

## Patterson Companies

## Near-term headwinds should ease, and above market growth should persist

Reiterate Rating: BUY | PO: 34.00 USD | Price: 26.27 USD

## Dental consumable share gain can continue

Patterson's 4Q miss was largely driven by softness in dental equipment and the companion animal health end-markets, along with continued investments across both segments. Meanwhile, dental consumables continue to grow above market and support share gains, even excluding a ~2% growth tailwind related to a peer's cybersecurity incident. On equipment and the animal health companion markets, headwinds are likely to persist through the end of FY24, but this is a macro factor impacting the industry overall. We expect performance in dental equipment to improve along with the end-market in FY25 as digital pricing headwinds exit the model and core equipment trends benefit from stronger end market demand. Meanwhile, Animal health segment margins continue to show steady progress, expanding y/y over the last 5 out of 6 quarters. Overall, PDCO is well positioned to grow the topline ahead of the market with near-term margin pressure from investments in software/ERP implementations to ease over the coming year supporting operating leverage. While ongoing macro concerns around dental equipment purchasing trends and volatility in margins weigh on sentiment, we continue to like PDCO's ability to drive growth ahead of the market with room to improve the margin profile. Reiterate Buy with a \$34 PO on the same c9.5x CY24E EV/EBITDA.

## Adjusting our FY24/FY25 EPS following 3Q results

We are lowering our FY24E EPS from \$2.36 to \$2.33 on lower equipment and companion animal health revenue in 4Q compounding on the 3Q miss. Our FY25E EPS increases slightly from \$2.65 to \$2.66 as lower revenues and less operating leverage in our model is more than offset by a lower share count.

## Key themes and catalysts: End-market trends

The most important near-term catalyst will continue to be the pacing of dental and vet visit volumes in the U.S., particularly against what remains a fluid macro backdrop. We also look for ongoing impact to the current financing environment, which could support dental equipment. On Animal health, continued improvement in margin expansion will be key, with vet visits/demand driving incremental leverage. We look for trends therein especially given softness in the companion market. Finally, we look for any updates on capital deployment, given management's continued willingness to evaluate M&A opportunities.

Estimates (Apr) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.27	2.42	2.33	2.66	2.97
GAAP EPS	2.07	2.12	2.02	2.29	2.57
EPS Change (YoY)	18.8%	6.6%	-3.7%	14.2%	11.7%
Consensus EPS (Bloomberg)			2.36	2.53	2.76
DPS	1.03	1.04	1.14	1.14	1.14
Valuation (Apr)					
P/E	11.6x	10.9x	11.3x	9.9x	8.8x
GAAP P/E	12.7x	12.4x	13.0x	11.5x	10.2x
Dividend Yield	3.9%	3.9%	4.3%	4.3%	4.3%
EV / EBITDA*	9.7x	8.9x	9.1x	8.2x	7.6x
Free Cash Flow Yield*	-41.9%	-33.6%	8.6%	9.3%	10.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Refer to important disclosures on page 11 to 13. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

12665228

Timestamp: 28 February 2024 01:23PM EST

28 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	35.00	34.00
2024E EPS	2.36	2.33
2025E EPS	2.65	2.66
2026E EPS	2.96	2.97
2024E EBITDA (m)	359.8	350.9
2025E EBITDA (m)	403.1	389.1
2026E EBITDA (m)	434.9	421.4

**Allen Lutz, CFA**  
Research Analyst  
BofAS  
+1 646 855 4380  
[allen.lutz@bofa.com](mailto:allen.lutz@bofa.com)

**Dev Weerasuriya**  
Research Analyst  
BofAS  
+1 646 855 5707  
[dev.weerasuriya@bofa.com](mailto:dev.weerasuriya@bofa.com)

**Hanna Lee**  
Research Analyst  
BofAS  
+1 646 855 3682  
[hanna.y.lee@bofa.com](mailto:hanna.y.lee@bofa.com)

## Stock Data

Price	26.27 USD
Price Objective	34.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.00 USD - 34.53 USD
Mkt Val (mn) / Shares Out (mn)	2,434 USD / 92.7
Free Float	89.0%
Average Daily Value (mn)	20.98 USD
BofA Ticker / Exchange	PDCO / NAS
Bloomberg / Reuters	PDCO US / PDCO.OQ
ROE (2024E)	20.6%
Net Dbt to Eqty (Apr-2023A)	33.3%
ESGMeter <sup>TM</sup>	Medium

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".

ERP – Enterprise resource planning

LSD – Low single digit

VAS – Value-added services

# iQprofile<sup>SM</sup> Patterson Companies

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.3%	14.4%	13.0%	13.7%	14.6%
Return on Equity	21.7%	21.9%	20.6%	23.0%	23.1%
Operating Margin	4.4%	4.9%	4.6%	5.0%	5.2%
Free Cash Flow	(1,019)	(819)	210	226	254

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-4.4x	-3.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.9x	1.4x	5.5x	5.6x	5.3x
Tax Rate	23.8%	23.6%	24.0%	25.3%	25.5%
Net Debt-to-Equity Ratio	36.0%	33.3%	52.6%	43.9%	32.5%
Interest Cover	14.0x	9.3x	7.0x	8.4x	10.2x

## Income Statement Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,499	6,471	6,565	6,805	7,041
% Change	9.9%	-0.4%	1.4%	3.7%	3.5%
Gross Profit	1,289	1,373	1,398	1,461	1,521
% Change	7.1%	6.5%	1.8%	4.5%	4.1%
EBITDA	328	360	351	389	421
% Change	12.4%	9.5%	-2.4%	10.9%	8.3%
Net Interest & Other Income	7	(6)	(17)	(20)	(16)
<b>Net Income (Adjusted)</b>	<b>224</b>	<b>236</b>	<b>217</b>	<b>238</b>	<b>261</b>
<b>% Change</b>	<b>20.9%</b>	<b>5.7%</b>	<b>-8.1%</b>	<b>9.5%</b>	<b>10.0%</b>

## Free Cash Flow Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	221	234	216	237	261
Depreciation & Amortization	82	84	49	52	55
Change in Working Capital	(1,145)	(1,037)	(11)	(25)	(25)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(138)	(36)	15	11	13
Capital Expenditure	(38)	(64)	(59)	(48)	(49)
<b>Free Cash Flow</b>	<b>-1,019</b>	<b>-819</b>	<b>210</b>	<b>226</b>	<b>254</b>
<b>% Change</b>	<b>-34.8%</b>	<b>19.6%</b>	<b>NM</b>	<b>7.7%</b>	<b>12.4%</b>
Share / Issue Repurchase	(35)	(55)	(275)	(100)	(100)
Cost of Dividends Paid	(101)	(101)	(106)	(102)	(100)
Change in Debt	(125)	15	216	(118)	(75)

## Balance Sheet Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	142	160	225	158	168
Trade Receivables	447	477	493	521	548
Other Current Assets	1,090	1,146	1,176	1,232	1,288
Property, Plant & Equipment	213	212	247	269	290
Other Non-Current Assets	849	884	866	859	849
<b>Total Assets</b>	<b>2,742</b>	<b>2,879</b>	<b>3,007</b>	<b>3,038</b>	<b>3,144</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	987	1,004	1,039	1,096	1,155
Long-Term Debt	518	532	748	630	555
Other Non-Current Liabilities	195	224	227	236	244
<b>Total Liabilities</b>	<b>1,699</b>	<b>1,761</b>	<b>2,014</b>	<b>1,962</b>	<b>1,954</b>
<b>Total Equity</b>	<b>1,043</b>	<b>1,119</b>	<b>994</b>	<b>1,076</b>	<b>1,190</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,742</b>	<b>2,879</b>	<b>3,007</b>	<b>3,038</b>	<b>3,144</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

## Company Sector

Healthcare Technology & Distribution

## Company Description

PDCO is one of the largest distributors of dental and veterinary, including both companion animal and production animal, supplies and equipment in the US. PDCO supplements its core logistics functions with additional value-added services to its primarily fragmented customer base. The company is headquartered in Minnesota.

## Investment Rationale

Our Buy rating is based on our view that PDCO has made its way through a negative revision cycle, with positive momentum from ongoing share gains as well as XRAY's Primescan upgrade cycle, aided as well by easy comps. With a multi-year sales force repositioning now executing on driving improved overall growth, we see an improved risk/reward profile and think the stock can see multiple acceleration.

## Stock Data

Average Daily Volume 798,766

## Quarterly Earnings Estimates

	2023	2024
Q1	0.32A	0.40A
Q2	0.63A	0.50A
Q3	0.62A	0.59A
Q4	0.84A	0.84E

# FY3Q'24 call notes

## Prepared remarks

- Y/Y sales growth and gross margin expansion in 3Q – Internal sales growth from dental consumables and animal health production
- Returned \$150MM to shareholders in Quarter via dividends/share repurchases
- Guidance down due to headwinds in dental equipment
- Core objectives:
  - Drive growth above end-market growth
  - Enhance margin expansion
  - Evolve products and channel
  - Improve efficiency and optimization
- Invested in distribution and software offerings
  - Dental distribution facility in Montreal, Canada- will enhance ability to serve Canadian customers
  - Fully automated animal health center in U.K – strengthened market position in region
  - Software suite in dental/animal health – to drive productivity gains
    - Dental announcement with Pearl – Artificial Intelligence for second opinion into practice management solutions (Diagnosis of X-rays)
    - Also partnering to build integrations to Fuse and Dolphin software
  - Majority of U.S. cattle feed on turn-key platform
- Last year acquisitions – DairyTech – operating as a Patterson owned brand – executing ahead of expectations
- FY25 – expect resiliency in dental/animal health
- FY24 Guidance
  - Adj. EPS of \$2.30 -\$2.35

## FY3Q'24 financials and segment results

- Patterson Dental
  - Internal sales up 2.5% y/y – driven by consumables. Consumables up 6.3%, non-infection up 7.3%. Infection product deflation impact moderated and expected to normalize at end of 2024. Consumables/Equipment performed better than market in quarter
  - Equipment impacted by macro and price declines
    - CAD/CAM drove positive growth



- Adj. operating margin of 8.9% - down 130bps y/y. Higher expenses due to enterprise resource planning (ERP)
- Above market growth in consumables – avg. consumables growth of ~5% ex-infection in 2024
- Driven by strong relationships with customers across a wide range of sizes
- Consumables supported by consistent patient traffic – patients prioritizing essential dental
- Equipment internal sales down – although high-equipment better but core was down. Continued macro-economic pressure. Expect 4Q to continue to see this pressure
- Dental internal sales in Value-added service flat y/y – represent entire suite of offerings (software and E-services)
- See dental market as stable overall
- Patterson Animal Health
  - Internal sales decreased 1.5% - above market growth in production offset by companion
    - Total companion decreased 3.8% y/y . U.K business offset by U.S. companion animal
    - Production animal up 1.1% y/y – omnichannel approach with diverse species supporting above market growth
  - Operating margin up y/y with gross margin up y/y and supported by expense discipline
  - 22bps of operating margin expansion – improvement in 6 of the last 8 quarters
  - Companion animal – Low-single digits (LSD) decline of internal sales. Reflects strategic decision to focus on more profitable businesses that dampened top line.
  - Expect companion animal to grow LSD in the long-term
  - Production animal – 3Q internal sales grew LSD. Outperforming broader production animal market.
- Financials
  - 3Q sales grew 1% y/y – internal sales grew 0.3% y/y
  - Beginning in 2Q'24 provided adjusted gross margin – adjusts for market to market interest rate wrap (doesn't impact segment margins). Adj. gross margin up 30bps y/y
  - Adj. operating expenses - down 70bps y/y. Attributed to expenses in investments for distribution/software
  - Consolidated adj. operating margin down y/y
  - For rest of FY24 – expect expense discipline and margin expansion initiatives

- Adj. Net income down y/y – driven by lower sales of dental equipment and higher operating expenses
- Free cash flow improvement y/y due to lower working capital
- Capital allocation
  - Capex up y/y due to investments in distribution/software/value-added services
  - Repurchased \$124MM of shares
- Outlook for FY24
  - GAAP \$1.99 - \$2.04
  - Adj. ESP \$2.30 - \$2.35
  - Accounts for macro and end-market conditions to persist through end of FY24 year

## Q&A

- FY25 and backlog?
  - 4Q guidance – macro pressures on equipment. Strength in the market and position will be more important in FY25
  - Move into FY25 – should see improvement in the equipment side of the business
- Ongoing operational improvements – where are you in that journey? And how much can this offset demand curve volatility?
  - Have a lot of opportunity still
  - Chief operating officer role – focused on getting efficiencies in the business. There is more to be done. Some of it is short term gains that have been worked through. More of it is centered around things that will take some time.
  - Example in FY24 – logistics network. Came online with two distribution centers (U.K and Canada) – leveraging capital spend that will pay off with better efficiencies moving forward
- Is mid-single digit growth in consumables sustainable? Benefit from competitor challenges?
  - There is a little bit of art trying to pin down benefit – hard to calculate with precision. If you look at 4 fiscal quarters prior to Q3 – just above 5% growth ex-infection. Best estimate of impact is that added about 2% points to growth (so ex-infection in 3Q likely in 5% range vs. 7%)
  - Have taken a disciplined approach – looking for share that can be sustained
- So another 2 quarters or so until you lap the animal health product prioritization? And any products coming to light in coming quarters?
  - Taking a disciplined approach – servicing customers/balancing profitability



- Continuing dynamic in this quarter. Not sure will lap in the next two quarters. Will see how industry evolves – there could be some roll-over after the next two quarters
- There are some innovative products coming to market – have good plans for the companion business
- Planned for an expected companion business – holding margin profile as expected
- Not only innovative products that are coming, but looking to expand service offering to higher-margin EBITDA streams
- Margins – dental equipment performance doesn't help, consumables was strong. Traditionally a higher margin business? Enough to give leverage? Why didn't it come through? What would margins be without investments
  - Did see gross margins for the company expand. Puts and takes from a mix standpoint. Consumables gross margin mix is beneficial. Issue is on operating expense – bit higher in 3Q and normalize into 4Q
  - Going into 4Q and beyond – focused on leveraging operating expenses and getting that in-line (tailwind for the company)
  - P&L margin initiatives built on leveraging sales growth. Overall – sales growth was 4% in 1Q and lagged behind the last two quarters – so makes the leveraging story more difficult
- What should we expect on spend coming out in 4Q and FY25? Animal health – next year of comps easier, but do you have visibility on companion business improving?
  - OpEx – 4Q typically see better leverage than earlier. Expect OpEx as percentage of sales to decrease similar how it did last year
  - Companion – working through budgets for FY25 and dynamics
- Are the 2% of consumables growth benefit from share-gains sustainable? Not seeing consumables grow 5% (volumes not growing more than LSD) – where are you getting the growth (online discount brokers losing share) – couple of points above market growth over the last 4 quarters?
  - 5% - really is across the board, not a specific area that is driving growth
  - On sustainability of 2% - taking a disciplined approach to work with share that is sustainable. Have optimism about ability to keep it.
  - Sustainability of 7% growth rate – very competitive market. Like the trend here. Not necessarily thinking can keep up at 7%
- Basic equipment – little bit less exposure to DSO's than competitors. Private practice view from PDCO better. Pricing more flattish in the coming year. What is private practice expansion looking like?
  - There is opportunity here in the private practice. Moderated in the quarter.
  - Want to look at it more on historical/core equipment market overtime as flat to slightly up

- Dental patient traffic trends have been all over the place? What is the exit rate in January and so far in February?
  - Generally – viewed patient traffic as steady and favorable over the longer-term
  - That is view on moving forward as well
- SG&A spend up on strategic investments and spend. What is the duration of the spend? When should we expect that to normalize?
  - Portion of distribution spend normalized in 4Q (stepped down)
  - Software investments will be more sustaining. Will see a step down in 4Q and moving forward due to warehouse expansions
- Pricing headwinds in the intraoral scanner side?
  - Talked a bit about pricing pressure. Seeing some stabilization – sort of lap it – quarter or two more maybe, but stabilizing on high-tech categories
- Value-added service on dental flat y/y? what drove that vs. historical trends a little light?
  - Includes a variety of services. Some seasonality and puts/takes in tech/software business quarter to quarter. Flattish this quarter
  - Expect it to normalize moving forward
  - Important one to look at through longer period of time
- FY25 – headwinds and tailwinds on spend/capital deployment – should these be headwinds/tailwinds? What might be incrementally positive or negative to earnings growth?
  - Share buybacks – returned a lot more capital to shareholders. Share cut tailwind on EPS in 4Q and through FY25
  - Some of the capital expenses – elevated capex, may step down a bit next year, but still a lot of investment opportunities to fund
  - Some of the particular projects will go away, but are finding more opportunities internally that are good investment value for capital. Expect to continue and be aggressive in internal projects
- Dental equipment – messaging from peer is that demand was come back in 2H of CY24 – do you think demand is elastic based on price? Was it purely macro/interest rates?
  - Both of those factors have factored in significantly to equipment market. Difficult to call where it's going. Move into FY25 (May) feel like early in the year, but later in the year see improvement
  - Little bit tied to the innovation cycles that could drive that
- Contribution of private label products in dental? opportunities in specialty? Interest in expanding the presence there?



- Private label side – continues to be an area of focus for the team. Expanded portfolio of private label – good adoption and positive growth there. Focus for PDCO
- Specialty – segment of market that PDCO is not significantly in. Certainly over time would want to be in that area. Has to be right entry point/transaction. Hard to say if that is a definite
- Impact in 4Q due to incentive comps?
  - Even with the comp last year, expect to see leverage this year
  - See moderating spend in 4Q on initiatives and a spend down as % of sales in 4Q
- How does it break down b/w core and digital equipment spend? Is that what drove outlook?
  - Narrow in on last couple months of the fiscal year, see core softer in 3Q and built that in for the next couple of months
- How has investment spend been split between animal and dental? where should we see step up in margins?
  - Fairly split distributions in animal health and dental
  - Software are more focused on dental portfolio – run a bit longer than animal health



## Price objective basis & risk

### Patterson Companies (PDCO)

Our \$34 PO equates to about 9.5x our CY24E EV/EBITDA. We are using EV/EBITDA to align PDCO's valuation with the rest of the peer group. This multiple is about 1x below the five-year average and accounts for the challenged end market dynamics. We also view the increased risk of competition on animal health and consumer risk as warranting a discount relative to historical valuation.

Upside risks to our PO are improvement in core Dental growth, incremental equipment sales, and cost rationalization, particularly within Animal Health. An improved margin profile would also warrant a higher multiple for PDCO given it trades at a discount to peers.

Downside risks are a slowdown in total demand with broader macro concerns, worse-than-expected ramping in consumables, animal health market pressures, incremental OpEx spend that hampers EPS growth, and new competition from Amazon and other non-traditional players creating both growth and margin pressures.

## 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
<b>BUY</b>				
	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
	Omniceil Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

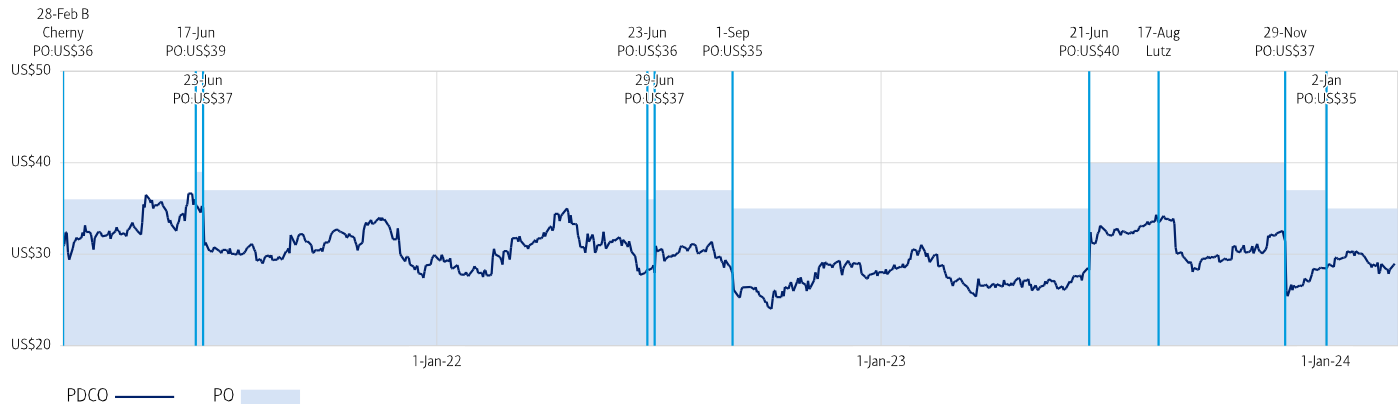
iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

iQprofile<sup>SM</sup>, iQmethod<sup>SM</sup> are service marks of Bank of America Corporation. iQdatabase<sup>®</sup> is a registered service mark of Bank of America Corporation.

# Disclosures

## Important Disclosures

### Patterson Companies (PDCO) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

<sup>R2</sup> 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Patterson Companies.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Patterson Companies.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Patterson Companies.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Patterson Companies.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Patterson Companies.

BofAS together with its affiliates beneficially owns one percent or more of the common stock of this issuer. If this report was issued on or after the 9th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 9th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Patterson Companies.

BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: Patterson Companies.



The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: Patterson Companies. BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

## Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Global Research policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.

The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.

Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Refer to [BofA Global Research policies relating to conflicts of interest](#).

**'BofA Securities' includes BofA Securities, Inc. ('BofAS') and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. 'BofA Securities' is a global brand for BofA Global Research.**

### Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:

BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at [www.bofam.com/BofASEdisclaimer](http://www.bofam.com/BofASEdisclaimer); BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSF); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSF; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the [Electronic Communications Disclaimers](#) for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

### General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.

This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not



deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BoFA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BoFA or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BoFA or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BoFA Securities, through business units other than BoFA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BoFA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BoFA for the provision of research services for a separate fee, and in connection therewith BoFA may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BoFA has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BoFA). If such recipient uses the services of BoFA in connection with the sale or purchase of a security referred to herein, BoFA may act as principal for its own account or as agent for another person. BoFA is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

#### **BoFA ESGMeter Methodology:**

ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's Environmental, Social and Governance-related attributes. The ESGMeter is intended to indicate a company's likelihood of experiencing stronger financial stability (higher return on equity and lower earnings and price volatility) over the next three years relative to peer group. There are three ESGMeter levels - Low, Medium, and High - which indicate whether a company has attributes most likely to translate into superior financial stability (in the case of a High level) or weaker financial stability (in the case of a Low level) over the next three years relative to its peer group. A Medium level suggests that a company exhibits ESG characteristics that are likely associated with financial stability results in line with its peer group over the next three years. Full details of our methodology, financial stability definition and disclaimers are available at [BoFA ESGMeter methodology](#). ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of the BoFA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.

#### **Copyright and General Information:**

Copyright 2024 Bank of America Corporation. All rights reserved. iQdatabase® is a registered service mark of Bank of America Corporation. This information is prepared for the use of BoFA Securities clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BoFA Securities. BoFA Global Research information is distributed simultaneously to internal and client websites and other portals by BoFA Securities and is not publicly-available material. Any unauthorized use or disclosure is prohibited. Receipt and review of this information constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained herein (including any investment recommendations, estimates or price targets) without first obtaining express permission from an authorized officer of BoFA Securities.

Materials prepared by BoFA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BoFA Securities, including investment banking personnel. BoFA Securities has established information barriers between BoFA Global Research and certain business groups. As a result, BoFA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BoFA Global Research personnel's knowledge of legal proceedings in which any BoFA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BoFA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BoFA or any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BoFA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BoFA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BoFA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BoFA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BoFA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BoFA Securities is under no obligation to update this information and BoFA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BoFA Securities will not update any fact, circumstance or opinion contained herein.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and BoFA Securities policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BoFA or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BoFA Securities nor any officer or employee of BoFA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.

