

Definitive Healthcare Corp

Model Update

Maintain Rating: BUY | PO: 11.50 USD | Price: 8.25 USD

Adjusting estimates to reflect preliminary FY24 guide

Following Definitive Health's preliminary FY24 guidance announcement we are making minor adjustments to our model. We are reducing our FY24 revenue estimate from \$272.1MM to \$266.6MM and our FY25 revenue from \$297.1MM to \$291.2MM. We are maintaining our EBITDA assumptions for FY24 of \$83.7MM and our assumptions for FY25 of \$94.7MM driven by the company's recently announced cost rationalization plan. We continue to view DH as well positioned to capture market share as customer attrition moderates over the course of 2024. Thus, we reiterate our Buy rating and maintain our PO of \$11.50 based on ~21x CY24 EV/EBITDA.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.11	0.23	0.31	0.34	0.38
GAAP EPS	0	0	0.06	0.12	0.16
EPS Change (YoY)	-35.3%	109.1%	34.8%	9.7%	11.8%
Consensus EPS (Bloomberg)			0.31	0.24	0.38
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	75.0x	35.9x	26.6x	24.3x	21.7x
GAAP P/E	NA	NA	137.5x	68.8x	51.6x
EV / EBITDA*	29.5x	26.0x	22.3x	19.8x	17.5x
Free Cash Flow Yield*	1.4%	2.1%	3.5%	3.8%	4.9%

* For full definitions of *IQmethod*SM measures, see page 4.

19 January 2024

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Stock Data

Price	8.25 USD
Price Objective	11.50 USD
Date Established	2-Jan-2024
Investment Opinion	C-1-9
52-Week Range	5.53 USD - 14.03 USD
Mrkt Val (mn) / Shares Out (mn)	1,276 USD / 154.7
Free Float	41.3%
Average Daily Value (mn)	5.85 USD
BofA Ticker / Exchange	DH / NAS
Bloomberg / Reuters	DH US / DH.OQ
ROE (2023E)	3.2%
Net Dbt to Eqty (Dec-2022A)	7.3%
ESGMeter™	NLA

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Timestamp: 19 January 2024 04:39PM EST

iQprofileSM Definitive Healthcare Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.5%	2.0%	2.4%	2.6%	2.9%
Return on Equity	1.0%	2.4%	3.2%	3.5%	3.8%
Operating Margin	30.8%	26.9%	27.9%	29.4%	30.6%
Free Cash Flow	18	27	45	48	63

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.9x	1.0x	1.1x	1.0x	1.1x
Asset Replacement Ratio	3.8x	3.1x	3.4x	1.7x	1.4x
Tax Rate	51.6%	32.7%	30.8%	31.0%	31.0%
Net Debt-to-Equity Ratio	-8.2%	7.3%	7.5%	7.3%	6.2%
Interest Cover	2.1x	7.2x	39.6x	45.3x	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	166	223	251	267	291
% Change	40.4%	34.0%	12.9%	6.0%	9.2%
Gross Profit	147	198	219	233	256
% Change	39.5%	34.5%	10.6%	6.7%	9.8%
EBITDA	56	64	74	84	95
% Change	4.7%	13.9%	16.4%	12.9%	13.1%
Net Interest & Other Income	(26)	(7)	1	1	1
Net Income (Adjusted)	13	36	48	54	61
% Change	-13.2%	168.6%	33.9%	11.9%	13.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	13	36	48	54	61
Depreciation & Amortization	2	3	2	4	4
Change in Working Capital	(5)	(22)	15	(14)	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	15	19	(13)	10	10
Capital Expenditure	(7)	(8)	(8)	(7)	(6)
Free Cash Flow	18	27	45	48	63
% Change	-15.3%	47.5%	63.4%	7.6%	31.1%
Share / Issue Repurchase	603	(2)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(199)	(7)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	387	147	141	139	152
Trade Receivables	43	59	66	70	77
Other Current Assets	13	208	210	211	213
Property, Plant & Equipment	5	4	10	13	16
Other Non-Current Assets	1,667	1,703	1,753	1,803	1,853
Total Assets	2,116	2,121	2,181	2,237	2,311
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	118	133	139	135	148
Long-Term Debt	264	256	256	256	256
Other Non-Current Liabilities	231	246	264	253	247
Total Liabilities	613	634	659	644	651
Total Equity	1,503	1,487	1,522	1,587	1,660
Total Equity & Liabilities	2,116	2,121	2,181	2,231	2,311

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

DH provides commercial intelligence for companies looking to sell products and services into the healthcare industry. The DH platform combines provider data, sales intelligence, and healthcare market analytics for customers to develop insights on competitive dynamics, market sizing, and targeted product adoption. Core customers include life sciences and other healthcare vertical companies along with diversified non-healthcare companies. As of 11/30/22 the company had more than 3,000 customers.

Investment Rationale

We view Definitive Health as a leader in the healthcare commercial intelligence space. While end markets have remained challenged through 2023, we view the recent stabilization in core Key Performance Indicators (KPIs) and improving enterprise customer growth as positioning the company for stable growth over the next few years.

Stock Data

Average Daily Volume 709,275

Quarterly Earnings Estimates

	2022	2023
Q1	0.05A	0.06A
Q2	0.06A	0.08A
Q3	0.06A	0.09A
Q4	0.07A	0.08E

Price objective basis & risk

Definitive Healthcare Corp (DH)

Our \$11.50 price objective for Definitive Healthcare (DH) represents about 21x CY24E EV/EBITDA, above the health IT peer group average of approximately 15x. We believe that DH should trade at a premium to health IT peers on a revenue and EBITDA multiple basis, given faster revenue growth and higher EBITDA margins.

Downside risks to achieving the PO are increased customer churn, elongated sales cycle, and growing competitive threats from other commercial intelligence players. Upside risks to our PO are expanding subscriptions of new and existing customer contracts, improved customer retention and improving end market conditions.

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US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
NEUTRAL				
	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
UNDERPERFORM				
	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



iQmethodSM 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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 & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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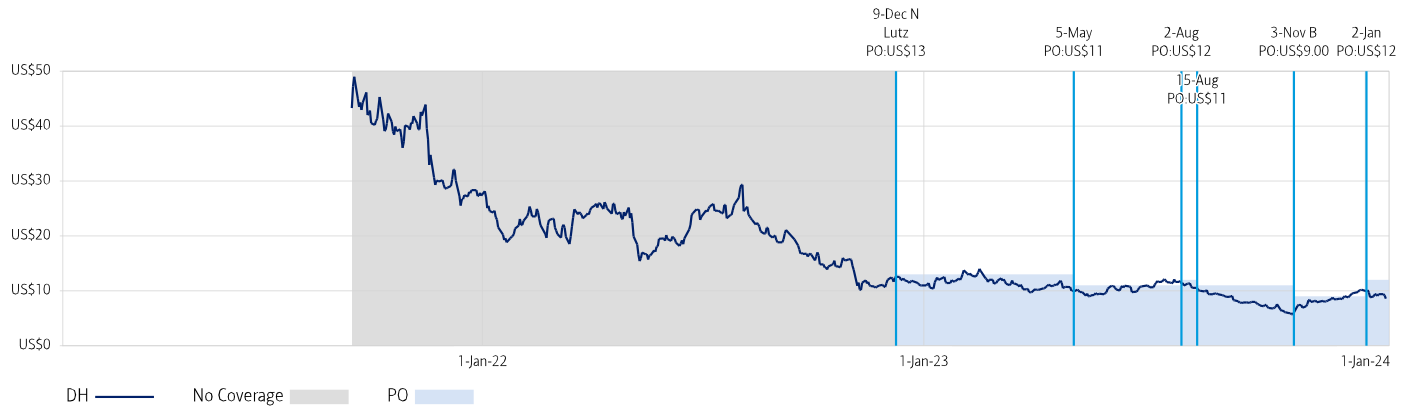
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Definitive Hlthcare. (DH) Price Chart



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 ^{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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