

## Option Care Health

## Q4 beat, guidance in line – we expect upside

Reiterate Rating: BUY | PO: 43.00 USD | Price: 33.36 USD

## Beat on top line, EBITDA guide in line

Adj EBITDA was 2% above consensus and 3% above our est on better revenues. 2024 adj EBITDA guidance midpoint is in line with consensus / our est with slightly better top line guide and slightly worse margins. We note OPCH has been conservative when giving guidance: it beat its initial EBITDA guide by 7% in 2022, 14% in 2021, and 7% in 2020, for the avg beat of 9% vs initial. We reiterate our Buy rating on the strong fundamentals, and potential upside from capital deployment – expects operating cash flow of \$300m+.

## EBITDA guide in line; +11% y/y ex procurement benefit

OPCH guided to 2024 revenue of \$4.6-4.8bn, with the midpoint 2% above our est and consensus. The guide implies rev growth of +7-12% y/y, after it was up +9% y/y in 2023. Adjusted EBITDA to be \$425-450m, with the midpoint in line with consensus of \$437m. Margins of 9.9% imply a 50-60bps y/y decline and are 10bps below consensus. This implies adj EBITDA growth of 0-6% y/y on top of the +24% growth in 2022. Excluding the est \$32m procurement benefit in 2023, the guide midpoint implies an +11% y/y growth, in line with the LT targeted growth in the low to mid-teens.

## Cash flow guide in line

OPCH expects operating cash flow of at least \$300m, down \$70m from \$370m in 2023 which benefited from \$100m termination fee from Amedisys. Previously the company indicated its capital deployment can now be multifaceted: share repo along deals. We estimate that deploying free cash flow on deals could add 4-8% to EBITDA (deals not included in the guide).

## Q4 EBITDA beat on better top line

Revs were 3% above consensus / our est. We will look for more color on the organic growth and trends by segment on the call. Adj EBITDA of \$111.6m was \$2m or 2% above consensus, 3% above our est., and above the implied Q4 guide range (\$106-\$111m). Margins of 9.9% increased 70bps y/y, tick down 10bps Q/Q, and were 10bps below consensus / our est. and 20bps below the implied guide. Excluding \$10-12m procurement benefit (included in the Q4 guide), margins were 9.0%, in line with Q3 margin excluding a \$13m procurement benefit.

22 February 2024

## Equity

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## Stock Data

Price	33.36 USD
Price Objective	43.00 USD
Date Established	5-Sep-2023
Investment Opinion	C-1-9
52-Week Range	24.23 USD - 35.74 USD
Mrkt Val (mn) / Shares Out (mn)	6,108 USD / 183.1
Free Float	99.1%
Average Daily Value (mn)	37.81 USD
BofA Ticker / Exchange	OPCH / NAS
Bloomberg / Reuters	OPCH US / OPCH.OQ
ROE (2023E)	18.3%
Net Dbt to Eqty (Dec-2022A)	62.1%
ESGMeter™	Medium

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Timestamp: 22 February 2024 08:13AM EST

## Price objective basis & risk

### Option Care Health (OPCH)

Our price objective of \$43 is based on 19.1x our 2024E Adj EBITDA estimate. This multiple is at a premium to the current average multiple for its Home Care peers given the limited Medicare rate risks, lower leverage, and stronger FCF profile. The multiple is at a slight premium to OPCH's/Legacy BIOS's five-year average of 18.8x given the lower leverage and deal optionality.

Risks are worse-than-expected labor and other cost pressures, customer/ competitor concentration, drug pricing pressure, deal integration risks.

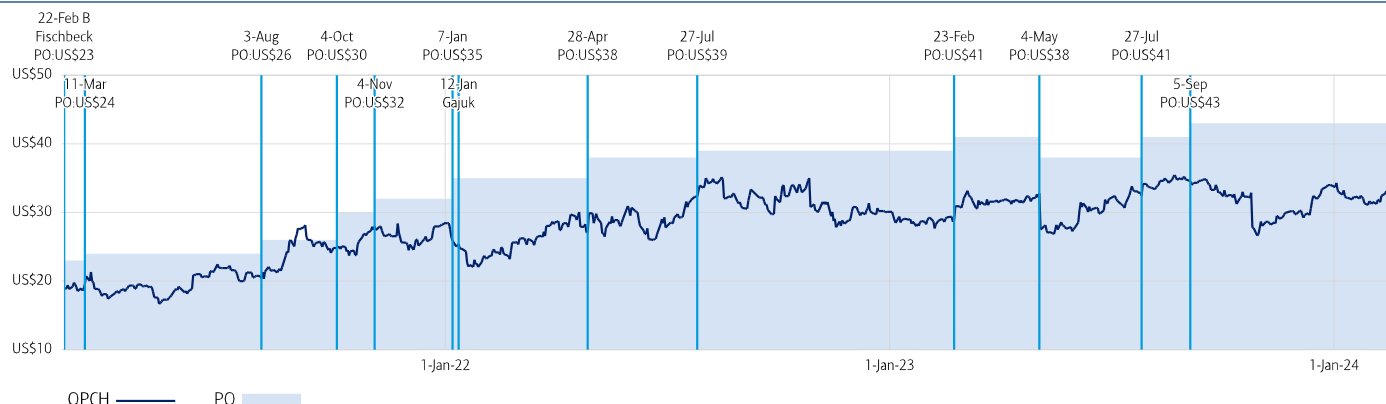
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### Option Care Health (OPCH) Price Chart



OPCH — PO

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 <sup>R1</sup>	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%

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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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