

Owens & Minor

4Q EPS beat, but segments missed on revs/EBIT, FY24 guide mixed

Maintain Rating: UNDERPERFORM | PO: 16.00 USD | Price: 21.21 USD

Improving profitability will be key in the near-term

OMI's 4Q results were mixed, adj. EPS beat ST/BofAe while Revs/adj. EBITDA missed. Heading into the quarter, there was caution around a steep 4Q ramp implied in the guide, and while adj. EPS beat, both Patient Direct (PD) and Products & Healthcare Services (P&HS) segment EBIT missed Street expectations. Meanwhile, the FY24 guide was largely in-line with recently reset ST expectations, w/ EBITDA light. We expect the call to focus on the components of the FY24 guide, including the growth build for Patient Direct (PD) and timing of the recovery in Products & Healthcare Services (P&HS). While a long-term strategy is now in place, execution/timing around improving P&HS profitability while driving growth in PD will be key. We see continued broader distribution market challenges (both in the P&HS and PD end-markets) that may impact the potential reboot in growth and margin expansion. Maintain U/P, call 8:30am.

EPS beat ST/BofA, both segments missed ST on Revs/EBIT

Total OMI revenue of \$2,656.2MM missed VA consensus estimates of \$2,672.7MM and BofA's estimate of \$2,665.1MM. Adjusted EPS of \$0.69 beat VA consensus estimates of \$0.67 and BofA's estimate of \$0.68. Adjusted EBITDA of \$169.6MM missed VA consensus estimates of \$180.8MM and BofA's estimate of \$182.8MM. From a segment perspective, Patient Direct revenue of \$664.4MM missed VA consensus estimates of \$678.9MM and BofA's estimate of \$679.2MM. PD EBIT of \$77.5MM also missed VA consensus estimates of \$81.6MM and BofA's estimate of \$81.5MM. Products & Healthcare Services revenue of \$1,991.7MM missed VA consensus estimates of \$1,993.8MM and came ahead of BofA's estimate of \$1,985.8MM. P&HS EBIT of \$33.2MM missed VA consensus estimates of \$36.8MM and BofA's estimate of \$42.7MM.

FY24 brackets ST/BofA on Revs/EPS below on EBITDA

The FY24 revenue guide of \$10.5-10.9Bn brackets VA consensus estimates of \$10.67Bn and BofA's estimates of \$10.81Bn. FY24 adj.EPS guidance of \$1.40-\$1.70 also brackets VA consensus estimates of \$1.59 and BofA's estimate of \$1.52. Lastly, FY24 adj.EBITDA guidance of \$550-\$590MM is below VA consensus estimates of \$601.0MM and BofA's estimate of \$597.4MM.

Key topics for the call

We expect the call to focus on the 4Q results and the FY24 guide. In particular, components of the growth build for Patient Direct across Diabetes, Sleep, Respiratory, and HME markets will be key. On P&HS, we look for commentary around recent hospital demand trends and in particular, any details around the mix between PPE and supplies tied to elective procedures as this all ties into FY24 guidance and segment profitability. Additionally, updates on the status of cost-cutting initiatives in particular the build towards the new restructuring targets will be important. Finally, we anticipate additional commentary on the broader plans laid out at the recent investor day, including capital deployment across M&A, debt paydown, and share repurchases.

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Timestamp: 20 February 2024 07:39AM EST

20 February 2024

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Stock Data

Price	21.21 USD
Price Objective	16.00 USD
Date Established	5-May-2023
Investment Opinion	C-3-7
52-Week Range	11.79 USD - 23.66 USD
Mrkt Val (mn) / Shares Out (mn)	1,623 USD / 76.5
Free Float	97.1%
Average Daily Value (mn)	14.58 USD
BofA Ticker / Exchange	OMI / NYS
Bloomberg / Reuters	OMI US / OMI.N
ROE (2023E)	10.8%
Net Dbt to Eqty (Dec-2022A)	255.2%
ESGMeter™	High

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ST-Street

Variance to 4Q'23 results

Exhibit 1: Variance to 4Q'23 Results

Adj. EPS beat ST/BofA, but revs/EBITDA missed ST/BofA as both segment revs/EBIT missed ST.

Fiscal Year Ending

December 31,	4Q'23E	4Q'23A	Δ vs. BofA %	VA Consensus	Δ vs VA - %	4Q'22A	Y-o-Y Growth
Revenue							
Products & Healthcare Services	1,985.8	1,991.7	0.3%	1,993.8	-0.1%	1,933.6	3.0%
Patient Direct	<u>679.2</u>	<u>664.4</u>	-2.2%	<u>678.9</u>	-2.1%	<u>617.5</u>	7.6%
Total Revenue	\$2,665.1	\$2,656.2	-0.3%	\$2,672.7	-0.6%	\$2,551.1	4.1%
Cost of Revenue	<u>2,104.1</u>	<u>2,086.2</u>	-0.8%	<u>2,116.3</u>	-1.4%	<u>2,051.7</u>	1.7%
Gross Profit	\$561.0	\$569.9	1.6%	\$556.4	2.4%	\$499.4	14.1%
Distribution, Selling, & Administrative Expenses	437.1	457.2	4.6%	438.7	4.2%	432.5	5.7%
Restructuring, acquisition and other realignment charges	48.0	50.7	5.7%	51.2	-0.9%	51.8	-2.0%
Deal-Related Amortization (Excluded)	28.0	26.4	-5.6%			23.4	13.0%
Non-Recurring Items (Excluded)	20.0	24.3	21.6%			28.4	-14.3%
Other Operating Expenses	(0.2)	1.9	-903.9%	(0.8)	-344.1%	(0.2)	-939.8%
Adjusted EBIT	\$124.2	\$110.8	-10.8%	\$118.2	-6.3%	\$67.2	64.9%
Products & Healthcare Services EBIT	42.7	33.2	-22.1%	36.8	-9.6%	1.2	2665.7%
Patient Direct EBIT	81.5	77.5	-4.9%	81.6	-5.0%	66.0	17.5%
Intangibles/Add-Backs	(28.0)	(24.3)	-13.2%	3.7	-750.5%	-15	62.1%
Depreciation & Amortization	50.6	44.3	-12.5%	50.5	-12.2%	49.6	-10.6%
EBITDA	\$182.8	\$169.6	-7.2%	\$180.8	-6.2%	\$130.4	30.1%
Interest Expense	38.1	36.9	-3.2%	37.6	-2.0%	41.2	-10.4%
Interest Income	-	-				-	
Other	-	2.16		(10.7)	-120.3%	0.26	737.6%
Income Taxes	33.1	18.2	-45.1%	26.4	-31.1%	4.0	350.7%
Net Income	\$53.0	\$53.6	1.1%	\$52.7	1.7%	\$21.7	146.8%
Adjusted EPS	\$0.68	\$0.69	1.0%	\$0.67	2.0%	\$0.28	142.7%

Source: BofA Global Research, Company Reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Owens & Minor (OMI)

Our \$16.00 price objective is based on approximately 6.0x our CY24 EBITDA estimate. We think that this is the appropriate methodology to use given the company's elevated debt level, with the multiple at the low end of the historical trading range. We view this as appropriate given an uncertain growth reboot and margin pressures. On an EV/EBITDA basis, our PO is in line with the five-year average.

Downside risks to our PO are incrementally worse medical-surgical supplies pricing and volume pressure (including tied to the Covid outbreak), increased competition creating gross profit headwinds, the risk of Amazon or another disruptive force further disrupting the market, the inability to integrate the Apria deal on a timely basis, and the incrementally more difficult comps/growth from PPE.

Upside risks are any potential volume pickup, increases in buy-side/sell-side spreads, and further opportunities for synergy rationalization and cost savings beyond management's plan.

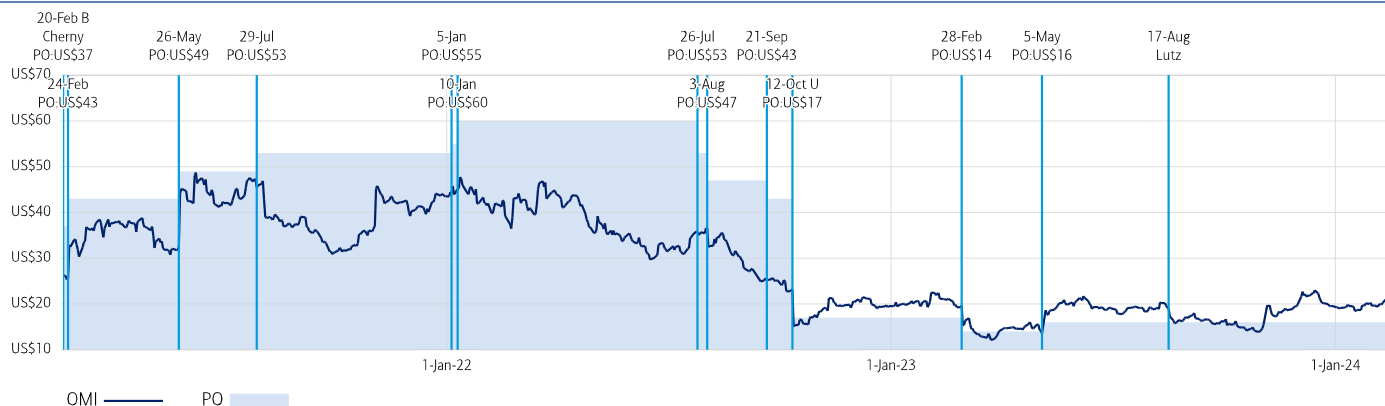
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Owens & Minor (OMI) Price Chart



OMI — PO

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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%
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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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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