

Fortrea

First Look: 4Q23 results & 2024 guide below Street; Asset divestiture

Maintain Rating: UNDERPERFORM | PO: 29.00 USD | Price: 36.83 USD

4Q sales -0.5% below, adj. EBITDA -7% below Street

Fortrea (FTRE) reported 4Q revenues of \$775mn vs. BofAe/Street \$786/779mn. Adj EBITDA was \$67mn (8.7% margin) vs. BofAe/Street \$75mn (9.4% margin)/\$72mn, as Clinical Services came in at \$710mn vs BofAe \$720mn, while Enabling Services of \$66mn were in-line with BofAe. Adj EPS were \$0.19. vs. BofAe/Street \$0.25/0.23. The quarterly book-to-bill was 1.30x (had noted that it exceeded 1.2x at a conference in early January) vs BofAe 1.39x and 1.29x on a TTM basis. FTRE exited 4Q with net debt leverage of 5.7x and generated FCF of +\$3mn. See Exhibit 1 for details.

Exhibit 1: Overview of FTRE's 4Q23 results

4Q sales inline, Adj. EBITDA and EPS below

	Actual	BofA estimate	Street estimate
Revenue (mn)	\$775	\$786	\$779
Clinical Services revenue (mn)	\$710	\$720	N/A
Clinical Services backlog (mn)	\$7,392	\$7,439	N/A
Enabling Services revenue	\$66	\$66	N/A
GM%	15%	18%	18%
Adj EBITDA (mn)/Adj EBITDA margin %	\$67 / 8.7%	\$75 / 9.5%	\$72 / 9.3%
Adj EPS	\$0.19	\$0.25	\$0.23

Company Filings, BofA Global Research Estimates, Bloomberg

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2024 guide falls short of the Street

The FY24 guide sees sales of \$3.140-3.205bn (+1-3%) vs. BofAe/Street \$3.21/3.20bn; Adj EBITDA of \$280-320mn (+4.8-19.7%) vs. BofAe/Street \$312/319mn. The implied FY adj. EBITDA margin outlook of ~9.5% at the midpoint highlights FTRE's ongoing profitability challenges relative to peers and implies a sharp 2H24 ramp as the company still expects to exit FY24 at FY22's ~13% margin level.

Endpoint divestiture should help reduce leverage

FTRE also announced that it will divest its Endpoint Clinical and Fortrea Patient Access businesses for \$345mn, with the transaction expected to close in 2Q24. We note that FTRE's initial FY24 guide excludes the sale, and so we look for more color on the financial impact during the call. That said, the sale will help FTRE to accelerate its deleveraging and simplify its operations.

Thoughts on shares; call at 9:00am EST

Overall, 4Q23 results and FY24 guidance were below expectations. FTRE will hold a conference call at 9:00am and we look for color on the 2024 guidance assumptions, including margin expansion throughout the year, the asset sales, biopharma customer activity trends, and the competitive landscape. We maintain our Underperform rating, on valuation and as we still see substantial time and investment required for FTRE to close its gaps in growth and profitability to peers.

11 March 2024

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Stock Data

Price	36.83 USD
Price Objective	29.00 USD
Date Established	13-Nov-2023
Investment Opinion	C-3-9
52-Week Range	24.93 USD - 38.47 USD
Mrkt Val (mn) / Shares Out (mn)	3,256 USD / 88.4
Free Float	99.9%
Average Daily Value (mn)	27.58 USD
BofA Ticker / Exchange	FTRE / NAS
Bloomberg / Reuters	FTRE US / FTRE.OQ
ROE (2023E)	5.2%
Net Dbt to Eqty (Dec-2022A)	-1.5%

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Timestamp: 11 March 2024 08:36AM EDT

Price objective basis & risk

Fortrea (FTRE)

Our \$29 PO is based on 10x BofAe 2025 EV/EBITDA reflecting a discount to CRO peers. We believe that this multiple is warranted given the company's lower growth and margin profiles, as well as its lack of recent track record as a standalone entity. Upside risks are better than expected sales growth and margin expansion, and the acquisition of the company. Downside risks are lower sponsor R&D spending, competition, inflationary pressures, execution risks, and regulatory risks.

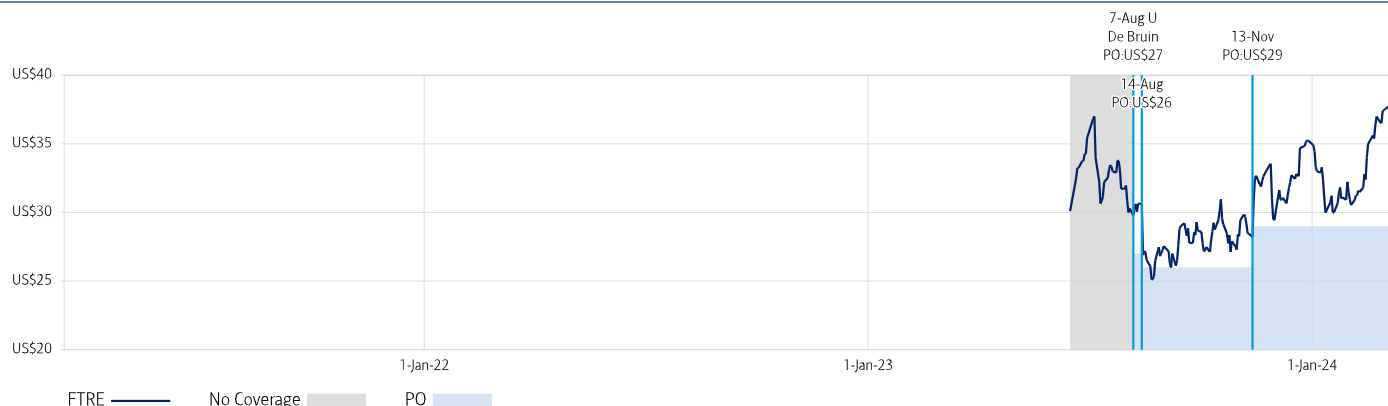
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Fortrea (FTRE) Price Chart



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

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

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

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

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