BofA SECURITIES

BrightSpring Health Services

Bright Springing at an attractive clip – Initiate at Buy and $14 PO

Initiating Coverage: BUY | PO: 14.00 USD | Price: 10.66 USD

20 February 2024

Equity

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Attractive growth for Oncology Rx, home care player

We initiate coverage of BrightSpring Health (BTSG) with a Buy rating and $14 PO (30% potential upside). BTSG is a powerhouse in the pharmacy arena (350K patients, 37m prescriptions or Rx in 2023, ~70% of revenues) with complementary Provider Services such as home/ community settings for people with intellectual disabilities, as well as home health and hospice. We see an attractive organic growth powered by Oncology and Infusion (30% of EBITDA) growing 10%+, the most misunderstood part of the story (BTSG does not have retail pharmacies). Our PO is based on 10x 2024E EBITDA, a significant discount to home-care peers given its high leverage (4.6x PF IPO) and lower margins.

High-single digits growth driven by Oncology/Infusion

BTSG's end markets' growth implies +7% long-term growth with denovos adding 1-2% for a total of +8-9%. This is driven by Infusion & Specialty Pharmacy (half of revs) growing 10%+ given a robust pipeline of new oncology and infusion drugs and BTSG winning limited distribution drug (LDDs) contracts (it has 116 and growing). In addition, that expansion is aided by home care growing in the high-single digits. Deals would be upside to our model (could add 2% to annual EBITDA in out years).

Big potential in value-based care: 9% to EBITDA over time

The company's value-based care (VBC) business – in which home-based primary care docs share in savings they generate treating patients – is small but has potential. It could add $7m, or 1% of BTSG EBITDA, in 2025. Over time, VBC could be $100m EBITDA, or 9% of EBITDA. A rapid ramp up could add 200bps to the rev growth.

Trading 20% below the implied SOTP multiple

BTSG is trading at 9x, a 20% discount to the 11.1x multiple implied by our sum-of-the-parts (SOTP) analysis (we used OPCH and ADUS as comps as well as prior deals). Some discount is justified given BTSG's much higher leverage, lower margins.

Reimbursement risks; KKR & WBA ownership overhangs

Above average leverage is a risk along BTSG's reliance on Medicare/Medicaid for ~75% of revs. Its Pharmacy could be impacted in 2026+ by drug price reforms. Meanwhile, the stock could be pressured if Walgreens (WBA), which owns 20% of shares, uses its holding as a funding source (has been selling other minority holdings); KKR owns 50%.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	0.76	0.26	(0.19)	0.33	0.50
EPS Change (YoY)	55.1%	-65.8%	NM	NM	51.5%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	14.0x	41.0x	NM	32.3x	21.3x
EV / EBITDA*	10.2x	10.0x	9.4x	9.0x	8.4x
Free Cash Flow Yield*	9.1%	-3.2%	2.6%	1.6%	8.4%

* For full definitions of *IQmethod*SM measures, see page 27.

Stock Data

Price	10.66 USD
Price Objective	14.00 USD
Date Established	20-Feb-2024
Investment Opinion	C-1-9
52-Week Range	10.27 USD - 12.14 USD
Mrkt Val (mn) / Shares Out (mn)	2,319 USD / 217.5
Free Float	31.2%
Average Daily Value (mn)	NA
BofA Ticker / Exchange	BTSG / NAS
Bloomberg / Reuters	BTSG US / BTSG.OQ
ROE (2023E)	-3.1%
Net Dbt to Eqty (Dec-2022A)	467.2%

OPCH = Option Care

ADUS = Addus HomeCare

Refer to important disclosures on page 28 to 30. Analyst Certification on page 26. Price Objective Basis/Risk on page 26. **12660786**

Timestamp: 20 February 2024 06:00AM EST

iQprofile[SM] BrightSpring Health Services

iQ**method*[SM] – **Bus Performance

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.0%	5.7%	6.4%	5.3%	5.5%
Return on Equity	11.7%	3.9%	-3.1%	5.7%	6.1%
Operating Margin	4.3%	3.9%	3.7%	3.6%	3.7%
Free Cash Flow	211	(75)	61	38	195

iQ**method*[SM] – **Quality of Earnings

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.0x	-0.2x	NM	1.8x	2.6x
Asset Replacement Ratio	0.3x	0.3x	0.4x	0.4x	0.4x
Tax Rate	25.5%	NM	7.8%	25.0%	25.0%
Net Debt-to-Equity Ratio	465.2%	467.2%	NM	158.2%	140.6%
Interest Cover	1.7x	1.3x	1.0x	1.4x	1.7x

Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,698	7,446	8,817	9,409	10,202
% Change	20.0%	11.2%	18.4%	6.7%	8.4%
Gross Profit	1,248	1,318	1,432	1,481	1,562
% Change	19.0%	5.6%	8.7%	3.4%	5.5%
EBITDA	493	503	536	556	596
% Change	20.9%	2.0%	6.5%	3.7%	7.3%
Net Interest & Other Income	(219)	(319)	(490)	(252)	(231)
Net Income (Adjusted)	**90**	**31**	**(22)**	**69**	**110**
% Change	**55.1%**	**-65.8%**	**NM**	**NM**	**59.9%**

Free Cash Flow Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	51	(33)	(148)	68	108
Depreciation & Amortization	199	204	203	210	218
Change in Working Capital	(30)	(224)	62	(185)	(70)
Deferred Taxation Charge	6	(28)	(37)	0	0
Other Adjustments, Net	43	77	59	30	30
Capital Expenditure	(59)	(70)	(78)	(85)	(92)
Free Cash Flow	**211**	**-75**	**61**	**38**	**195**
% Change	**23.5%**	**NM**	**NM**	**-37.6%**	**409.0%**
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	739	(58)	68	(778)	(28)

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	47	14	36	213	341
Trade Receivables	730	776	935	966	1,048
Other Current Assets	404	555	525	537	579
Property, Plant & Equipment	227	229	264	349	439
Other Non-Current Assets	4,106	3,868	3,892	3,892	3,892
Total Assets	**5,513**	**5,441**	**5,651**	**5,956**	**6,299**
Short-Term Debt	125	108	111	111	111
Other Current Liabilities	767	825	955	972	1,015
Long-Term Debt	3,645	3,569	3,656	2,878	2,850
Other Non-Current Liabilities	175	155	268	240	458
Total Liabilities	**4,713**	**4,657**	**4,990**	**4,201**	**4,435**
Total Equity	**800**	**784**	**661**	**1,755**	**1,864**
Total Equity & Liabilities	**5,513**	**5,441**	**5,651**	**5,956**	**6,299**

* For full definitions of *iQmethod*[SM] measures, see page 27.

Company Sector

Medical Specialty

Company Description

BrightSpring (BTSG) is a diversified health care company with 70% of revenues coming from Pharmacy Services provided in home/community settings and facilities, and 30% of revs from its Provider Services segment, which includes services provided to individuals with I/DD (intellectual/developmental disability) and autism, as well as home care assets (home health, hospice, personal care, and home-based primary care physicians). BTSG serves 400k+ patients daily and operates in 50 states.

Investment Rationale

We rate BTSG Buy given the attractive organic growth and value-based care optionality over long-term. We expect high-single digits organic growth driven by Oncology and Infusion growing 10%+ and Home Care growing in the high-single digits. Meanwhile, value-based care (VBC) ramp up could add to growth. Finally, deals (not in our model) would be upside.

Stock Data

Average Daily Volume	NA

Quarterly Earnings Estimates

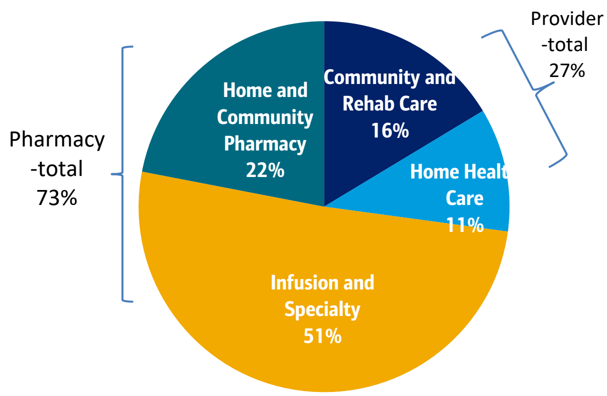
	2022	2023
Q1	0.12A	-0.10A
Q2	0.20A	0.15A
Q3	0A	-0.27A
Q4	-0.06A	0.02E

Diversified health care services provider

BrightSpring (BTSG) is a diversified health care company with 73% of revs (55% of segment EBITDA) coming from Pharmacy Services provided in home/community settings and facilities, and 26% of revs (45% of Segment EBITDA) from its Provider Services segment, which includes services provided to individuals with I/DD (intellectual/developmental disability) and autism, as well as home care assets (home health, hospice, personal care, and home-based primary care physicians).

The company was created in 2019 through a merger of what was previously known as ResCare, a provider of IDD services, and PharMerica, a long-term care pharmacy company. BrightSpring serves more than 400k patients daily and has a geographic presence in 50 states. The annual revenues are expected to surpass $8.8B in 2023, having grown at a 15% CAGR since 2018.

Exhibit 1: Pharmacy Services account for 73% of BTSG's revs.
LTM Revenue Mix as of 9/30/2023



Source: Company Filings

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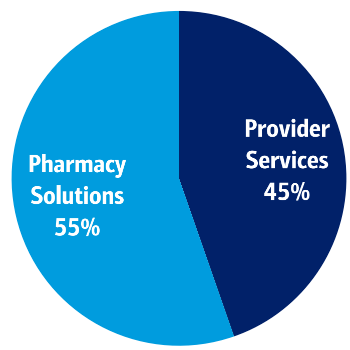
Exhibit 2: Pharmacy Services are 55% of BTSG's EBITDA
LTM Segment EBITDA Mix as of 9/30/2023



Source: Company Filings

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Pharmacy is ~70% of revs: Infusion/Specialty and Home/Community

BTSG owns over 160 pharmacies across 50 states with a total of 6k locations servicing 350k patients with over 37m prescriptions to be filled in 2023. The Pharmacy Services are grouped into two sub-segments:

- **Infusion and Specialty Pharmacy** is 2/3 of the segment revs and half of Bright's revs. It includes the business of providing home infusions where the company delivers and provides infusion drugs in patients' homes or infusion suites. This is the same business as Option Care Health (OPCH). The Specialty Pharmacy includes oral and injectable drugs delivered in clinics or to home, which are mostly oncology drugs, as well as drugs for rare diseases.

- **Home and Community Pharmacy** is 1/3 of segment revs and over 20% of Bright's revs. It includes the business of delivering drugs to patients residing in nursing homes called institutional pharmacy (legacy PharMerica business) – we estimate it represents about 9% of the company revs and 8% of EBITDA. The bigger portion is the non-institutional pharmacy where the company distributes drugs in community settings such as assisted living, group homes for patients with IDD or intellectual/developmental disability and autism. It also delivers drugs to hospice patients (hospice pharmacy) as well as patients in other care setting such as hospitals.

Exhibit 3: Infusion and Specialty is Half of BTSG revs
Pharmacy Services Platform

	Infusion & Specialty	Home & Community
Patient census	35k	250k
# of locations	56	119
Employee base	1,700	5,100+
2023E scripts	662k	37m
2020A-2023E CAGR	20%	8%
2023E Rev/script	$6,920	$52
2020A-2023E CAGR	9%	-2%
2023E revs $m	$4,587	$1,924
% of BTSG revs	**52%**	**22%**

Source: BofA Global Research estimates, company filings

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Exhibit 4: Oncology is about 40% of BTSG revs
Service lines in the Pharmacy Services segment

	Infusion & Specialty Pharmacy		Home & Community Pharmacy	
	Specialty	Home Infusion	Home-based	Facility-Based
Primary indications	Oncology, rare diseases	Infections, Auto-Immune, Cancer Pain, Multiple Sclerosis, HemA	CHF, COPD, Diabetes, MSK, IDD	CHF, COPD, Stroke, Diabetes, MSK, Alzheimer's
Customers	Oncology clinics	Patients at home, infusion suites	Assisted Living, hospice, IDD homes	Nursing homes, hospitals
Est % of BTSG revs	**41%**	**11%**	**13%**	**9%**
Est margins	3%	10%	8%	7%

Source: BofA Global Research estimates, company filings

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Provider Services rev is 30% of total: IDD/Rehab + Home Health Care

The Provider Services segment is broken into two sub-segments:

- **Community and Rehab Care** (~15% of Bright's revs) is 60% of Provider segment revs. It is largely the IDD business (legacy ResCare) which includes group homes and supported living for people with life-long behavioral conditions such as intellectual/developmental disability (IDD), autism, and other cognitive limitations. A smaller piece is Neuro Rehab which provides intensive therapy at home (not in Rehab Hospitals) for people after a stroke, brain injury, spinal cord injury (high acuity) as well as people with IDD and autism.

- **Home Health Care** (~10% of Bright's revs) is 40% of segment's revs and includes home health, hospice, personal care, and home-based primary care doctors (no clinics) – see more details in Exhibit 5.

Exhibit 5: IDD is about 13% of BTSG revs. Home health and hospice are about 8% of BTSG revs.
Est revs and margins by service line included the Provider Services segment

	Community & Rehab (15% of BTSG revs)		Home Health Care (10% of BTSG revs)			
	IDD	Neuro Rehab	Hospice	Home Health	Personal Care	Home-based primary care
Services	Assistance with daily living, clinical care	Rehab after stroke, brain injury	End of life palliative care	Short-term skilled care	Long-term non-skilled attendant care	Primary care
Patient types	People with IDD, autism, cognitive	All ages	Terminally ill, mostly elderly	65+ elderly	Mostly elderly or disabled	Mostly elderly or disabled
Industry growth	2-3%	10%+	5-8%	5-7%	5-10%	
Biggest payor	Medicaid	Commercial	Medicare	Medicare	Medicaid	ACO/Medicare
Biggest payor as % of revs	90%	90%	95%	70%	95%	
Est % of BTSG revs	**13%**	**2%**	**4%**	**4%**	**2%**	**1%**
Est EBITDA margins	12%	20%	15%	12-14%	8-10%	8-10%

Source: BofA Global Research estimates

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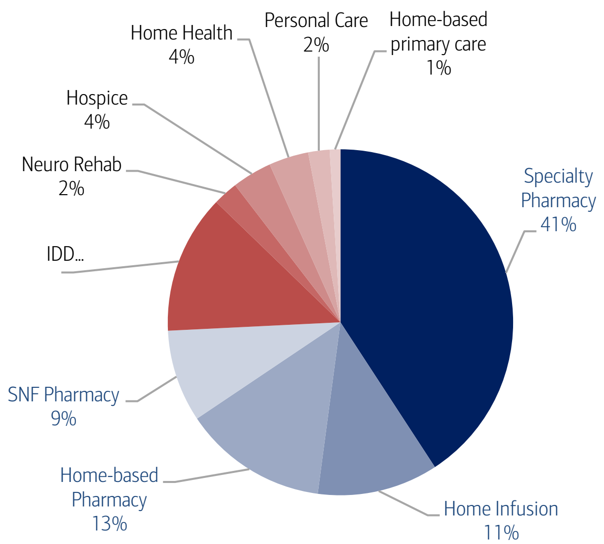
Operates ten business lines

Inside each sub-segment there are multiple service lines. Based on our estimates, IDD is the biggest portion of BTSG's segment EBITDA (20%), followed by Oncology Pharmacy (16%), Infusion (15%) and Other home pharmacy services (15%).

Exhibit 6: Specialty Pharmacy is 40% of BTSG revs, followed by IDD and Home-based Pharmacy
Estimated revenue breakdown by service line, % of BTSG revs



Source: BofA Global Research estimates

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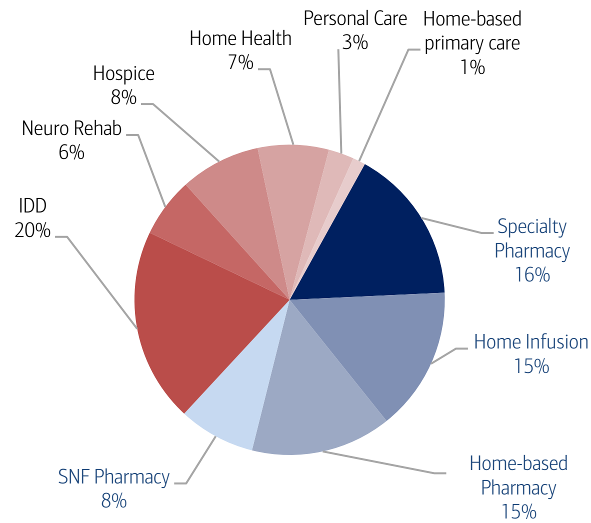
Exhibit 7: IDD is the biggest contributor to EBITDA, closely followed by Specialty and Infusion
Estimated EBITDA breakdown by service line, % of BTSG EBITDA



Source: BofA Global Research estimates

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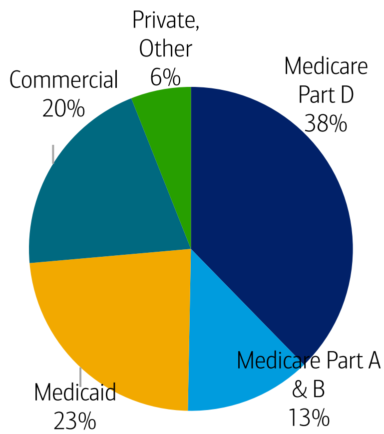
Half of Bright's revs comes from Medicare

Medicare is the largest payor for BrightSpring accounting for half of consolidated revenue. The Medicare bucket includes Part D (drug reimbursement) and Medicare Parts A/B (inpatient and outpatient services). Medicaid is the second biggest payor, accounting for 23% of total revs (about 60% of Provider segment revs). Medicare Advantage is included in the Medicare buckets.

Exhibit 8: Medicare is the largest BTSG's payor
Payor mix, % of revs (1H23) Consolidated



Source: Company Filings

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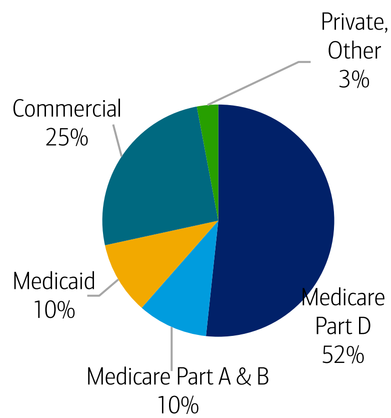
Exhibit 9: Medicare Part D is half of Pharmacy Segment revenues.
Payor mix % of revs (1H23), Pharmacy Segment



Source: Company Filings

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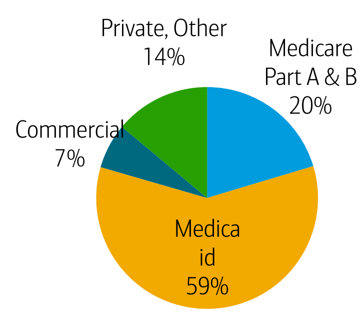
Exhibit 10: Medicaid is the largest payor for Provider Services
Payor mix % of revs (1H23), Provider Segment



Source: Company Filings

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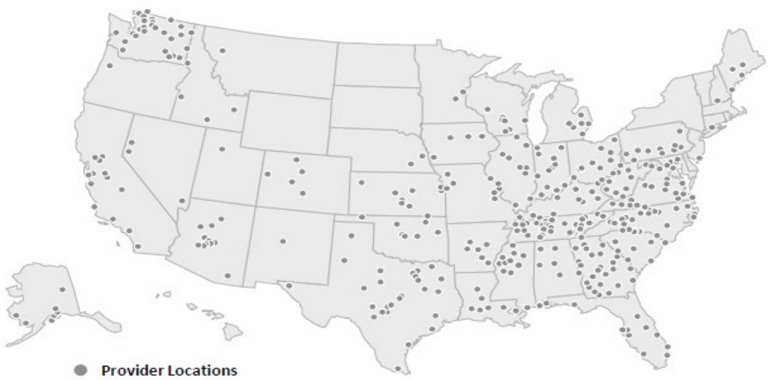
BrightSpring has footprint in 50 states

BrightSpring Health offers Pharmacy services in all 50 states, Puerto Rico, and Canada, and has expanded its Provider services to 23 states. Its 10 biggest states account for 54% of the company's revs. The company has over 9k office, clinic, and customer locations in total and relies on a team of over 10k clinicians and pharmacists.

Exhibit 11: BTSG has Pharmacy operations in 50 states, Provider Services available in 23 states
BTSG's Pharmacy presence vs Provider Services locations



Source: Company filing

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Valuation: trading at 9x EBITDA

BTSG has no pure comp given the unique combination of businesses: pharmacy and provider. Walgreens (WBA) could be viewed as a comp given the mix of Pharmacy and Provider assets but it is mostly retail pharmacy while Bright has no retail pharmacy, and WBA has a different set of Provider assets (through a JV, it owns primary care, and urgent care). CVS is partially a comp to Bright's Pharmacy but it has other business lines such as health plan, and retail pharmacy – which BTSG does not have.

We view Option Care Health (OPCH), a home infusion provider, as a comp to the Infusion & Specialty Pharmacy subsegment. While Home infusion is about ~15% of Bright's EBITDA, we believe Specialty Pharmacy has similar growth drivers to infusion with a faster growth offset by lower margins.

Addus (ADUS) is a comp to the Provider segment given a similar payor mix (70% of revs comes from Medicaid) and a growing exposure to home health and hospice. However, ADUS has much lower leverage than Bright and higher margins given no exposure to Pharmacy.

BTSG has higher organic growth but lower margins, higher leverage vs peers

Overall, BrightSpring has a slightly higher organic growth vs comps, but margins are lower than provider companies and comparable for WBA and CVS. In a negative, Bright's leverage is higher than peers.

Exhibit 12: BTSG's organic growth is above peers but its margins are lower and leverage higher.
BrightSpring vs Comps: LT organic rev growth outlook, margins, leverage

Company	Ticker	LT Organic Rev Growth Outlook	Rev CAGR 2018-2023E	Rev CAGR 2023-2025E	Adj EBITDA Margin 2023E	EBITDA CAGR 2018-2023E	EBITDA CAGR 2023-2025E	Net Debt/EBITDA as of 3Q23
Addus HomeCare	**ADUS**	7%	15%	6%	11%	22%	8%	0.7x
Amedisys	**AMED**	7%	6%	7%	11%	7%	4%	1.4x
Aveanna	**AVAH**	6%	8%	5%	7%	6%	9%	10.4x
Chemed	**CHE**	6%	5%	6%	20%	8%	9%	-0.4x
Enhabit	**EHAB**	6%	NA	3%	9%	NA	4%	5.1x
Option Care	**OPCH**	7%	17%	7%	10%	35%	7%	1.6x
CVS	**CVS**		13%	5%	6%	9%	6%	2.1x
Walgreens	**WBA**	6%	1%	5%	4%	-11%	-1%	7.4x
Average		**6%**	**9%**	**6%**	**10%**	**11%**	**6%**	**3.6x**
BrightSpring	**BTSG**	**8%**	**15%**	**8%**	**6%**	**12%**	**5%**	**4.6x**

Source: BofA Global Research estimates for covered companies, Bloomberg consensus estimates for AVAH. Bright Net leverage PF IPO.

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BTSG is trading at a significant discount to peers

BTSG is currently trading at 9x 2024E adj EBITDA, a 30% discount to the peer group average multiple. Some discount is justified given BTSG's much higher leverage vs the peer average, and lower margins vs home care companies (margins close to CVS/WBA's margins). However, BTSG's total revenue and organic rev growth is above peers, and its free cash flow (FCF) yield in out years (2025) is above the average.

Exhibit 13: BTSG is trading at a significant discount to the peer group average
BTSG valuation vs Peer group (as of 2/16/24)

	Mkt Cap	EV / EBITDA			P/E			FCF Yield		
Company	**($B)**	**2023E**	**2024E**	**2025E**	**2023E**	**2024E**	**2025E**	**2023E**	**2024E**	**2025E**
ADUS	$1.5	14.0x	12.7x	11.8x	22.1x	20.4x	18.6x	5.6%	5.7%	6.3%
AMED	$3.0	16.3x	14.7x	13.5x	20.3x	20.9x	19.3x	4.5%	6.6%	7.1%
AVAH	$0.5	12.6x	11.6x	10.7x	NA	NA	NA	4.6%	0.8%	1.6%
CHE	$8.9	19.5x	17.6x	16.3x	29.4x	25.9x	23.7x	3.3%	4.1%	4.0%
EHAB	$0.5	10.4x	10.4x	9.8x	NA	NA	NA	9.0%	7.8%	8.9%
OPCH	$5.9	16.1x	15.5x	14.2x	23.2x	27.4x	24.1x	5.6%	4.5%	5.0%
CVS	$97.1	7.0x	7.2x	6.9x	9.0x	9.2x	8.4x	12.4%	11.1%	11.6%
WBA	$19.0	11.1x	12.1x	11.4x	5.5x	6.8x	6.2x	0.7%	11.5%	13.5%
Average		**13.4x**	**12.7x**	**11.8x**	**18.3x**	**18.4x**	**16.7x**	**5.7%**	**6.5%**	**7.2%**
BTSG	**$2.3**	**9.1x**	**8.8x**	**8.2x**	**NM**	**32.6x**	**21.6x**	**2.6%**	**1.6%**	**8.4%**
vs peer avg		**-32%**	**-31%**	**-31%**	**NM**	**77%**	**29%**	**-54%**	**-75%**	**16%**

Source: BofA Global Research estimates for covered companies and BTSG., Bloomberg consensus ests for AVAH.

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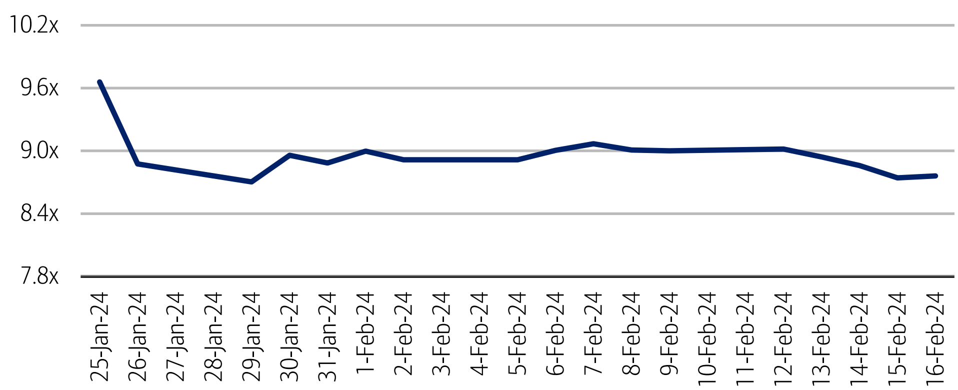
BTSG is currently trading at 8.8x 2024E Adj EBITDA, a 9% discount to where its IPO was priced on January 25th, 2024 (priced at $13/share, which implied a multiple of 9.8x 2024E Adj EBITDA). The stock closed 15% below the IPO price on the first day of trading, and has been down since that time, underperforming S&P 500 (-18% since IPO vs SPX +3%).

Exhibit 14: BTSG's current multiple is 9% below where the IPO priced
Historical forward EV/EBITDA multiple; daily, since IPO



Source: BofA Global Research, Bloomberg

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Trading below the implied sum-of-the-parts multiple

We estimate that Specialty/Infusion is about 30% of the company's EBITDA and view OPCH as the best comp to this business. While OPCH does not have an oncology pharmacy, we think Specialty would be valued at a multiple comparable to Home Infusion: faster growth but lower margins. In our analysis, we assume 14x for Specialty/Infusion, a discount to the current OPCH multiple.

The other Pharmacy services business does not have a great comp. PharMerica was taken private at a 10.2x EBITDA multiple in late 2017. We would argue that the home/community pharmacy services should be valued at a premium to the institutional pharmacy given the faster growth and better margins. To stay conservative, we assume 10x on Home & Community Pharmacy.

In the Provider segment, we believe that ADUS would be a good comp for the Home Health Care subsegment given the mix of Personal care, hospice, and home health. For the Community Services (IDD biz), as a starting point, we would use the 7.8x multiple that Civitas (CIVI) was taken private at in late 2018 with some premium for the faster growth/ much higher margin Rehab business.

Based on these assumptions, we estimate the implied multiple for BTSG of 11.1x. Currently, the stock is trading at 9x, a 20% discount to the implied multiple. Some discount is justified given BTSG's much higher leverage than OPCH and ADUS, comps we used in the analysis.

Exhibit 15: Our Sum of the parts analysis implies a multiple of 11x for BTSG
Sum of the parts analysis of BTSG, $m

	Specialty & Infusion	Home & Community (incl SNF Pharmacy)	Home health care	Community/ Rehab Care	Total
2024E Revs	$4,902	$2,081	$982	$1,443	$9,409
% of total	52%	22%	10%	15%	
margin est	*5%*	*8%*	*14%*	*13%*	
Est EBITDA	$222	$161	$140	$188	$710
% of total EBITDA	31%	23%	20%	26%	100%
EBITDA incl OH	$174	$126	$109	$147	$556
multiple	**14.0x**	**10.0x**	**12.0x**	**8.0x**	**11.1x**

Source: BofA Global Research estimates

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Our PO is based on 10x 2024E adj EBITDA

Our PO of $14 is based on 10.0x 2024E Adj EBITDA, about 20% below the average multiple for the comp group due to its much higher leverage and lower margins. The 10x multiple is a 20% discount to ADUS, the closest comp for BTSG's Provider segment, and a 35% discount to OPCH, the closest comp for BTSG's Pharmacy segment. Also, it is a 9% discount to our estimates implied sum-of-the-parts multiple given the higher leverage compared to the comps used.

Investment positives

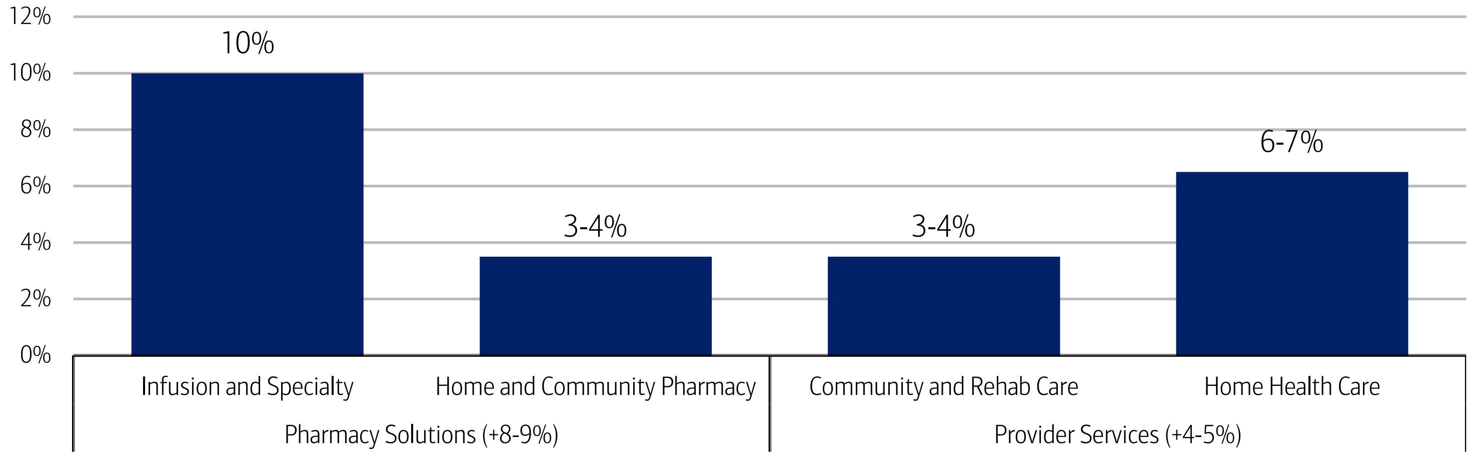
Attractive organic growth profile

We expect BrightSpring to grow revs organically in the high single digits. Based on the end market growth rates we estimate the underlying growth of +7% with denovos adding another 100-200bps.

The Pharmacy end markets are expected to grow +8-9% driven by Infusion & Specialty growing +10%, while Home & Community Pharmacy to grow 3-4%. The institutional Pharmacy has the slowest end-market growth, but Bright's scale allows it to grow share in that market.

Meanwhile, the business lines in the Provider Services segment should be growing in the +4-5% range as the services included in the Home health care grow high single digits while and Community & Rehab Services grow +3-4% (Rehab to grow double digits and Community to grow low single digits).

Exhibit 16: BTSG organic growth of +8% is driven by double digit growth for Infusion/ Specialty and high-single digits for Home Health Care
LT Organic revs growth outlook by business line



Source: BofA Global Research, Company filings

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Based on the rev mix, the growth rates by business line imply +7-8% underlying growth. Since Bright is adding about 20 denovos per year, we expect new locations adding 1-1.5% to the underlying growth, resulting in the company's organic growth in the +8-9% range. Meanwhile, tuck-in deals could add 1-2% (not in our model), for a total growth in the +10% range.

Exhibit 17: We expect BTSG to grow revs organically in the +8-9% range
Estimated organic growth based on the expected growth rate by business line

		LT organic growth		
Business line:	**% of revs**	**Low**	**High**	**Mid**
Infusion & Specialty Pharmacy	54%	10%	10%	10.0%
Home & Community Pharmacy (incl SNF Pharmacy)	20%	3%	4%	3.5%
Home health care	10%	6%	7%	6.5%
Community and Rehab Care	15%	3%	4%	3.5%
Total growth for the end markets	**100%**	**7.1%**	**7.6%**	**7.3%**
Contribution from 20 denovos annually		1.0%	1.5%	1.3%
Bright's LT Organic rev growth		**8%**	**9%**	**9%**
Tuck-in deals		1%	2%	1.5%
Total LT rev growth		**9%**	**11%**	**10%**

Source: BofA Global Research estimates

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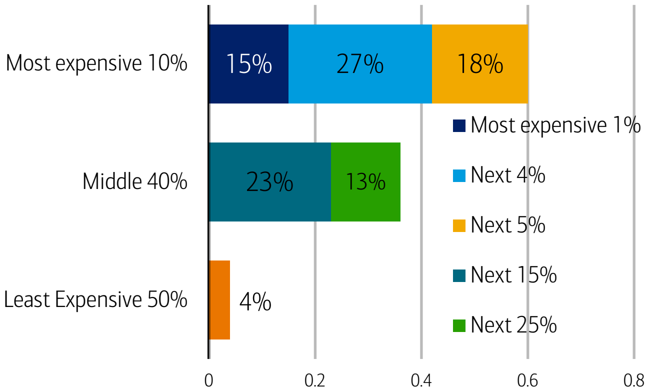
Organic growth driven by aging, chronic diseases, new drugs

The organic growth is driven by:

- Aging demographics driving higher utilization of pharmacy & provider services.
- Increasing prevalence of chronic conditions: Americans with 5+ chronic conditions are 10% of population and ~40% of health care spending.
- Infusion & Specialty Pharmacy driven by new drug development and Bright winning limited distribution drug (LDD) contracts.
- Shift of care to low-cost home and community settings – BTSG provides services in lower cost settings - Exhibit 19.
- Bright's leading quality metrics allow the company to win market share.
- Shift to Value based care requires scale, coordination of services which BTSG has.

Exhibit 18: Increasing prevalence of chronic conditions, represent 42% of spending.
Top 5% utilizers represent 42% of spending.



Source: CMS

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Exhibit 19: BTSG provides services in lower cost settings
Cost savings by service line (Provider Segment)

Service line:	Cost savings
Hospice	costs are 20-30% lower when used in the last year of life
Home Health	3x less expensive vs SNF
Personal Care	reduces chance of nursing home placement by 46%
Home-based primary care	50% reduction in readmissions, 20% reduction in ER visits
Services to IDD population	50% less expensive than state supported living center (Texas)
Neuro Rehab	52% increase in % of patients that can be left alone for 8 hrs after 3 months of rehab

Source: CMS.

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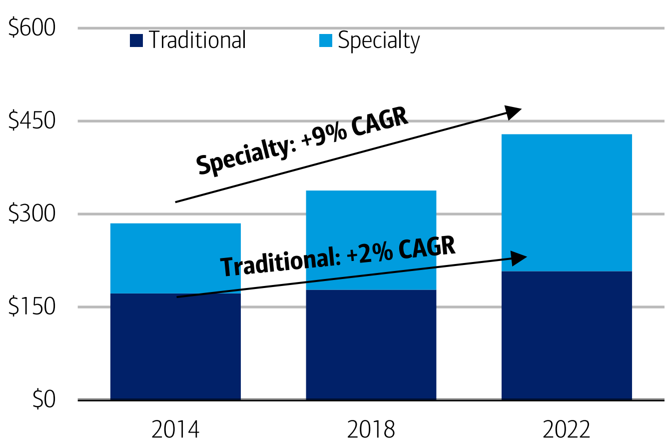
New drugs drive growth in Infusion & Specialty Pharmacy

The company's Infusion and Specialty pharmacy services have the fastest growth outlook driven by not only aging and the growing prevalence of the chronic diseases but also the new drug development. BrightSpring is well positioned to benefit from this trend as it has exclusive/preferred relationships with drug manufacturers.

We expect the home infusion industry to grow in the high single digits and the oncology pharmacy to grow in the low double digits. Combined, the Infusion and Specialty Pharmacy segment revs should grow in the 10% range annually given a robust new drug pipeline. There are about 400 drug therapies in Phase III which include 138 Oncology products, 102 rate oral/injectable, about 100 infusion therapies, and 38 cell and gene therapies. As these markets are approved and launched, they are expected to drive a robust market growth.

Exhibit 20: Specialty drug spending is outpacing the traditional drug spending
Spending on specialty drugs vs traditional drugs, $bn



Source: The Use of Medicines in the U.S. 2023, IQVIA Institute for Human Data Science (April 2023)

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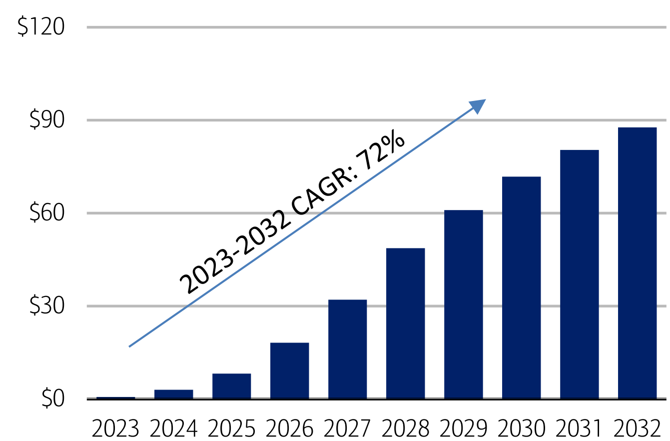
Exhibit 21: Oncology drug spending is expected to grow 72%
Pharma industry revenue from Oncology drugs – outlook ($bn)



Source: Evaluate Pharma

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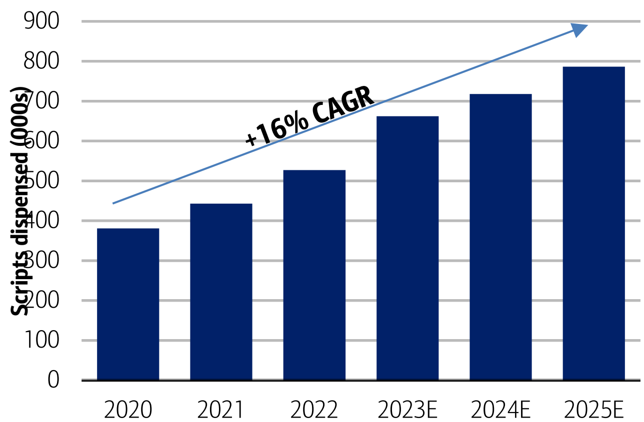
Bright wins market share via LDDs

While the oncology end market has a rapid growth, Bright's growth is driven by wining contracts for distribution of these drugs. The company has 116 limited distribution drugs (LDDs) for oncology drugs including 26 exclusive and ultra-narrow drugs with limited pharmacy access. In addition, BTSG has 16 LDDs in the pipeline still to launch as more recent LDD launches are experiencing accelerated revenue ramps. In general, new drug launches ramp up over a 5- to 7-year period, which aids script growth for Bright.

The company has been adding the LDDs given its high-quality outcomes and its NPS scores of over 90 (triggering quality incentive payments). In addition, Bright offers data solutions to drug manufacturers, and it has a robust sales force (250 people) that are in prescriber offices driving the volumes.

We expect Infusion and Specialty scripts to grow much faster than the scripts in the other Pharmacy service lines.

Exhibit 22: Infusion and Specialty Pharmacy scripts to grow at a +16% CAGR through 2025.
Bright Infusion & Specialty Pharmacy scripts, 2020A-2025E



Source: BofA Global Research, Company filings

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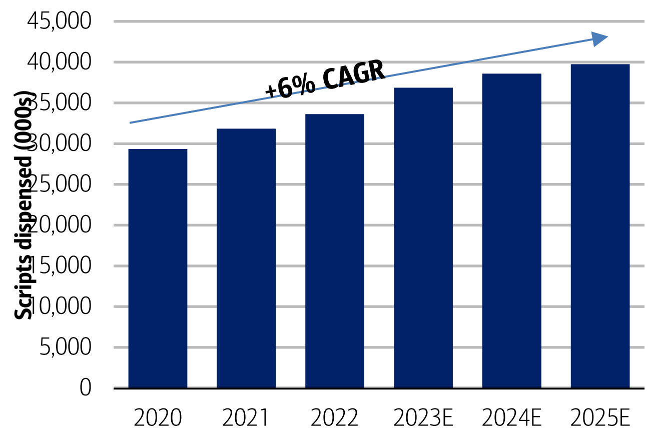
Exhibit 23: Home and Community Pharmacy scripts to grow at a +6% CAGR
Bright Home & Community Pharmacy scripts, 2020A-2025E



Source: BofA Global Research, Company filings

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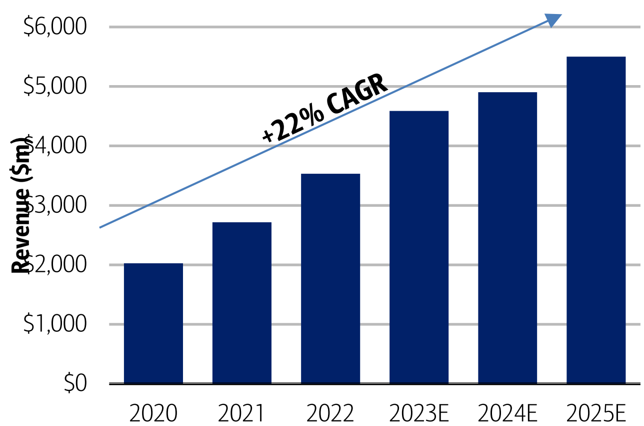
The strong script growth to drive a 20% revenue CAGR for Infusion & Specialty. Meanwhile, the Home & Community Pharmacy revs should grow in the +6% range.

Exhibit 24: Infusion & Spec Pharmacy revs to grow at a +22% CAGR
Bright Infusion & Specialty Pharmacy revs. 2020A -2025E



Source: BofA Global Research, Company filings

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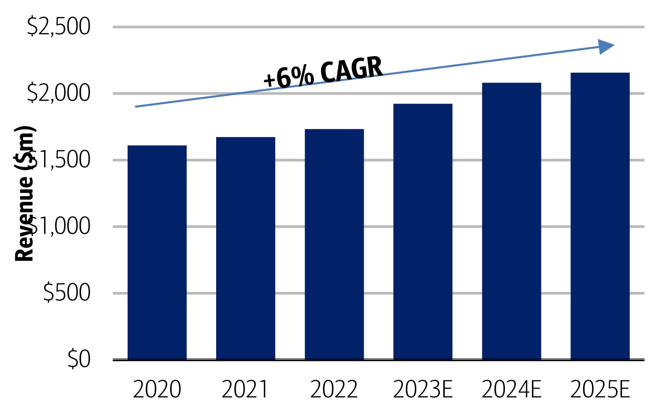
Exhibit 25: Home and Comm Pharmacy revs to grow +6% annually
Bright Home & Community Pharmacy revs. 2020A -2025E



Source: BofA Global Research, Company filings

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Value Based Care, a long-term opportunity

BrightSpring offers a wide range of health care services, it has scale and has proven it can deliver high quality services. In 2021, the company added two home-based primary care groups to its existing service offering as an avenue to participate in accountable care organizations (ACOs) and eventually take risk. With a platform of 100 home-based primary care doctors, the company developed *Continue Care Rx Program* (medication management) and *Care Management* (care coordinators) which support value-based growth strategies.

BrightSpring plans to add institutional special needs plans or i-SNPs, which are Medicare Advantage plans that take full risk for patients residing in skilled nursing facilities (SNFs) and assisted living facilities (ALFs). The company already offers bundled services in SNFs and ALFs which include pharmacy, home health, hospice as well as home-based primary care. The iSNP payment model would be a mechanism to get paid for the services and the coordination of those services. Bright plans to build out the iSNP offering slowly while continuing to participate in ACOs.

VBC could be $100m or 8% of EBITDA in the future

Currently, its primary care physician business is available in 12 states. As the company adds more home-based physicians, it would be able to expand into additional markets.

Bright does not take risk, but participates in shared savings in ACOs (upside only), which could bring in about $7m in 2025, or less than 1% of annual EBITDA. However, we estimate that over time it could generate $100m EBITDA from VBC, which by then would represent about 9% of the company's EBITDA.

The company's pharmacy services are offered to 250k patients in institutional settings. Assuming a 40% penetration of this population by BrightSpring's risk model, it would imply 100k lives in the model. We would assume a $850 per member per month or PMPM (which translates to $10,200 per year) payment which aligns with what we would assume in the Medicare Advantage (MA) VBC model (85% of a typical premium in MA). We further assume a 10% margin, which is below UNH's target margin in its VBC business, given BTSG's lack of scale. Based on these assumptions, we estimate $102m EBITDA for Bright when 100k patients are in their VBC model.

Exhibit 26: Value-based care could be $100m EBITDA when BTSG has 100k lives in VBC
Estimated benefit from VBC at various level of lives covered

Patients served by Institutional pharmacy 250,000

% penetration	1%	5%	10%	20%	30%	40%
lives at risk	2,500	12,500	25,000	50,000	75,000	100,000
PMPY ($850*12)	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200
revs $m	$26	$128	$255	$510	$765	$1,020
target margin	10%	10%	10%	10%	10%	10%
est EBITDA $m	**$3**	**$13**	**$26**	**$51**	**$77**	**$102**
% of 2025 EBITDA	*0.4%*	*2.1%*	*4.3%*	*8.6%*	*12.8%*	*17.1%*

Source: BofA Global Research estimates

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It will take several years to ramp up to that level of penetration and target margins, but as the business ramps up, it would add to the company's growth. To get to 100k lives in 10 years, the company would need to grow the at-risk lives at about 59% CAGR.

Exhibit 27: to get to 100k lives in VBC, BTSG would need to grow the at0rsk lives at +59% CAGR
Estimated benefit from VBC over time

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
% penetration	1%	1%	2%	3%	4%	6%	10%	16%	25%	40%
lives at risk	1,250	2,500	3,965	6,287	9,970	15,811	25,074	39,764	63,058	100,000
lives added		1,250	1,465	2,323	3,683	5,841	9,263	14,689	23,295	36,942
% growth		100%	59%	59%	59%	59%	59%	59%	59%	59%
PMPY ($850*12)	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200
revs $m	$13	$26	$40	$64	$102	$161	$256	$406	$643	$1,020
target margin	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
est EBITDA $m	**$1**	**$3**	**$4**	**$6**	**$10**	**$16**	**$26**	**$41**	**$64**	**$102**
% of 2025 EBITDA	*0%*	*0%*	*1%*	*1%*	*1%*	*2%*	*3%*	*4%*	*6%*	*9%*

Source: BofA Global Research estimates

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VBC ramp up could add 200bps to rev growth

In this scenario, the VBC growth would lift the company's rev growth from +8% to +10% and EBITDA growth from +8% to 11%.

Exhibit 28: VBC ramp up could add 100bps to rev growth and 200bps to EBITDA growth
VBC ramp up contribution to rev and EBITDA growth

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
% penetration	1%	1%	2%	3%	4%	6%	10%	16%	25%	40%
core BTSG rev growth	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
VBC contribution		*0.1%*	*0.1%*	*0.2%*	*0.3%*	*0.4%*	*0.5%*	*0.8%*	*1.1%*	*1.7%*
Total Rev growth		8.1%	8.1%	8.2%	8.3%	8.4%	8.5%	8.8%	9.1%	9.7%
core BTSG EBITDA growth	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
VBC contribution		*0.2%*	*0.2%*	*0.3%*	*0.4%*	*0.6%*	*0.9%*	*1.3%*	*1.9%*	*2.8%*
Total EBITDA growth		8.2%	8.2%	8.3%	8.4%	8.6%	8.9%	9.3%	9.9%	10.8%

Source: BofA Global Research estimates

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In a scenario where the ramp up of lives in VBC is lower (+30% CAGR), we estimate in year 10, the VBC EBITDA would reach $21m or 2% of the company EBITDA. In this scenario, the annual organic revenue growth of +8% would be lifted by 20bps.

Exhibit 29: Scenario 2: lives in VBC grow at a 30% CAGR
Estimated benefit from VBC over time – assuming 30% CAGR

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
% penetration	1%	1%	1%	2%	2%	3%	4%	5%	6%	8%
lives at risk	1,250	2,500	3,250	4,225	5,493	7,140	9,282	12,067	15,687	20,393
lives added		1,250	750	975	1,268	1,648	2,142	2,785	3,620	4,706
% growth		100%	30%	30%	30%	30%	30%	30%	30%	30%
PMPY ($850*12)	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200	$10,200
revs $m	$13	$26	$33	$43	$56	$73	$95	$123	$160	$208
target margin	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
est EBITDA $m	**$1**	**$3**	**$3**	**$4**	**$6**	**$7**	**$9**	**$12**	**$16**	**$21**
% of BTSG EBITDA	*0%*	*0%*	*0%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*2%*

Source: BofA Global Research estimates

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Expansion will require access to primary care docs

Bright currently has home-based primary care offering in 12 states, mostly in south-east. Those physicians participate in ACOs. We would expect the initial VBC strategy to be concentrated in those markets. Over time, the company would expand to additional markets which would require adding more primary care physician groups in additional markets. Given the high density of Bright's pharmacy offering in the Pacific Northwest, the company should be able to lean into this density with its primary care offering to its nursing home Pharmacy clients.

Over the last several years, SNFs and ALFs started to offer iSNP plans to their residents as way to capture more of the residents' wallet. Bright's argument is that providers are not well prepared to take risk since they do not employ primary care doctors and do not offer services such as home health and pharmacy. As the company proves the value of its iSNPs to the nursing home partners, it would be able to expand to additional locations.

Cross-selling opportunity

The VBC would drive more cross selling for Bright's business lines. The first step is to offer primary care to nursing home clients currently serviced by Bright's Pharmacies. The company can offer Transitional Care program to patients discharged home from a nursing home by utilizing its medication management capabilities (Continue Care Rx program) and on-call services / proactive identification of needs (clinical nursing hub). Finally, patients residing in institutional settings (assisted living) and discharged to home might require other post-acute services that Bright can offer in house such as home health (episodic care), personal care (long term care at home), and hospice/ end of life care.

Scale/ diversification benefits

There are several benefits of scale which allow a provider company to get better rates than competitors. In the Pharmacy business, scale matters when it comes to procurement of drugs (BTSG fills over 37m scripts). In addition, scale allows the company to leverage fixed costs, and invest in automation and technology/ systems. Being large allows to share best practices in sales / marketing. Finally, the scale allows the company to generate synergies on deals.

We would also highlight the benefits of diversification (Exhibit 6) when it comes to the risk related to reimbursement changes – a change that impacts one business is unlikely to also impact the other business lines. Nevertheless, the combination of various business lines makes it harder to analyze the underlying trends.

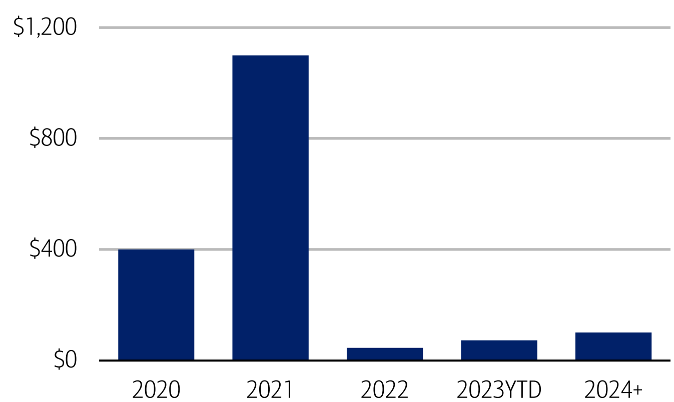
Consolidation opportunity

BrightSpring has a long history of acquisitions as the company closed 56 acquisitions since 2018, and spent $1.6bn from 2020 through 2023 YTD. Outside of the Abode acquisition for $750m, the deals were largely tuck-ins with the median size of $4m. Of note, all but one of the 56 acquired businesses since 2018 have increased their profitability since closing.

Importantly, Bright's scale drives synergies (purchasing, contracting, recruiting etc.), which reduced the average deal multiple by 5x turns from 9.6x EBITDA to 4.6x pro-forma EBITDA.

The company expects to spend about $100m on M&A annually, on average, targeting 50/50 between Provider and Pharmacy segments. With some visibility into home health reimbursement, the industry expects more consolidation. Given the fragmentation in home health (10 biggest companies are 26% of the industry) and hospice (10 biggest are 22% of the industry), there is room for further consolidation.

Exhibit 30: BTSG spent $1.6 bn on acquisitions since 2020.
Bright Annual M&A spend ($m)



Source: Company Filings

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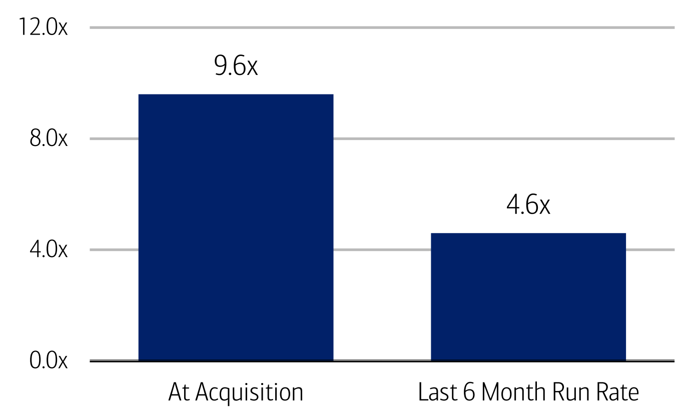
Exhibit 31: BTSG's scale allows it to reduce effective deal multiples
BrightSpring's acquisition multiples



Source: Company Filings

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Future acquisitions provide upside to our model

Since we do not include unannounced acquisitions in our model, future deals would be upside to our estimates. Assuming the company spends $100m of its free cash flow on deals at 7-9x EBITDA, it would add $11-14m to annual EBITDA or about 2%.

Exhibit 32: $100m of deal spending could 1-2% to revs and 2% to EBITDA
Estimated impact of $100m spent on acquisitions to BTSG's revs and EBITDA

Deal spending	**$100**	**$100**	**$100**
multiple paid	7.0x	8.0x	9.0x
EBITDA acquired	**$14**	**$13**	**$11**
% of 2025E EBITDA	***2.4%***	***2.1%***	***1.9%***

Exhibit 32: $100m of deal spending could 1-2% to revs and 2% to EBITDA
Estimated impact of $100m spent on acquisitions to BTSG's revs and EBITDA

Deal spending	**$100**	**$100**	**$100**
margins	8%	9%	10%
implied revs acquired	**$179**	**$139**	**$111**
% of 2025E revs	***1.8%***	***1.4%***	***1.1%***

Source: BofA Global Research estimates

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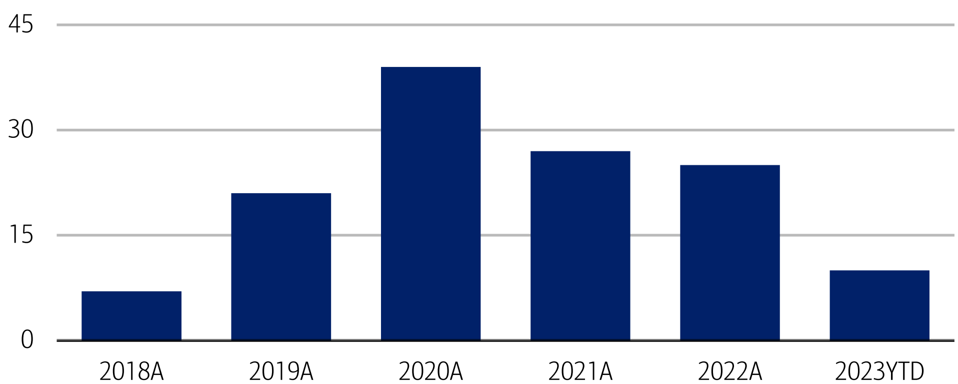
Attractive de novo strategy

De novos are a key part of BrightSpring's growth strategy, adding 1-2% to same store growth (included in the 8-9% organic growth). Denovos contributed 0.7% to the company's +12% y/y growth in 2023 YTD through 9/30/23. The company opened 138 de novos since 2018, including 10 in 2023 YTD. Bright plans to open 20 de novos each year with 12-15 being home health or hospice locations, while the rest would be infusion suites and pharmacy locations.

Typical denovo costs $65k, and after the initial investment, most centers are breakeven after 5 months. Since denovos take 3-5 years to reach full maturity, this ramp up adds to growth. With the annual spend of $5m on denovos, this is high return on investment.

The company is adding complementary services e.g. hospice in current home health markets or provider services in pharmacy markets, as well as building out infusion suites. In addition, denovos will be also adding home-based primary care in the company's existing markets. Finally, denovos are used to add Rehab in new markets as the company will be expanding into Part B rehab.

Exhibit 33: BTSG opened 129 de novos since 2018.
Bright: De novo openings by vintage



Source: Company Filings

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Investment Risks

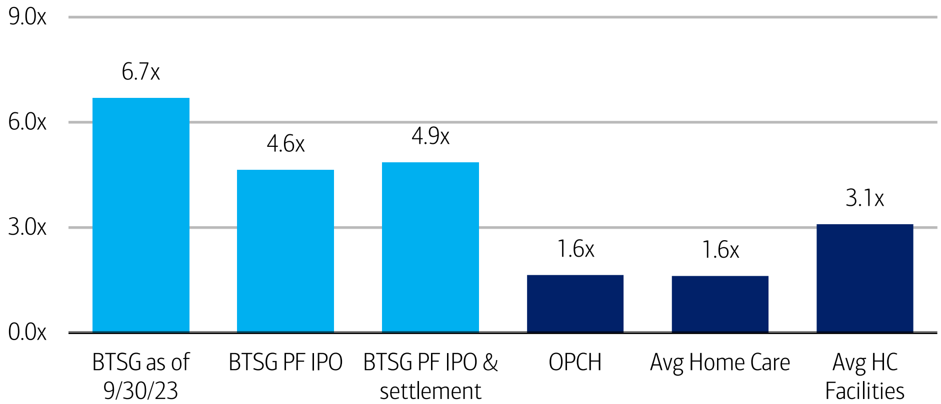
Above average leverage

BrightSpring is more levered than peers, at 6.7x net leverage as of 9/30/2023. Although the leverage profile is expected to fall to 4.6x pro forma the IPO proceeds, this would be well above the avg leverage of home care peers (1.6x) and above OPCH (1.6x) as well as above the health care facility average (3.1x). Meanwhile, if we adjust for the $115m settlement the company expects to pay in 2024, the leverage would be 4.9x. This is well above the 3x leverage level that the company is targeting to achieve over time. We forecast leverage to decline to 4.0x at the end of 2025.

While Bright's leverage is high, we note $2bn of debt is hedged through Sept 2025, which implies that PF the IPO proceeds, about 85% of debt is hedged. The nearest maturity is in 2026, when the first lien loan matures.

The above average leverage poses a risk in combination with the company's reliance on government payors (80% of revs from Medicare/Medicaid) and the associated risks.

Exhibit 34: BTGS more leveraged than peers even PF IPO.
BrightSpring Health Net Leverage vs Peers



Source: Company filings

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Settlement a headwind to 2024 cash flows

While the company talks about spending about $100m on acquisitions annually, we note that 2024 cash flows are likely compressed due to the expected payment of $115m settlement. We expect the core operating cash flow in the $250m range which after $85m of capex implies $165m of free cash flow. The company will have $27m outflow for the interest on the Tangible Equity Units (in 2024 and in 2025). This implies only $23m excess free cash flow available for deals and/ or debt paydown. Arguably with the net leverage well above 4x, the company should probably deploy its FCF on debt paydown before spending it on acquisitions.

Exhibit 35: Settlement payment a headwind to 2024 cash flows
Estimated 2024 free cash flow ($m)

core operating cash flows	**$250**
capex	$85
core FCF	$165
settlement	($115)
TEU interest	($27)
available for deals/debt paydown	**$23**

Source: BofA Global Research estimates

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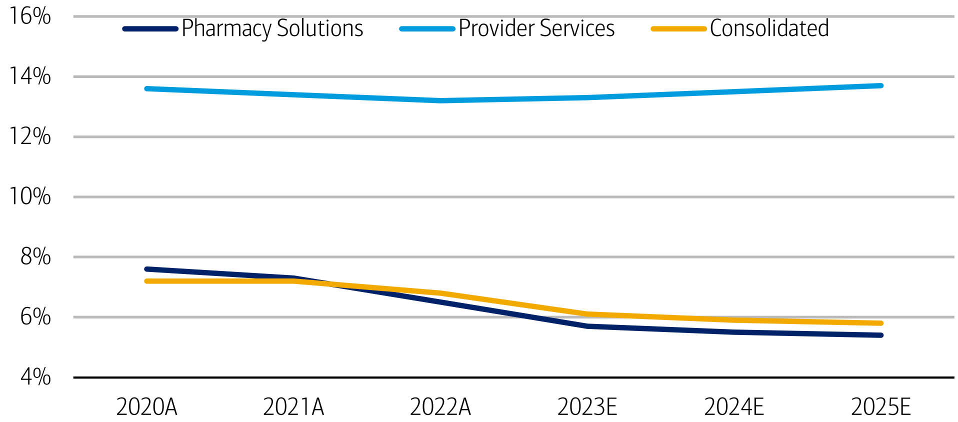
Low margin Pharmacy a drag on the company margins

Pharmacy segment's 5-6% margins are well below Provider Services segment margins in the 13-14% range. Given Pharmacy is over half of the company's segment EBITDA, the overall company EBITDA margins are about 6%.

Specialty pharmacy is growing the fastest (low double digits) but has the lowest margins in the low single digit %, pressuring segment and thus company margins. Home infusion and Other Pharmacy margins are slightly above avg.

The company's margins declined to 6.1% in 2023 from 7.2% in 2020 largely due to the negative mix shift ie the fastest growing business has the lowest margins. We forecast margins to continue to decline. Over the long-term, margins should stabilize at 6% and grow towards 7% as the Specialty headwind normalizes. Gross margins should benefit from the company having ramped up the LDDs and benefitting from branded drugs turning generic (% margin improves as more competitors enter the market).

Exhibit 36: Pharmacy segment's margins are well below Provider Segment', driving consolidated margins lower.
BrightSpring consolidated margin vs Segment Margins



Source: Company filings. BofA Global Research 2023E-2025E

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EBITDA growth to decelerate in 2024-25 on QIP, public company costs

We forecast EBITDA to grow slower than the top line in 2024-25 for two reasons (on top of the negative mix shift from the lowest-margin business, Infusion/ Specialty Pharmacy, growing the fastest):

- **Quality incentive program (QIP) ends in 2024**. The company has a 4-year quality program with a Pharmacy Benefit Manager (PBM) under which Bright receives bonus payments based on results vs pre-set benchmarks. The program is expected to end in 2024. After the company received about $20m in 2022 and $30m in 2023, we assume payments are $15m in 2024 and decline to $0 in 2025. The $15m y/y decline in EBITDA is a 300bps headwind to the y/y EBITDA growth.

- **Public company costs.** Post the IPO, we assume $6m of new costs in 2024 (vs $0 in 2023), which is a 100bps headwind to the y/y EBITDA growth.

Excluding the QIP payments and the public company costs, EBITDA growth would be +8% in 2024 and +10% in 2025. It is possible that the QIP program is extended, which would be upside to our estimates.

Exhibit 37: Excluding QIP fees and public company costs, EBITDA growth is +8-10% in 2024-25
BTSG: Estimated impact of QIP fees ending in 2024 and public company costs starting in 2024 ($m)

	2022	2023E	2024E	2025E
Revs	$7,446	$8,817	$9,409	$10,203
y/y		18.4%	6.7%	8.4%
Adj EBITDA	$503	$536	$556	$596
y/y adj EBITDA growth		**6.5%**	**3.7%**	**7.3%**
Public company exp.			($6)	($6)
Adj EBITDA ex public company exp.	$503	$536	$562	$602
y/y		6.5%	4.9%	7.2%
QIP fees	$20	$30	$16	$0
Adj EBITDA ex public co exp & ex QIP	$483	$506	$546	$602
y/y growth, EBITDA ex public co. costs, QIP		**4.7%**	**7.9%**	**10.4%**
QIP fees ending headwind to EBITDA growth			**-3%**	**-3%**

Source: BofA Global Research estimates

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Those two items also impact margins: a 10bps headwind from the public company costs offset by the 20bps benefit from the QIP fees in 2024.

Exhibit 38: Margins benefit from the QIP fees is partially offset by public company costs
BTSG adj EBITDA margins

	2022	2023E	2024E	2025E
Adj EBITDA margins	6.8%	6.1%	5.9%	5.8%
public co costs headwind to margins			*-0.1%*	*-0.1%*
Margin ex public company exp.	6.8%	6.1%	6.0%	5.9%
QIP benefit to margins	*0.3%*	*0.3%*	*0.2%*	*0.0%*
Margin ex public co exp & ex QIP	**6.5%**	**5.8%**	**5.8%**	**5.9%**

Source: BofA Global Research estimates

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Exposure to government payors

The above average leverage poses a risk in combination with the company's reliance on government payors as about 75% of revs comes from Medicare and Medicaid. BTSG's Pharmacy business could be impacted in out years (2026+) by Medicare drug pricing reforms. In addition, its institutional pharmacy has exposure to the skilled nursing facility (SNF) industry which relies on the government payors. Meanwhile, Medicaid (20%+ of revs) is viewed as low rate/ low margin business.

Exhibit 39: BTSG's business lines are heavily exposed to government payors
Estimated exposure to the biggest payor by business line

Business line:	Biggest payor	Biggest payor as % of revs (est)
Pharmacy	Medicare	62%
IDD	Medicaid	90%
Neuro Rehab	Commercial	60%
Hospice	Medicare	95%
Home Health	Medicare	70%
Personal Care	Medicaid	95%
BTSG	**Medicare - total**	**51%**
BTSG	**Medicaid - total**	**23%**

Source: BofA Global Research estimates, company filings

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Drug pricing reform exposure

The company is exposed to the drug price reforms; however the impact is still several years out (2026+). The Inflation Reduction Act (IRA) poses a risk to drug prices in the future as it calls for price controls under the Medicare program. It will start with 10 Part D drugs in 2026, additional 15 Part D drugs in 2027, another 15 Part D or Part B drugs in 2028, and 20 Part D or B drugs in 2029.

Any attempt to lower drug prices would pressure industry revenues and margins, a significant risk given Pharmacy Segment is over half of BrightSpring's EBITDA.

BTSG's exposure to the first wave of price negotiations is limited. The list of first 10 drugs included Imbruvica, a sizeable cancer drug, which Bright distributes, but it is one of many. In addition, Stelara was on the list, an important infusion drug, but price competition for it was already expected (biosimilars in 2025). The negotiated prices will be published on Sept. 1, 2024, taking effect in 2026. Of note, of the nine drugmakers representing the 10 drugs selected for negotiation, seven are challenging the law in the courts.

Exhibit 40: The first wave of drugs to see price pressure in 2026 include Imbruvica and Stelara
10 drugs for 2026 price negotiations under the IRA

Drug	Delivery method	Medicare spend ($b)	Indication
Eliquis	Oral	$16.5	Osteoporosis
Jardiance	Oral	$7.1	Rheumatoid arthritis
Xarelto	Oral	$6.0	Blood clots
Januvia	Oral	$4.1	Crohn's disease
Farxiga	Oral	$3.3	Crohn's disease
Entresto	Oral	$2.9	Immunodeficiency
Enbrel	Subcutaneous	$2.8	Inflammatory disorders
Imbruvica	Oral	$2.6	Blood cancers

Exhibit 40: The first wave of drugs to see price pressure in 2026 include Imbruvica and Stelara
10 drugs for 2026 price negotiations under the IRA

Drug	Delivery method	Medicare spend ($b)	Indication
Stelara	IV; Subcutaneous	$2.6	Crohn's disease
Fiasp	Subcutaneous	$2.6	Insulin

Source: CMS

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The risk is that in future waves, key oncology drugs (Keytruda, Opdivo) could be included. Furthermore, the risk is that if Congress/ Administration is looking for cost savings, they can use the IRA as a platform by increasing the list of the drugs added in future years, and thus increasing the company's exposure.

Exhibit 41: Top Medicare Part B drugs that may be eligible for price negotiations in 2029
21 biggest Part B drugs

Drug	Delivery method	Medicare spend ($m)	Indication
Keytruda	IV	$3,394	Cancer
Eylea	Intravitreal injection	$3,000	Eye disease
Prolia	Subcutaneous	$1,600	Osteoporosis
Opdivo	IV	$1,336	Cancer
Orencia	Subcutaneous; IV	$1,000	Inflammatory disease
Darzalex	IV	$876	Cancer
Lucentis	Subcutaneous	$839	Eye disease
Rituxan	IV	$636	Inflammatory disease
Soliris	IV	$610	Inflammatory disease
Tecentriq	IV	$557	Cancer
Ocrevus	IV	$548	Inflammatory disease
Cimzia	Subcutaneous	$509	Crohn's Disease
Alimta	IV	$499	Inflammatory disease
Remicade	IV	$441	Inflammatory disease
Neulasta	Subcutaneous	$436	Cancer
Entyvio	IV	$434	Inflammatory disease
Cosentyx	Subcutaneous	$408	Inflammatory disease
Gammagard	Subcutaneous; IV	$389	Immune system deficiency
Gammaked	Subcutaneous; IV	$386	Inflammatory disease
Imfinzi	IV	$381	Cancer
Yervoy	IV	$366	Cancer

Source: CMS

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Sensitivity to price cuts

The magnitude of the exposure to each drug and the potential cuts are unknown. Below we show sensitivity to cuts. We estimate that a 30% price cut to drugs that account for 10% of BTSG's Specialty revs would be a $129m hit to revs. At a 3% margin, this would translate to a $4m pr 0.6% hit to BTSG's EBITDA. Meanwhile, a 30% cut to 10% of Infusion revs would be a smaller headwind to revs but a similar headwind to EBITDA given the higher margins. This assumes that all payors follow Medicare price cuts.

Exhibit 42: A 30% cut to 10% of Specialty Pharmacy revs would be $4m or 0.6% hit to BTSG EBITDA
Estimated impact of a 30% price cut to 10% of Specialty Pharmacy and to Infusion revs/EBITDA ($m)

	Specialty	Infusion
2025E Revs	$4,292	$1,210
% rev impacted	10%	10%
price cut	-30%	-30%
cut to revs	-3%	-3%
cut to revs $m	**($129)**	**($36)**
% of BTSG revs	*-1.3%*	*-0.4%*
est margin	3%	10%
impact to EBITDA	**($3.9)**	**($3.6)**
% of BTSG EBITDA	*-0.6%*	*-0.6%*

Source: BofA Global Research estimates

Exhibit 42: A 30% cut to 10% of Specialty Pharmacy revs would be $4m or 0.6% hit to BTSG EBITDA

Estimated impact of a 30% price cut to 10% of Specialty Pharmacy and to Infusion revs/EBITDA ($m)

	Specialty	Infusion

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If 50% of Specialty revs were to see a 50% cut, it would imply a $1bn impact to revs which would be 11% of the company's revs. At a 3% margin, this implies $32m or 5% hit to BTSG EBITDA, before any offsets. This is before any offsets and not assuming that by the time the price cuts take effect (2027+) the company's EBITDA would have grown.

Exhibit 43: A 50% cut to 50% of Specialty revs would be $32m or 4% hit to BTSG EBITDA

Sensitivity to % revs impacted and % cut to drug prices, $m of EBITDA impact

		% of Specialty revs impacted									
		10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Price cut	-10%	($1)	($3)	($4)	($5)	($6)	($8)	($9)	($10)	($12)	($13)
	-20%	($3)	($5)	($8)	($10)	($13)	($15)	($18)	($21)	($23)	($26)
	-30%	($4)	($8)	($12)	($15)	($19)	($23)	($27)	($31)	($35)	($39)
	-40%	($5)	($10)	($15)	($21)	($26)	($31)	($36)	($41)	($46)	($52)
	-50%	($6)	($13)	($19)	($26)	($32)	($39)	($45)	($52)	($58)	($64)

Source: BofA Global Research estimates

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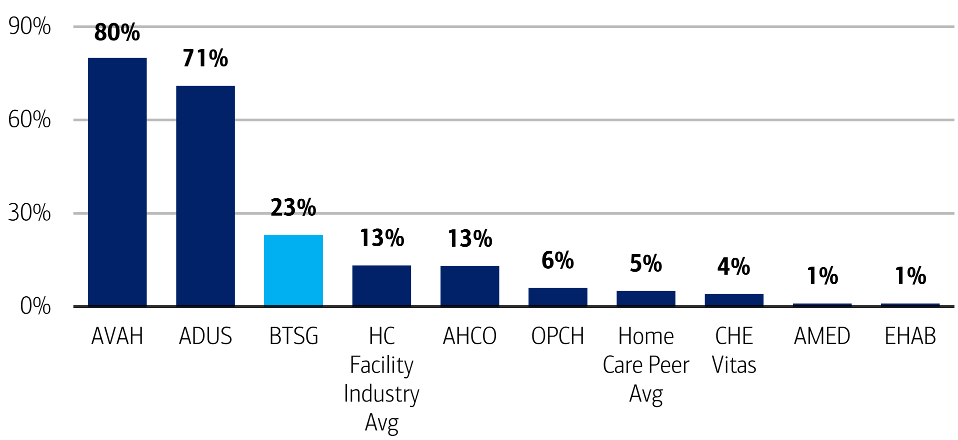
Medicaid exposure

Medicaid represents 23% of Bright's revs with the majority coming from Community Services for IDD/ autism and a small portion from Personal Care. Community Services represents about 13% of revs and we estimate about 20% of total EBITDA. The IDD revenue growth in the low single digits is below most other business lines owned by BTSG. Personal Care is the other business reimbursed by Medicaid as it includes assistance with activities of daily living for people that are at risk of hospitalization or institutionalization, such as the elderly, the chronically ill, and the disabled. We estimate Personal Cre is about 2% of BTG's revs.

In general, Medicaid is known to be a low reimbursement, low margin payor. States need to balance their budgets annually, and since Medicaid is usually the largest part of the budget, it also tends to be the first item looked at when states are searching for cost-saving opportunities. Each state manages its own Medicaid rate acts as a hedge because it lowers BTSG's exposure to any given state's reimbursement changes. However, it lowers visibility into rates overall (need to follow 23 different Medicaid programs).

Exhibit 44: BTSG has one of the highest exposures to Medicaid among peers

Medicaid as % of revs



Source: Company filings

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Multiple factors driving Medicaid reimbursement uncertainty

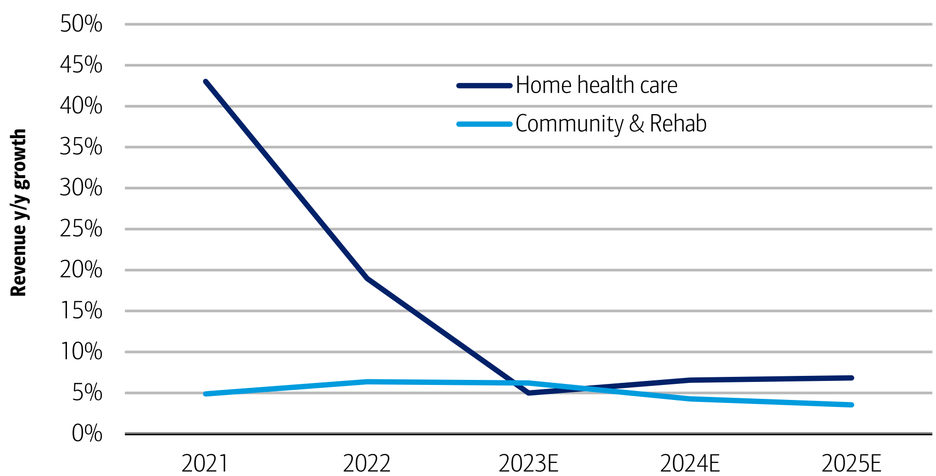
At the most basic level, states generally update rates to reflect changes in wage inflation within a given market, although at a lag. There are a multitude of other factors driving where final reimbursement shakes out. Managed Medicaid plans tend to reimburse providers at rates similar to fee-for-service, but these insurers generally try to lower the number of days/ hours (depending on the program) provided in order to reduce medical expenses.

While Medicaid is viewed as a risk, rates for personal care and IDD services have been generally stable, growing 1-2% per year pre COVID. In general, it is politically hard to cut rates to sick kids (IDD) and seniors/disabled (personal care). More importantly, states realize this is a lower cost option, and cutting Medicaid reimbursement for IDD population or in-home care services would actually increase costs for the state as without the care at home, these patients end up in the hospital for long time or a nursing home.

We note that during recessions, when state budgets are constrained, Medicaid rate updates were flat to up 1%.

Medicaid reimbursement benefited during the pandemic due the federal government funding distributed to the states. We expect the growth to decelerate to the historical average growth. Overall, we forecast Community & Rehab revs to grow in the +4% range, below +7-8% growth for the Home Health Care subsegment.

Exhibit 45: Community revs grows much slower than Home Health Care.
Community & Rehab Care revenue growth vs Home Health Care



Source: BofA Global Research, Company filings

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Medicaid gross margin cap proposal excluded IDD

CMS' proposal issued in April 2023 calls for more reporting and quality metrics requirements in Medicaid Home and Community-Based Services (HCBS), including a requirement that at least 80% of Medicaid payments would be spent on compensation for the direct care workforce. While IDD is included in the HCBS programs, CMS actually excluded IDD from the proposal and asked for comments whether it should be included.

The proposed changes, if finalized, would apply to BTSG's Personal Care business which we estimate accounts for about 2% of total company revs. While we expect the gross margin cap will likely be finalized as proposed, the final impact would likely be different. First, the rule calls for the implementation to be at least 4 years after the final reg, giving the industry and states a long time to lobby for changes. During that time, there will likely be lawsuits from states. Also, CMS could modify the regulation as some industry experts believe that the proposal was politically motivated. In the end, the cap would lead to more consolidation (scale allows to leverage some fixed costs, improve efficiency by investing in technology etc), which could allow BTSG to gain market share.

Exposed to SNF industry trends

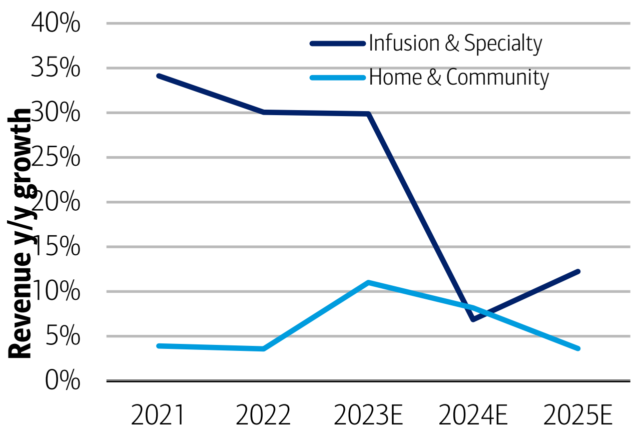
The company is exposed to skilled nursing facility (SNF) volume trends in its Home & Community Pharmacy business. We estimate that the SNF Pharmacy is about 8% of total company EBITDA.

This business has a below avg LT organic rev growth (low single digits), and its customers (SNFs) are heavily dependent on government reimbursement (50% of SNF industry revs comes from Medicaid, Medicare is 22%, Medicare Advantage is 12%).

During COVID, the 12% reduction in SNF occupancy flowed directly to BrightSpring's business and negatively impacted demand for Pharmacy services. Although SNF occupancy has made a significant recovery since the pandemic, levels are still below pre-pandemic.

Exhibit 46: Home & Community Pharmacy revs grow much slower than Infusion & Specialty Pharmacy

Home & Community Pharmacy rev growth vs Specialty/Infusion



Source: BofA Global Research, Company filings

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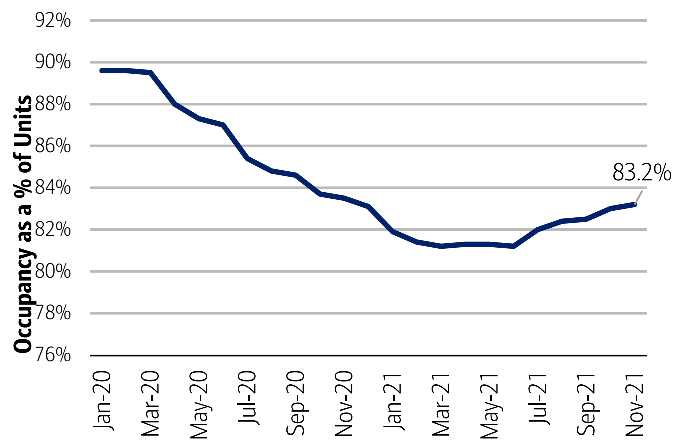
Exhibit 47: During COVID, the 12% reduction in SNF occupancy flowed directly to BTSG's business.

SNF Industry Occupancy, 1Q20 – 3Q23



Source: NIC MAP® Data, Powered by NIC MAP Vision

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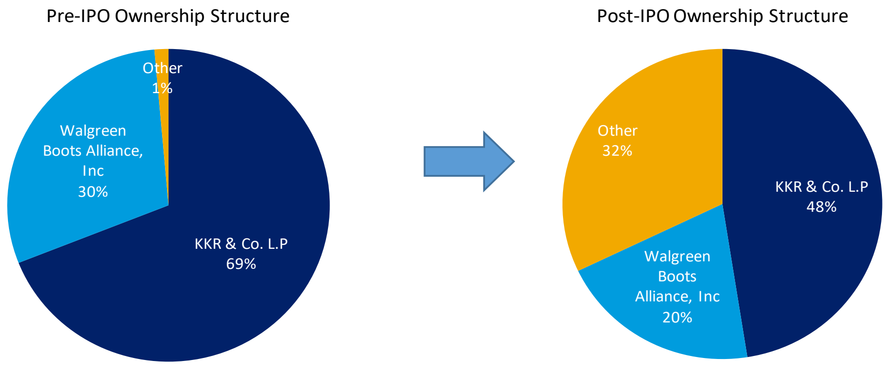
Private equity & WBA ownership overhang

Similar to many other HC services companies entering the equity markets, BrightSpring is financially backed by private firms. The company's largest two shareholders are KKR and Walgreens (WBA). Post-IPO, KKR owns almost half of the 211m outstanding shares (vs 69% prior to the IPO) and Walgreens owns 20% (vs 30% prior). If the green shoe is exercised, KKR would own 45%.

KKR has a strong track record of being supportive financial sponsor, so we do not believe the company would do anything at the expense of the newly public company's shareholders. That being said, we note the risk exists. Meanwhile, WBA will likely use its minority holdings as a source of funding for its cash flow needs (over the last two years, the company sold its stake in OPCH and AmerisourceBergen (ABC)).

The holders are bound by the terms of the transactions to hold their stock for 6 months or 180 days (the IPO lockup expires 7/24/24), somewhat mitigating this risk in the near-term. In the medium to long term, this could potentially develop into a negative catalyst for the stock if these owners look to sell large blocks of shares from time to time. This should not have any impact on the long-term value of the company, and certainly not the core operations, but we note this as a risk given stocks tend to underperform around the time of a large share offering.

Exhibit 48: Post the IPO, KKR will own almost half of shares while Walgreens will have a 20% stake
BTSG: Share Ownership by key holder pre- and post- IPO



Source: Company Filings

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Management has long health care experience

BrightSpring was created in 2019 by KKR through a merger of ResCare, provider of IDD services, and PharMerica, a long-term care pharmacy company. This executive team, led by Chief Executive Officer, Joe Rousseau, has an extensive experience in health care services.

Jon Rousseau, President and Chief Executive Officer: Has been President and CEO since September 2016. Prior to that, Rousseau was an executive vice president at Kindred Healthcare, Inc. Prior to Kindred, he was at other health care companies such as Mylan and Medtronic. He also has experience in private equity and investment banking. Received his MBA from Harvard Business School and his A.B. degree from Princeton University.

Jim Mattingly, Chief Financial Officer: Has been EVP and CFO since October 2017. Prior to joining BTSG, he served as Senior Vice President and CFO at Kindred Rehabilitation Services. He has a B.A. degree in economics and philosophy from Bellarmine University and MBA from Indiana University Bloomington.

Susan Sender, Chief Clinical Officer: Sender is known for her expertise in establishing clinical standards and oversight of regulatory compliance. She joined BTSG in 2019 from Amedisys (AMED). Before that, she served as senior VP and chief clinical officer for Kindred Health Care. Earned her B.S. degree in nursing from Adelphi University.

Jennifer Yowler, President, Pharmacy Solutions: Has served in her role since March 2022. Prior, she served as CFO at PharMerica, and prior to that she spent more than 20 years in other health care companies such as Partners Pharmacy and Omnicare. Yowler began her career at PricewaterhouseCoopers in the Audit and assurance group. B.S. degree in Business Administration and Accounting from Ohio University.

Mike McMaude, President, Home Health and Hospice Services: Has served in his role since April 2021 when BTSG acquired Adobe. He was CEO of Abode since he founded the company in 2012. Prior to that, he was CEO of Voyager HospiceCare, and prior to that he founded and was CEO of Accumed, a skilled-nursing homecare business. McMaude has a B.A. degree in business administration from Hardin-Simmons University.

Jen Phipps, Chief Accounting Officer & CFO, Home Health Care: Jen has served in her current lone for seven years with a prior track record as Director of Accounting at Cardinal Health (CAH), and manager at EY.

BofA Estimates

Exhibit 49: BTSG Income statement, Summary Cash flow, Summary Balance Sheet

BTSG - BofA Global Research forecasts

$m	2020	2021	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Income Statement:														
Provider Segment Revenues	$1,683.8	$1,962.7	$2,181.5	$561.4	$569.9	$583.3	$591.2	$2,305.8	$591.1	$600.8	$612.5	$621.0	$2,425.4	$2,543.8
Pharmacy Segment	$3,635.9	$4,389.4	$5,264.4	$1,467.0	$1,596.8	$1,673.2	$1,774.2	$6,511.2	$1,717.1	$1,700.4	$1,743.2	$1,822.8	$6,983.4	$7,658.7
Workforce Services	$260.6	$346.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total company revs	**$5,580.4**	**$6,698.1**	**$7,445.9**	**$2,028.4**	**$2,166.7**	**$2,256.5**	**$2,365.4**	**$8,817.0**	**$2,308.1**	**$2,301.2**	**$2,355.7**	**$2,443.8**	**$9,408.9**	**$10,202.5**
y/y change %	14.9%	20.0%	11.2%	16.0%	17.0%	18.7%	21.7%	18.4%	13.8%	6.2%	4.4%	3.3%	6.7%	8.4%
Cost of services and goods	$4,531.6	$5,449.9	$6,128.2	$1,694.2	$1,795.1	$1,897.3	$1,998.6	$7,385.1	$1,950.7	$1,923.5	$1,987.2	$2,066.7	$7,928.1	$8,640.0
Gross profit	$1,048.7	$1,248.2	$1,317.7	$334.2	$371.6	$359.2	$366.8	$1,431.9	$357.4	$377.8	$368.5	$377.0	$1,480.7	$1,562.5
% margin	18.8%	18.6%	17.7%	16.5%	17.2%	15.9%	15.5%	16.2%	15.5%	16.4%	15.6%	15.4%	15.7%	15.3%
SG&A, as reported (incl D&A)	$883.5	$1,014.0	$1,108.6	$218.9	$222.2	$228.6	$226.4	$896.1	$230.0	$231.9	$232.2	$230.8	$924.9	$966.2
SG&A ex D&A, ex 1x items	$653.3	$761.2	$819.7	$219.4	$223.0	$229.5	$227.2	$899.1	$230.8	$232.7	$233.0	$231.6	$928.2	$969.5
EBITDA	**$395.4**	**$487.0**	**$498.0**	**$114.8**	**$148.6**	**$129.8**	**$139.6**	**$532.8**	**$126.6**	**$145.0**	**$135.5**	**$145.4**	**$552.5**	**$593.0**
% margin	7.1%	7.3%	6.7%	5.7%	6.9%	5.8%	5.9%	6.0%	5.5%	6.3%	5.8%	5.9%	5.9%	5.8%
y/y change %	*40.6%*	*23.2%*	*2.3%*	*-1.2%*	*12.4%*	*13.2%*	*3.5%*	*7.0%*	*10.3%*	*-2.4%*	*4.4%*	*4.2%*	*3.7%*	*7.3%*
Depreciation & amortization	$181.5	$199.2	$204.0	$50.3	$50.2	$50.8	$51.3	$202.6	$51.8	$52.3	$52.8	$53.3	$210.1	$218.1
Operating Profit (EBIT)	**$213.9**	**$287.9**	**$294.0**	**$64.5**	**$98.4**	**$79.0**	**$88.3**	**$330.2**	**$74.9**	**$92.7**	**$82.7**	**$92.1**	**$342.4**	**$374.9**
% EBIT margin	3.8%	4.3%	3.9%	3.2%	4.5%	3.5%	3.7%	3.7%	3.2%	4.0%	3.5%	3.8%	3.6%	3.7%
Interest expense, net	$139.0	$165.3	$233.6	$78.2	$79.7	$83.7	$83.7	$325.2	$75.3	$58.7	$57.7	$56.7	$248.4	$226.8
1x items	$48.7	$53.7	$85.0	$13.1	$18.5	$131.2	$2.4	$165.2	$1.0	$1.0	$1.0	$1.0	$4.0	$4.0
Pre-tax income	$26.2	$68.9	($24.5)	($26.8)	$0.2	($135.9)	$2.2	($160.2)	($1.5)	$33.0	$24.0	$34.4	$90.0	$144.1
Provision for income taxes	$5.1	$17.6	$8.5	($4.3)	($2.8)	($5.8)	$0.6	($12.4)	($0.4)	$8.3	$6.0	$8.6	$22.5	$36.0
% tax rate	19.4%	25.5%	-34.5%	16.2%	-1438.8%	4.3%	25.0%	7.8%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net income (loss)	$21.2	$51.3	($33.0)	($22.4)	$3.0	($130.1)	$1.7	($147.8)	($1.1)	$24.8	$18.0	$25.8	$67.5	$108.1
Net income attributable to Bright	$20.8	$49.8	($32.7)	($21.3)	$4.1	($130.6)	$1.1	($146.7)	($1.7)	$24.2	$17.5	$25.3	$65.3	$105.9
Net income ex items	**$57.3**	**$90.1**	**$31.0**	**($11.6)**	**$18.0**	**($32.2)**	**$2.9**	**($22.9)**	**($0.9)**	**$25.0**	**$18.2**	**$26.0**	**$68.3**	**$108.9**
% margin	1.0%	1.3%	0.4%	-0.6%	0.8%	-1.4%	0.1%	-0.3%	0.0%	1.1%	0.8%	1.1%	0.7%	1.1%
Weighted avg shares - Basic	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	153.4	171.2	171.2	171.2	166.8	176.2
Weighted avg shares - Diluted	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	179.2	217.5	218.0	218.5	208.3	219.8
EPS – Basic	$0.18	$0.42	($0.28)	($0.18)	$0.03	($1.11)	$0.01	($1.24)	($0.01)	$0.14	$0.10	$0.15	$0.39	$0.60
EPS – Diluted	$0.18	$0.42	($0.28)	($0.18)	$0.03	($1.11)	$0.01	($1.24)	($0.01)	$0.11	$0.08	$0.12	$0.31	$0.48
Adj EPS ex 1x items	**$0.49**	**$0.76**	**$0.26**	**($0.10)**	**$0.15**	**($0.27)**	**$0.02**	**($0.19)**	**($0.01)**	**$0.11**	**$0.08**	**$0.12**	**$0.33**	**$0.50**
% change Y/Y	0.0%	57.1%	(65.5%)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	51.1%
Adjusted EBITDA	**$407.8**	**$493.1**	**$502.9**	**$115.1**	**$149.7**	**$130.6**	**$140.4**	**$535.8**	**$127.5**	**$145.8**	**$136.3**	**$146.2**	**$555.8**	**$596.3**
% margin	**7.3%**	**7.4%**	**6.8%**	**5.7%**	**6.9%**	**5.8%**	**5.9%**	**6.1%**	**5.5%**	**6.3%**	**5.8%**	**6.0%**	**5.9%**	**5.8%**
y/y change %	*14.0%*	*20.9%*	*2.0%*	*-1.6%*	*12.4%*	*12.9%*	*2.4%*	*6.5%*	*10.7%*	*-2.6%*	*4.4%*	*4.1%*	*3.7%*	*7.3%*
Cash Flow Statement:														
Operating cash flow	$222.7	$270.2	($4.7)	($5.2)	$20.0	$33.7	$90.7	$139.3	$8.2	($30.4)	$58.4	$86.7	$122.9	$286.5
Capex	$51.9	$59.3	$70.1	$19.4	$19.4	$17.9	$21.3	$78.0	$20.8	$20.7	$21.2	$22.0	$84.7	$91.8
Free cash flow	$170.8	$210.9	($74.8)	($24.6)	$0.6	$15.8	$69.4	$61.3	($12.5)	($51.1)	$37.2	$64.7	$38.2	$194.7
Acquisitions	$402.0	$1,142.1	$42.5	$0.0	$25.5	$37.0	$35.0	$97.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cash flow from investing	($452.9)	($1,190.7)	$45.4	($19.4)	($43.4)	($54.6)	($56.3)	($173.7)	($20.8)	($20.7)	($21.2)	($22.0)	($84.7)	($91.8)
Change in debt	$505.5	$738.7	($58.0)	$25.6	$25.6	$24.1	($7.0)	$68.4	($757.0)	($7.0)	($7.0)	($7.0)	($778.0)	($28.0)
Cash flow from financing	$473.9	$705.2	($73.8)	$22.8	$22.9	$22.0	($9.9)	$57.8	$188.2	($16.7)	($16.7)	($16.7)	$138.3	($66.6)
Change in cash	$243.8	($215.3)	($33.1)	($1.8)	($0.5)	$1.1	$24.5	$23.4	$175.7	($67.7)	$20.5	$48.0	$176.5	$128.1
Balance Sheet:														
Cash	$262.0	$46.7	$13.6		$11.3	$11.6	$36.2	$36.2	$212.7	$212.7	$212.7	$212.7	$212.7	$340.8
Assets	$4,541.1	$5,513.1	$5,441.1		$5,464.0	$5,489.6	$5,651.5	$5,651.5	$5,811.9	$5,754.2	$5,831.3	$5,955.6	$5,955.6	$6,298.5
Liabilities	$3,805.7	$4,712.7	$4,657.1		$4,687.7	$4,830.3	$4,990.3	$4,990.3	$4,126.6	$4,043.9	$4,102.7	$4,200.8	$4,200.8	$4,434.6
Equity	$705.0	$774.8	$754.8		$749.2	$631.5	$633.5	$633.5	$1,657.5	$1,682.6	$1,700.9	$1,727.0	$1,727.0	$1,836.2
Net Debt/TTM adj EBITDA	**6.0x**	**6.9x**	**6.8x**		**6.7x**	**6.6x**	**6.5x**	**6.5x**	**4.6x**	**4.8x**	**4.7x**	**4.5x**	**4.5x**	**4.0x**

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

BrightSpring Health Services (BTSG)

Our PO of $14 is based on 10.0x 2024E Adj EBITDA, about 20% below the average multiple for the comp group due to its much higher leverage and lower margins. The 10x multiple is about 20% discount to its closest comps for BTSG's Provider segment, and about 30% discount to its closest comps for BTSG's Pharmacy segment. Also, it is a 9% discount to our estimates implied sum-of-the-parts multiple given the higher leverage compared to the comps used.

Risks are government reimbursement changes, high leverage, worse-than expected volume growth, cost pressures, inability to win new limited distribution drug (LDD) contracts, deal integration risks, litigation risks.

Analyst Certification

I, Joanna Gajuk, 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 - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, 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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Disclosures

Important Disclosures

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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