

Bausch & Lomb

Strong finish to 2023; solid initial 2024 guide

Reiterate Rating: BUY | PO: 20.00 USD | Price: 16.60 USD

Revenues beat Street by 6%; EPS beats by 41%

Q4 revenue of \$1.17bn (+7% organic) beat the Street by 6%. Q4 EPS of \$0.24 beat the Street by 7c or 41%. The 2024 revenue guide of \$4.6-4.7bn (+6% organic) is 2% higher than the Street at the midpoint and EBITDA guidance (\$840-890m) implies margin expansion of 80bps inline with early January comments. Bausch & Lomb (BLCO) shares were up 14% today on the strong results/guide as the stock nearly climbed back to where it started the year. We think the implied EBITDA margin guide eases investor concerns that have weighed on the stock thus far this year. Strong Xiidra/Miebo performances/2024 guides stood out but BLCO executed across all product lines. We reiterate our Buy as we see positive risk reward from here.

Xiidra rebound earlier than expected; '24 guide beats ests.

Xiidra sales in Q4 were \$106m, well ahead of the \$80-90m guide even when backing out an \$8m one-time benefit. Xiidra scripts stabilized in Q4 after weakness earlier in the year before the acquisition. BLCO was looking for a 2H24 rebound, but now expects \$400m in Xiidra sales in 2024 versus our estimate of \$355m. The Xiidra 2024 sales growth is 13% well above the expected the company's long-term mid single digit target.

Miebo 2024 sales guide of \$95m (vs our \$40m)

BLCO expects Miebo sales of \$95m in 2024 (vs our \$40m est) which we estimate would contribute ~200bps to overall organic growth. Initial uptake remains robust despite limited managed care coverage right now. Refill rates are trending higher than the rest of BLCO's dry eye products. Payers seem more open to coverage than they were a quarter ago due to the strong demand, per mgmt. BLCO expects strong commercial coverage in 2H24 and Medicare to catch up in 2025. Management believes peak sales can exceed its estimate of \$350m but did not give an updated figure.

Solid growth across full portfolio; 2024 rev guide +6% org

Contact lens grew +9% y/y (excluding the Lynchburg facility disruption) slightly above 7-8% overall market growth. Surgical equipment growth was up 13% driven by Stellaris. Key growth products saw strong growth: Lumify (+17% y/y), daily silicone hydrogel lens (+31% y/y), premium intra ocular lens (+30% y/y). 2024 rev guide implies +12-14% y/y ex-Fx growth (~\$40m of fx headwind) and ~6% organic growth by our math. We raise our 2024/25E revenue to \$4.666/\$4.935bn (from \$4.510/\$4.770bn) and EPS to \$0.57/\$0.85 (from \$0.50/\$0.81).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.07	0.73	0.57	0.85	1.14
GAAP EPS	0.02	(0.74)	(0.33)	(0.05)	0.24
EPS Change (YoY)	2.9%	-31.8%	-21.9%	49.1%	34.1%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.5x	22.7x	29.1x	19.5x	14.6x
GAAP P/E	830.0x	NM	NM	NM	69.2x
EV / EBITDA*	13.8x	13.5x	11.5x	10.4x	9.4x
Free Cash Flow Yield*	2.9%	1.3%	-0.3%	0.5%	1.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,509.6	4,665.9
2025E Rev (m)	4,769.7	4,935.2
2026E Rev (m)	5,031.8	5,207.0
2024E EPS	0.50	0.57
2025E EPS	0.81	0.85
2026E EPS	1.11	1.14

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Stock Data

Price	16.60 USD
Price Objective	20.00 USD
Date Established	25-Oct-2023
Investment Opinion	B-1-9
52-Week Range	13.62 USD - 21.95 USD
Mkt Val (mn) / Shares Out (mn)	5,826 USD / 351.0
Free Float	11.1%
Average Daily Value (mn)	7.94 USD
BofA Ticker / Exchange	BLCO / NYS
Bloomberg / Reuters	BLCO US / BLCO.N
ROE (2024E)	3.0%
Net Dbt to Eqty (Dec-2023A)	57.2%
ESGMeter™	NLA

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".

iQprofileSM Bausch & Lomb

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	4.8%	4.6%	4.7%	5.2%	5.7%
Return on Equity	4.5%	3.7%	3.0%	4.4%	5.8%
Operating Margin	13.8%	13.4%	13.7%	14.4%	15.2%
Free Cash Flow	170	75	(18)	32	112

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.8x	0.7x	0.6x	0.7x
Asset Replacement Ratio	0.9x	0.7x	0.7x	0.6x	0.6x
Tax Rate	2.0%	6.3%	15.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	29.0%	57.2%	55.4%	50.3%	42.9%
Interest Cover	3.7x	2.2x	1.7x	2.1x	2.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,768	4,146	4,666	4,935	5,207
% Change	0.1%	10.0%	12.5%	5.8%	5.5%
Gross Profit	2,249	2,527	2,889	3,075	3,260
% Change	-2.1%	12.4%	14.3%	6.4%	6.0%
EBITDA	720	738	866	962	1,057
% Change	-12.3%	2.5%	17.4%	11.1%	9.8%
Net Interest & Other Income	(127)	(269)	(385)	(340)	(300)
Net Income (Adjusted)	375	256	203	303	406
% Change	3.0%	-31.7%	-20.8%	49.5%	33.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	377	256	203	303	406
Depreciation & Amortization	199	183	229	252	266
Change in Working Capital	(38)	(117)	(151)	(60)	(63)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(193)	(111)	(146)	(301)	(326)
Capital Expenditure	(175)	(135)	(152)	(161)	(170)
Free Cash Flow	170	75	-18	32	112
% Change	-75.0%	-55.7%	NM	NM	249.4%
Share / Issue Repurchase	0	(9)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	2,424	2,010	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	354	515	665	979	1,416
Trade Receivables	724	818	933	987	1,041
Other Current Assets	1,059	1,224	1,300	1,367	1,435
Property, Plant & Equipment	1,300	1,281	1,280	1,268	1,256
Other Non-Current Assets	7,707	9,255	8,990	8,718	8,432
Total Assets	11,144	13,095	13,167	13,319	13,580
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,296	1,448	1,563	1,653	1,744
Long-Term Debt	2,411	4,435	4,435	4,435	4,435
Other Non-Current Liabilities	336	364	364	364	364
Total Liabilities	4,043	6,247	6,362	6,452	6,543
Total Equity	7,101	6,848	6,805	6,867	7,036
Total Equity & Liabilities	11,144	13,095	13,167	13,319	13,580

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Medical Technology

Company Description

Bausch + Lomb is a global eye health company with strong brand recognition with a broad product portfolio of contact lenses, over the counter drops and solutions, ocular surgery equipment and instrumentation and branded and generic prescription pharmaceuticals to treat a wide variety of eye conditions. BLCO operates in three primary segments - Vision Care, Surgical and Ophthalmic Pharmaceuticals.

Investment Rationale

BLCO is one of the top four eye health companies in the world with a well-recognized and respected brand. BLCO's core business should continue to grow in the mid-single digits, in line with the eye health market. New and upcoming product launches should get BLCO deeper into the higher growth, higher-margin eye health segments such as daily silicone hydrogel contact lenses, premium intra-ocular lenses and drugs for dry eye disease.

Stock Data

Average Daily Volume 478,371

Quarterly Earnings Estimates

	2023	2024
Q1	0.10A	0.03E
Q2	0.18A	0.11E
Q3	0.22A	0.15E
Q4	0.24A	0.28E



Price objective basis & risk

Bausch & Lomb (BLCO)

Our \$20 PO is based on 11.5x our 2025E EBITDA which is a discount to ophthalmology peers trading around 18x. We think the discount is warranted as uncertainty around the spin completion from Bausch Health remains an overhang and BLCO has slower growth and lower margins than peers. Our price objective assumes that BLCO should be able to close the valuation gap to peers with consistent top-line growth and potential margin expansion.

Downside risks to our price objective are 1) delay in the timing of the spin from BHC, 2) poor commercial execution of new product launches, 3) additional COVID outbreaks or lockdowns, and 4) deterioration of global economic conditions.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

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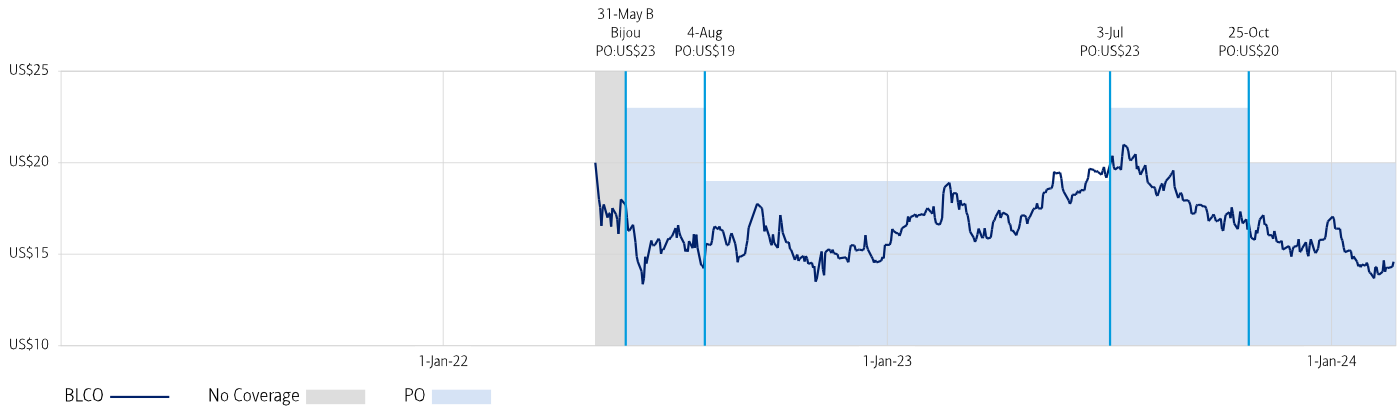
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Bausch & Lomb (BLCO) Price Chart



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

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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

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

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

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