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%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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