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Healthcare Technology & Distribution

Year Ahead 2024: Weight loss and reimbursement…gains?

Price Objective Change

Firmer script trends, less firm rates, and election risk

The outlook for Healthcare Tech & Distribution in 2024 is a tale of sub-segments. We see reasons to remain optimistic on distributors (although multiple expansion has nearly run its course) and CVS is well positioned for a "controlled acceleration" of earnings growth into and out of 2025. We expect the digital health adoption may congregate around tools to control GLP-1 spend. If Trump/Biden emerge as the candidates in 2024 we would see limited impact on multiples as both candidate's healthcare agendas are well known. We update several POs due primarily to peer group re-ratings in December.

Top Pick: CVS - "controlled acceleration" into 2025

CVS Health has two things it did not have during the past few years: 1) a clear path to accelerating earnings growth; and 2) appropriately reset expectations. CVS' EPS targets of at least $8.50 in 2024 (implying a ~1.2% decline) and 6% growth in 2025 are more than achievable. In 2025, CVS will benefit from the return of Stars bonus payments AND MA pricing that fully incorporates higher utilization. These two factors provide CVS with the ability to manage and accelerate earnings growth in 2025.

Pharmacy reimbursement pressure over? Can't disprove it

CVS' new pharmacy reimbursement model won't impact the pharmaceutical supply chain in 2024, but changes to expectations could begin to drive stocks. This new model of pharmacy reimbursement could create a more stable environment for generics prices. This more stable environment could help distributor's benefit from firmer sell-side prices, given pharmacies would also be incentivized to report higher acquisition costs. As generic prices have declined, the ability for the entire supply chain to capture the same amount of per script gross profit has become more challenging. CVS' new model, if adopted, could create more stable profit streams for distributors.

Digital Health: Will learn a lot about GLP-1s in 1H24

Awareness of GLP-1 drugs expanded rapidly in the middle of 2023 and we hypothesize that some patients may wait until January 1 to see if they have coverage. If this occurs, we wonder if the combination of easing supply constraints and more patients attempting to gain access puts a greater burden on self-insured employers. If this happens, two additional things could occur: 1) employers could alter the benefit design intra-year, which could benefit companies like Teladoc which offers a lifestyle management program; and 2) it could result in a further push-out of broader digital health adoption due to a greater focus on managing GLP-1 related spend.

Downgrading GDRX to Underperform, upgrading DOCS

We are downgrading shares of GoodRx from Buy to Underperform driven by uncertainty created by recent announcements from some of the largest stakeholders in the pharmacy ecosystem (separate note available here). Our new $4.50 PO represents ~8.5x CY24 EBITDA. We are upgrading shares of DOCS from U/P to Neutral as earnings expectations have been appropriately reset and pharma budgets could begin to improve over the next year as pressure from higher interest rates begin to ease (link here).

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GLP-1 - Glucagon-like peptide-1

MA - Medicare Advantage

PBM - pharmacy benefit manager

LSD - Low-single digit

MSD - Mid-single digit

HSD - High-single digit

DD - Double-digit

DSO - Dental service organizations

PPE - Personal protective equipment

CAD/CAM - Computer-aided design and computer-aided manufacturing

IOS – intraoral scanner

Refer to important disclosures on page 65 to 68. Analyst Certification on page 64. Price Objective Basis/Risk on page 58. 12640019

Timestamp: 02 January 2024 06:33AM EST

Exhibit 1: Estimate / Price Objective Revisions

We update POs to reflect peer group multiple changes and updated views on names. Our revenue/growth estimates are unchanged except for GDRX.

($ in millions, except per share data)

		FY24 Revenue		FY25 Revenue		FY24 EPS		FY25 EPS		Price Objective	
Company	Ticker	Old	New	Old	New	Old	New	Old	New	Old	New
Rx Supply Chain											
Cencora	COR	$284,296.1	$284,296.1	$300,555.1	$300,555.1	$12.85	$12.85	$14.37	$14.37	$215.00	$228.00
Cardinal Health	CAH	225,537.7	225,537.7	241,881.5	241,881.5	6.90	6.90	7.70	7.70	104.00	107.00
McKesson	MCK	305,314.0	305,314.0	326,834.9	326,834.9	27.25	27.25	30.67	30.67	492.00	510.00
CVS Health	CVS	366,971.0	366,971.0	388,012.2	388,012.2	8.55	8.55	9.21	9.21	86.00	95.00
Walgreens Boots Alliance	WBA	142,379.6	142,379.6	150,544.3	150,544.3	3.25	3.25	3.51	3.51	20.00	22.00
Dental/Medical/Vet Supply Chain											
Dentsply Sirona	XRAY	$4,102.7	$4,102.7	$4,289.2	$4,289.2	$2.08	$2.08	$2.41	$2.41	$35.00	$38.00
Envista	NVST	2,718.0	2,718.0	2,897.3	2,897.3	1.90	1.90	2.20	2.20	37.00	32.00
Patterson Companies	PDCO	6,633.4	6,633.4	6,882.2	6,882.2	2.36	2.36	2.65	2.65	37.00	35.00
Amwell	AMWL	$276.7	$276.7	$296.2	$296.2	($0.86)	($0.86)	($0.77)	($0.77)	$2.30	$2.00
Definitive Healthcare	DH	272.1	272.1	297.1	297.1	0.34	0.34	0.38	0.38	9.00	11.50
Doximity	DOCS	468.1	468.1	514.0	514.0	0.87	0.87	0.86	0.86	21.00	28.00
GoodRx	GDRX	800.1	782.6	892.1	813.6	0.29	0.27	0.39	0.29	8.00	4.50
R1 RCM	RCM	2,568.2	2,568.2	2,927.6	2,927.6	0.49	0.49	0.68	0.68	19.00	17.00
Teladoc	TDOC	2,768.5	2,768.5	2,920.9	2,920.9	(1.41)	(1.41)	(1.50)	(1.50)	22.00	24.00

Source: BofA Global Research estimates

Note: Doximity (DOCS) has been upgraded from Underperform to Neutral

GoodRx (GDRX) has been downgraded from Buy to Underperform

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5 Predictions for 2024

1. CVS' new pharmacy reimbursement model could benefit most of the supply chain, with one exception

2024 is too early to see results, but changes to expectations could drive stocks

CVS' new pharmacy reimbursement model won't impact the pharma supply chain in 2024, but there are reasons to believe the model could benefit drug distributors, and retail pharmacies, while also allowing PBMs to retain their current economics. This new model creates the greatest risk to GoodRx in our view.

In the beginning of December, CVS Health announced a new cost-based pharmacy reimbursement model that PBMs will be required to use for CVS' retail pharmacies. The program will launch in 2025 so there will be no direct impact in 2024. Under CVS' new plan, PBMs will be required to reimburse CVS pharmacies based on CVS' estimated acquisition cost * a mark-up + a separate patient management fee. This new reimbursement could have significant impacts to the entire generic supply chain, including impacts on wholesalers, other retail pharmacies, PBMs, and discount card vendors. It is unclear if it will be adopted.

CVS' new model could drive firmer prices for generics

Under this new model, retail pharmacies will be reimbursed by a PBM based on a spread to its acquisition cost as opposed to the current model where PBMs leverage maximum allowable cost (MAC) pricing lists. Under the MAC pricing model, reimbursements can vary significantly. In the current industry model, retail pharmacies are highly incentivized to acquire generic drugs at the lowest possible cost because PBM reimbursements can be aggressive. In the new model, pharmacies would technically be incentivized to report higher acquisition costs because the reimbursement would be a fixed spread to the acquisition cost. In an industry where the big three drug consortiums have put significant downward pressure on generic drug prices, it would appear this new model could work to alleviate that pressure, at least on the margin.

Could the entire supply chain benefit? Well, mostly

Drug distributors, and retail/independent pharmacies would all benefit from more consistent pricing. Retail/independent pharmacies have faced substantial headwinds over the past decade as lower generic prices culminated in substantial gross margin pressure. For example, Walgreens' retail gross margin declined from 28%+ in FY14 to ~20% today. The pharmacy gross margin decline is even more severe than this contraction would imply because about 1/3 or revenue comes from the front store, where margins are likely much more stable.

Drug distributors have successfully captured economics from generics since the first joint ventures between Walgreens/Cencora and CVS Health/Cardinal were announced more than 10 years ago. Under these consortium models, the pharmacy/distributor purchasing power resulted in lower acquisition costs of drugs. These stakeholders were able to leverage significant size and scale to capture greater discounts. The problem that took place over time is that as drug prices are driven lower and lower, the ability to capture the same level of gross profit dollars per script becomes increasingly difficult (due to the law of small numbers) (Exhibit 2). Easing pressure on generic pricing could thus support distributor margins.

Exhibit 2: Sample Distributor economics for a single generic prescription 2013-2023
In order to keep gross profit dollars constant, distributors must capture significantly greater gross margin as drug prices falls

	2013	2015	2017	2019	2021	2023
Distributor COGS	$10.0	$9.0	$8.1	$7.3	$6.6	$5.9
Change (%)		(10.0%)	(10.0%)	(10.0%)	(10.0%)	(10.0%)
Distributor Revenue	$11.5	$10.5	$9.6	$8.8	$8.1	$7.4
Distributor Gross Profit Dollars	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50
Margin %	13.0%	14.3%	15.6%	17.1%	18.6%	20.3%

Source: BofA Global Research

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PBMs benefitted from the old model

As distributors captured economics from declining generic prices, PBMs also captured tailwinds. As generic prices declined, PBMs were able to reimburse pharmacies at lower and lower rates. This allowed PBMs to also capture a spread between the rate at which they reimbursed pharmacies and the rate they charged employer/health plan customers. For example, if a PBM paid a retail pharmacy 10% less for a prescription, they could charge an employer 7% less, and capture a 3 percentage point spread.

Looking forward to the new model, we find it highly unlikely that PBMs will lose material economics. This means that PBMs will likely charge its employer/health plan customers more OR increase cost sharing for patients. This further supports the idea that healthcare inflation will continue.

New model may disrupt discount card vendors like GoodRx

If CVS' new model takes hold, retail pharmacies will receive a much more consistent margin per prescription. PBMs would pay each of the pharmacies in its network more consistent payments per prescription. Today, PBM reimbursements can vary widely. We discuss this dynamic in detail in our GoodRx downgrade note (link to that note here). This is indirectly observable on the GoodRx app where patient payments at pharmacies can vary dramatically (in an analysis we wrote in 2023, we found substantial variability between patient payment rates for drugs). If PBM reimbursements are standardized, the variability of payment rates could collapse. This could culminate is more modest differences between prices quoted on discount card apps, reducing the utility of discount cards and creating a smaller market for companies like GoodRx. This updated model could begin to take place in 2025 and would likely impact the market modestly, but after 2025 the impact could become more severe. In 2024, the biggest risk to GoodRx would be the terminal valuation, something we previously flagged as a risk (this was related to GoodRx's integration into the pharmacy benefit. If GoodRx is integrated into the pharmacy benefit, the consumer awareness of the card could weaken over the long term).

2. GLP-1 usage could create intra-year benefit changes

Benefit managers could make changes during 2024…

If employers underestimate incremental GLP-1 spend in 2024, benefit managers could make changes to benefit designs intra-year. Based on our conversation with a large benefit manager, the two most likely intra-year changes would be 1) requiring documentation confirming participation of a lifestyle management program; or 2) requirement for multiple physician consults; (Exhibit 3). If benefit design changes are made intra-year, it could drive demand for lifestyle management programs, like the one offered by Teladoc for weight management.

Exhibit 3: Intra-year benefit design changes to address GLP-1 spend

A large self-insured employer indicated participation in lifestyle management programs and physician consults could be implemented intra-year if GLP-1 related spend exceeded expectations

Potential intra-year benefit design changes for GLP-1s
Participation in supplemental lifestyle management programs
Physician consults
Prior authorizations
Doctor attestations
Step therapy
Lifetime limit maximums
Body mass index (BMI) requirements

Source: BofA Global Research

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Accolade's survey indicates employers may not appreciate GLP-1 spend upside

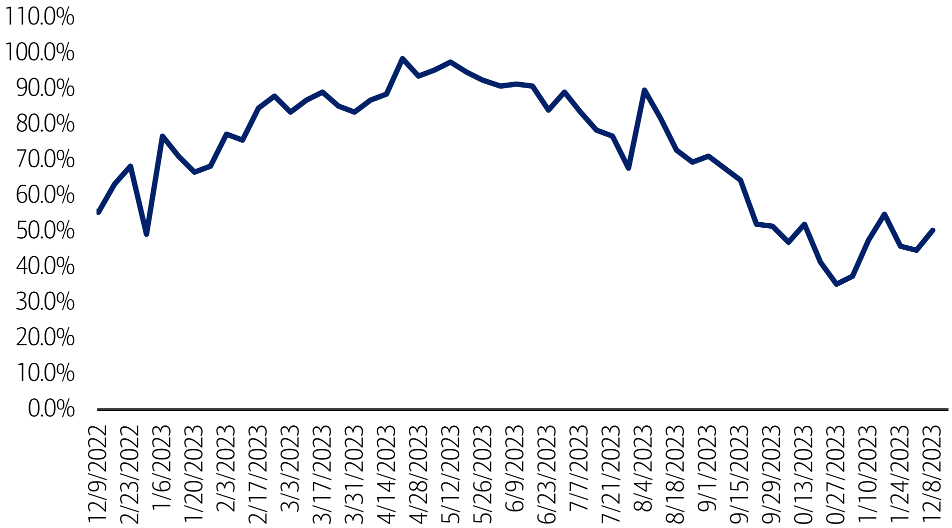
Accolade released a survey in October (link to our initial takeaways here) which found that 43% of employers intend to offer coverage for GLP-1s in 2024, an increase from 25% in 2023. The survey also highlighted that while 81% of human resource (HR) decision-makers believe employees would be interested in the drug, only 25% cover GLP-1s today. Additionally, 4 in 10 consider coverage an immediate concern and intend to offer in 2024, while 21% of HR decision makers are unaware of GLP-1 medications. Of the 25% of employers currently offering coverage for GLP-1s, over two-thirds reported an increase in enrollment after the medications were added.

We wonder if employers adding coverage to GLP-1s in 2024 fully appreciate both the off-label use of the drug (that takes place outside of the scope of the benefit) and the potential for increased membership in employer plans. This question appears reasonable as 21% of survey respondents are unaware of GLP-1 medications. Separately, employers continue to grapple with how to incentivize patients to make longer-term lifestyle and behavioral changes to support permanent weight loss, consider potential long-term side effects, while managing higher costs associated with coverage. The greater interest from employers potentially offering GLP-1 coverage could create another reason for employers to underappreciate how much costs could rise in 2024. A Wall Street Journal article published a few months ago cited 2024 health insurance costs are expected to increase by the largest amount since 2012, by about 6.5%. The major factors driving the expected increase are higher hospital labor costs and increased costs associated with GLP-1s. We continue to monitor these dynamics as we move through the end of 2023. Another key question is, if employers mismodel healthcare trend in 2024, does that push out adding new digital health solutions in 2025? This could potentially benefit digital health solutions with exposure to GLP-1s, but may also create questions for solutions outside of that scope.

Weekly GLP-1 volume growth is also inflecting higher since the end of October. A reacceleration of volume growth in 2024 is a development to monitor especially if supply constraints ease and awareness/demand pick up.

Exhibit 4: Weekly Total Rx Volume Growth for GLP-1s (Dec '22-Dec '23)

Weekly total Rx volumes for GLP-1s accelerated 51% y/y (for week ending 12/8) vs. 45% y/y the prior week



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3. The Inflation Reduction Act and PBM legislation are more likely to impact 2025/2026

Recent healthcare legislation aimed at lowering prescription drug pricing and creating greater transparency around Pharmacy Benefit Manager (PBM) business practices have been at the forefront of the drug pricing debate in 2023. We note potential implications of the Inflation Reduction Act (IRA) and the Lower Costs More Transparency Act of 2023 across the healthcare tech and distribution group.

While the Inflation Reduction Act (IRA) does not directly impact the drug distributor group, certain provisions impact customers and the overall pharmaceutical market creating uncertainty that could weigh on sentiment in 2024. However, we note potential benefits to distributors from some aspects of the legislation. As background, the Inflation Reduction Act of 2022 was signed into law by President Biden on August 16, 2022 with provisions to lower prescription costs for Medicare beneficiaries and reduce overall drug spend by the federal government. The Congressional Budget Office (CBO) estimates the drug pricing provisions in the legislation could reduce the federal deficit by $237Bn over a ten-year period. As part of the price negotiation process, the Biden administration announced a list of ten high-expenditure, single source brand-name drugs without generic/biosimilar competition on August 29, 2023. The 10 selected drugs accounted for $50Bn, or ~20%, of Medicare Part D gross covered costs from 2022-2023 with the negotiated price to come into effect beginning January 1, 2026. A cumulative total of 60 drugs are expected to be selected for negotiation by 2030. More recently, as part of several provisions within the Act, the White House proposed rebates from manufacturers for 48 Medicare Part B drugs that were identified with price increases faster than the rate of inflation.

For the drug distributors (MCK, COR, CAH), the IRA provisions could negatively impact profits for the group as the law would discourage manufacturers from increasing list prices for certain brand-name drugs. As provisions are put in place, manufacturers would also be required to pay rebates on certain Medicare Part B drugs with average selling prices that increase faster than inflation. However, given these dynamics manufacturers could be incentivized to launch new drugs at higher list prices to offset the slower growth in list prices for the select drugs impacted by the IRA. This could benefit the distributors as their fees are based on products with higher wholesale acquisition costs (WAC). The IRA could also impact manufacturer's pricing and launch strategies for biosimilars which could create uncertainty for distributor's profit for these drugs. Based on a provision in the IRA that could delay a biological drug's negotiation process for up to two years, manufacturers could adjust their launch strategies to maximize profits depending on where negotiations land. While we note some risks from the IRA provisions, the longer-term potential impacts remain to be seen and we expect to monitor the negotiation process and updates over time. Additionally, the negotiated process for the 10 drugs are expected be implemented at the start of 2026, with a cumulative 60 drugs selected by 2030, so we will not likely see a significant impact in the near-term.

The Lower Costs More Transparency Act of 2023 was recently passed on December 11, 2023 and would institute new transparency and pricing rules on pharmacy benefit managers (PBMs) and hospitals. The Act advances policies for PBMs and hospitals to meet price transparency standards to help lower out-of-pocket costs for consumers. Specifically, for PBMs the legislation would ban spread pricing in Medicaid and mandate PBMs to publicly list prices before charging patients and require published charges through machine-readable files. CVS' recent announcement for a new reimbursement model to increase PBM transparency is likely a response to the recent legislation. Our channel checks indicate that the various provisions around PBM transparency are largely manageable for companies, particularly those with the scale and resources to dedicate to the additional administrative and compliance implications. The transparency requirements will likely squeeze smaller players that are unable to absorb additional costs associated with higher compliance. Given it is still early with the new CVS model expected to be rolled out in 2025, we expect more limited near-term impact around recent legislation in 2024.

4. Expectations for pharma advertising have reset, potential for improvement in 2024

While wider marketing budgets may remain challenged in 2024, expectations for growth have now reset to more reasonable levels in our view. Moving forward, we view the potential for incremental improvements in pharma ad budgets as more likely to impact shares vs. continued macro challenges further dampening investor sentiment. Moreover, big pharma should be more recession resilient than other digital health customers. Thus, we expect that top 20 pharma budgets will begin normalizing ahead of other, more cyclical businesses, with easing of long-term interest rates a potential tailwind for accelerated investments that support advertising spend. In our coverage, we view **DOCS** more favorably heading into 2024 given that expectations and valuation have now reset to more reasonable levels. Refer to our DOCS upgrade note here.

Expectations already embed a challenging macro, risks skewed to the upside

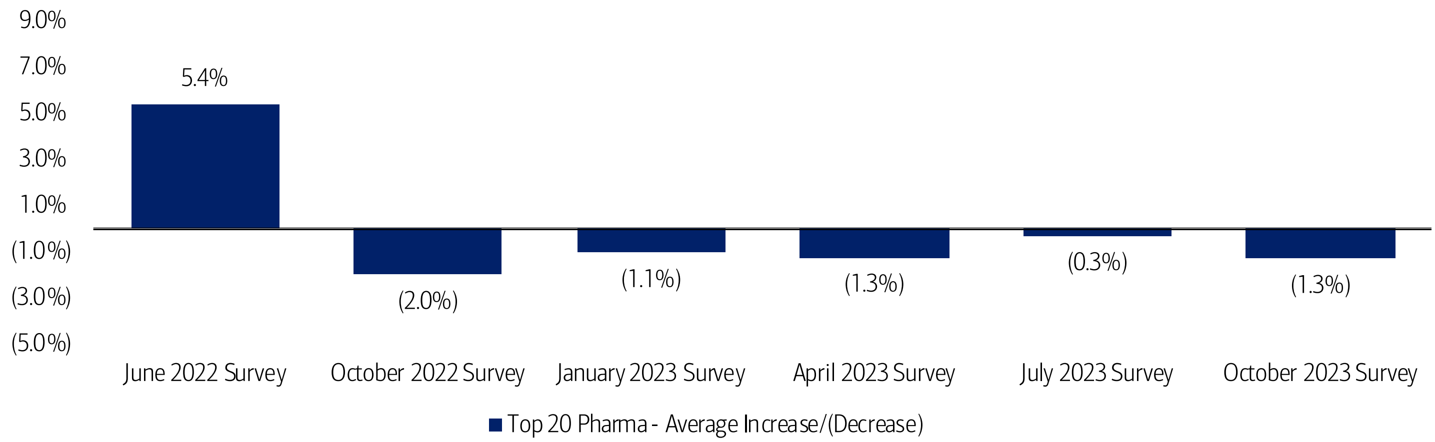
Continued macro challenges may not be important given the initial slowdown began in mid-2022 and these headwinds are now well known. Considering Doximity as a proxy for the space, growth expectations have now reset and embed no improvement. Doximity's consensus growth expectations have changed from 20%+ growth through FY26 to just ~11% today. As investors digest the volatility in marketing budgets and demand over the last two years, there is likely to be more caution in changing structural growth expectations, but given expectations have now been reset, we view risks to be skewed to the upside. The likelihood for further degradation in investor sentiment seems less likely vs. an improvement driven by an incrementally better macro.

Overall marketing budgets may shrink, but digital allocation should grow

Looking ahead to 2024, our 2Q and 3Q pharma manufacturer surveys found sentiment from pharma manufacturers was generally negative with greater caution around marketing spend due to the macro environment, but digital spend should still grow. In our latest survey, top 20 pharma respondents indicated total marketing budgets are expected to decrease 1.3% over the next 12 months, worsening from the 0.3% expected decrease per our 2Q survey (Exhibit 5). However, digital marketing budgets are expected to increase 3.1% over the next 12 months (Exhibit 6). Based on our survey results, we remain cautious on overall pharma marketing budgets in 2024 but expect digital marketing wallet share will continue to grow. Overall, having a more recession resilient business should support a big pharma recovery ahead of other more cyclical businesses with easing interest rates a potential tailwind as well.

Exhibit 5: How quickly is your organization's overall marketing budget increasing/decreasing over the next 12 months versus the last 12 months?

On average, top 20 pharma respondents expect a 1.3% decrease to overall marketing budgets over the next 12 months, down from a 0.3% decrease reported in July



Source: BofA Global Research

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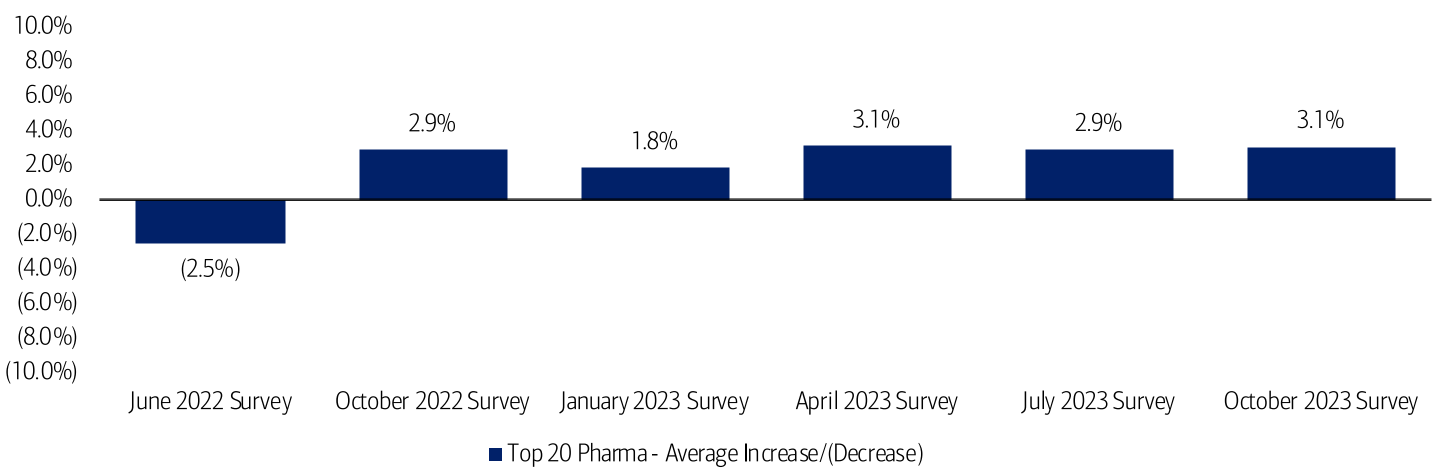
Exhibit 6: How quickly is your organization's digital marketing budget increasing/decreasing over the next 12 months versus the last 12 months?

Top 20 pharma respondents expect a 3.1% increase to digital marketing budgets vs. 2.9% in our July survey



Source: BofA Global Research

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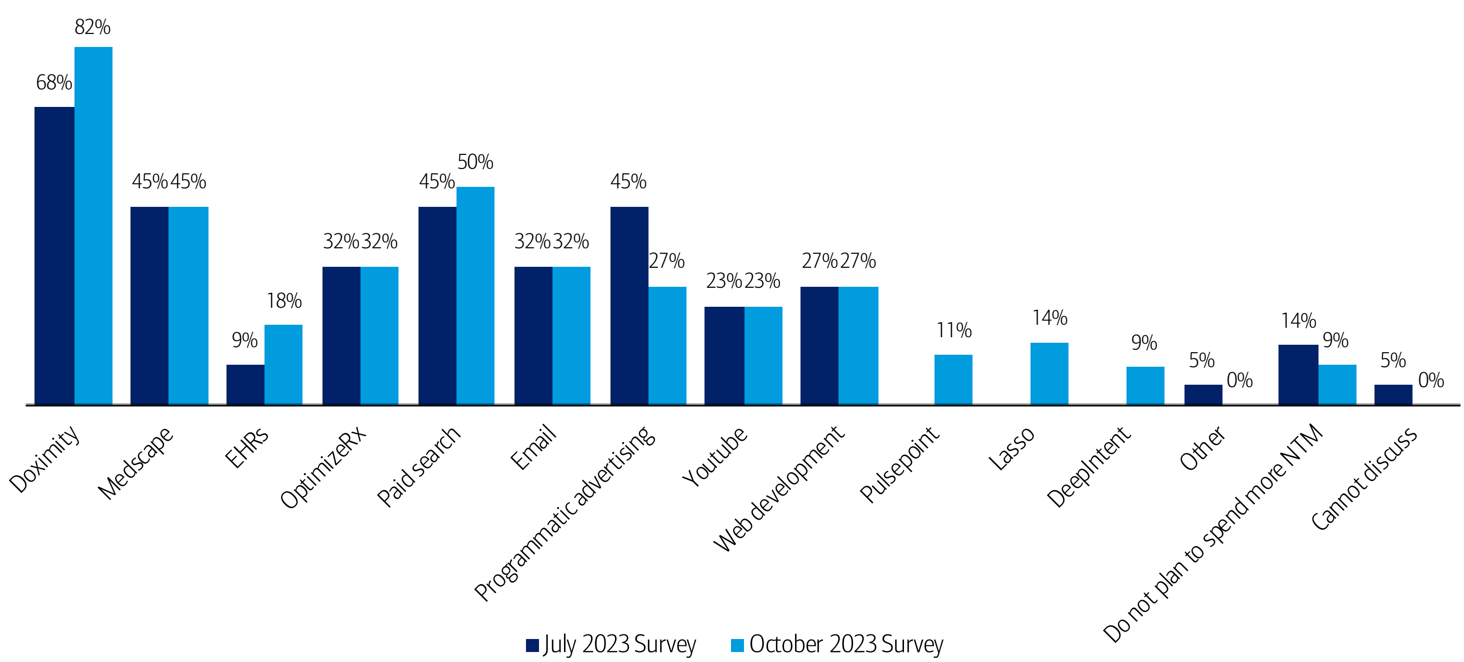
Doximity is an industry leader well positioned to benefit from a better macro

Our 3Q'23 pharmaceutical advertising survey found that macroeconomic pressures (combined with weaker initial uptake of new modules) were broadly responsible for Doximity's slower growth rate. However, both of these dynamics are finally fully incorporated into consensus revenue growth estimates through FY26. Meanwhile, our survey corroborates Doximity's competitive position as an industry leader with potential to take advantage of an improvement in macro. Our 3Q'23 survey highlighted that Doximity continues to be viewed favorably vs. a wide variety of peers such as Medscape, OptimizeRx, and programmatic players (Pulsepoint, Lasso, and DeepIntent). Respondents expect the greatest allocation of spend over the next 12 months to be on Doximity at 82%, improving from 68% in our July survey (Exhibit 7). Further, engagement levels on Doximity's platform have largely remained the same or are improving. Almost half of all respondents reported no change in physician engagement levels with advertisements, while 41% saw an improvement (Exhibit 8).

Exhibit 7: If you plan to spend more on digital marketing over the next 12 months, where is the increase allocated to?

Top 20 pharma respondents expect the greatest allocation in spend to Doximity, paid search, and Medscape



Source: BofA Global Research

Note: Pulsepoint, Lasso, and DeepIntent were introduced as vendors to this question selection in our October 2023 survey

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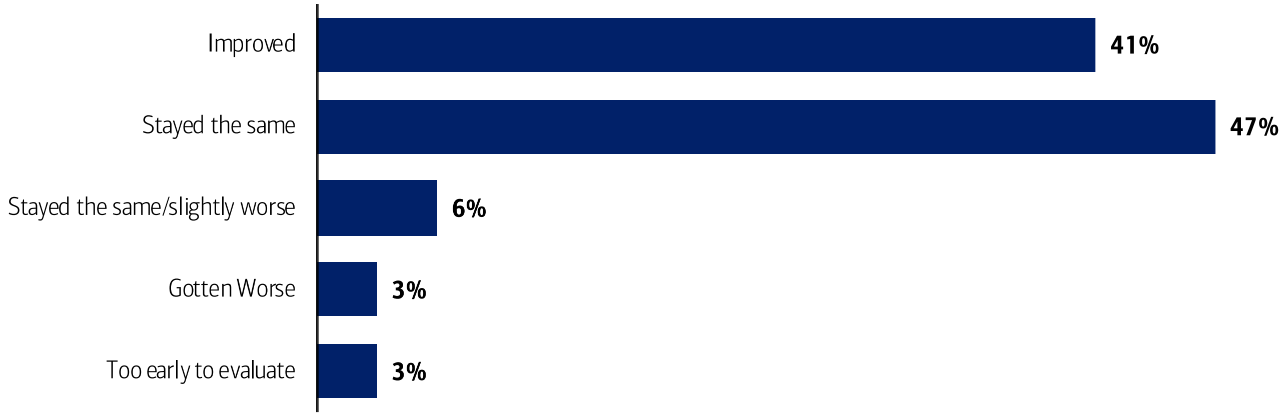
Exhibit 8: For Doximity's platform, have engagement levels with physicians on advertisements changed at all over the past 6-12 months? Have they improved, gotten worse, stayed the same? Anything to note?

Almost half of all respondents reported physician engagement levels on ads remained the same over the past 6-12 months



Source: BofA Global Research

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5. Confidence in a better macro has potential to drive upward mean reversion in dental names

Dental names in our coverage saw relatively resilient demand in 1H23, but 3Q earnings may have served as a clearing event with results/guidance highlighting deteriorating utilization trends (Exhibit 10) leading to shares selling off to annual lows. The near-term demand outlook remains fluid, but expectations have now right sized as the dental group underperformed the S&P 500 and the healthcare index (XLV) in the back half of 2023. The group is now trading at a the highest 20yr discount to the S&P 500 on a forward P/E multiple. Meanwhile, our survey data suggests that there is potential for patient volumes to normalize heading into 2024. Incremental positive macro data points in early 2024 has potential to support mean reversion to the upside.

Dental group is trading at a meaningful discount to the S&P 500

The wider dental group is now trading at the highest 20yr discount to the S&P 500 on a forward P/E multiple (Exhibit 9). While a discount makes sense considering a lower revenue/earnings growth profile in comparison to the index, the magnitude of the discount presents an opportunity for mean reversion, especially if macro improves ahead of expectations. Across the group, the market is likely pricing in rev/earnings growth below the Street considering the current discount, presenting an opportunity for upside if the Street's earnings growth estimates come to fruition. We view macro as a critical swing factor and note there is potential for estimates to hold barring any incremental degradation in macro. More positively, incremental improvements in the macro sentiment over the next two quarters could give confidence to the Street estimates and support multiple expansion if dental group multiples mean revert to historical levels.

Exhibit 9: P/E (next-year consensus) multiples for Dental coverage vs. the S&P 500

The dental group is trading at one of the largest discounts to the S&P 500 over the last 20 years

	Dental Group	S&P500	Group Premium/Discount to S&P 500	PDCO	HSIC	XRAY	NVST
Current	**13.4x**	**18.7x**	**(28.2%)**	**10.4x**	**13.8x**	**15.7x**	**13.8x**
Since June 2020	16.4x	18.7x	(12.3%)	13.5x	16.0x	17.6x	18.5x
Vs. Current	*(18.1%)*	*(0.0%)*		*(22.6%)*	*(13.8%)*	*(10.9%)*	*(25.5%)*
5yr avg (or since IPO)	16.3x	17.7x	(7.5%)	13.5x	16.5x	17.9x	17.8x
Vs. Current	*(17.9%)*	*5.8%*		*(22.8%)*	*(16.3%)*	*(12.5%)*	*(22.9%)*
10yr avg	17.5x	16.6x	5.6%	15.1x	18.5x	18.3x	17.8x
Vs. Current	*(23.3%)*	*12.8%*		*(30.9%)*	*(25.5%)*	*(14.1%)*	*(22.9%)*
Earnings growth y/y 2024*	9.6%	12.3%	(21.8%)	7.7%	14.3%	11.4%	5.1%
Revenue growth y/y 2024*	2.9%	5.5%	(47.3%)	3.1%	4.9%	1.8%	1.9%
Adj. EBITDA margin 2024	12.9%			5.6%	8.2%	18.6%	19.0%
Net Debt/EBITDA*	0.87	1.03	(15.6%)	0.46	0.66	1.97	0.39

Source: FactSet, Bloomberg, BofA Global Research

* S&P 500 estimates per Bloomberg as December 2023, PDCO estimates for FY25

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Survey suggests there is potential for macro to normalize heading into 2024

Data from the November edition of a monthly American Dental Association (ADA) survey is incrementally positive. The survey suggests that practice appointment schedules have improved from a dip in September to a level on par with last year (Exhibit 10). While September appointment fill rates were down ~300bps from last year, the October and November fill rates are on par or better than last year. Further, the November appointment fill rate of 85.3% is up 220bps from September and 150bps from October, the largest m/m increase this year. This data is in line with qualitative commentary at the Greater NY Dental Meeting in late November (Link to note here), where participants were cautiously optimistic around the macro environment. While we acknowledge the limitations of the survey in the context of a large and fragmented dental practice landscape in the U.S., the improvement in appointment fill rates in November is an incremental positive data point suggesting potential for stabilization.

Exhibit 10: Mean patient appointment schedule fill rate

Appointment fill rates ticked up meaningfully in November and is now in line with prior year fill rates

Source: American Dental Association. Economic Outlook and Emerging Issues in Dentistry. Health Policy Institute. November 2023.

Available from: https://www.ada.org/-/media/project/ada-organization/ada/ada-org/files/resources/research/hpi/nov2023_hpi_economic_outlook_denitstry_report_main.pdf

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Key 2024 HC Tech & Distribution Themes

Anticipate normalized Rx growth in 2024

Looking to 2024, we expect to see continued normalization in prescription volume growth with the low-single digit growth trend in last few months of 2023 likely to be the run-rate for 2024. IQVIA estimates that use and spending on medicines in the US will return to pre-pandemic growth projections by 2024, but with new pressure on net growth from new pricing policies to impact later years. Additionally, IQVIA forecasts spending on medicines to be unchanged over the next five years with growth expected to be between (2)% to 1%, similar to current levels of spending at $429Bn. While Covid cases have declined as expected and we continue to shift from the pandemic to the endemic phase, Covid vaccine uptake should more closely mirror seasonal trends of the flu vaccine. Heading into 2024, we expect greater focus on factors impacting the supply chain including macro and recessionary pressures, policy changes, manufacturer competition, biosimilar launches/uptake, and GLP-1s. Below, we walk through our outlook on these factors for next year.

Stable TRx growth trends expected to continue in 2024

Over the past few years, we have tracked weekly and monthly prescription volume growth trends in the Rx supply chain across multiple channels, including chain stores, food stores, independent, long-term care (LTC), and mail. In 2023 we saw ongoing steady growth in total and new prescriptions, continuing the return to normalization trends in 2022 following a period of significant volatility throughout the pandemic. Heading into next year, we expect this stability to continue, even when factoring in ongoing macroeconomic pressures.

The charts below include y/y performance on total prescription volumes (TRx) dispensed across all channels (Exhibit 11) and total prescription volumes dispensed across retail channels including chain store and food stores (Exhibit 12). Growth in 2023 reflected steady trends throughout most of the year with low single-digit trends exiting the year. These results tie in with the ongoing shift of Covid transitioning from the pandemic stage to the endemic stage as demand for Covid vaccines more closely resembles that of the flu vaccine. Covid vaccines as a percentage of total retail prescription volumes have stabilized in the low single digits and we expect a seasonal uptick in the fall in 2024 for an updated Covid vaccine, in-line with the cadence of typical seasonal flu vaccines in 3Q and 4Q.

Exhibit 11: Weekly total prescription (TRx) volume growth - Jan '23 – Dec '23
Total prescription volume growth has largely remained stable, trending at low-single digit growth heading into 2024

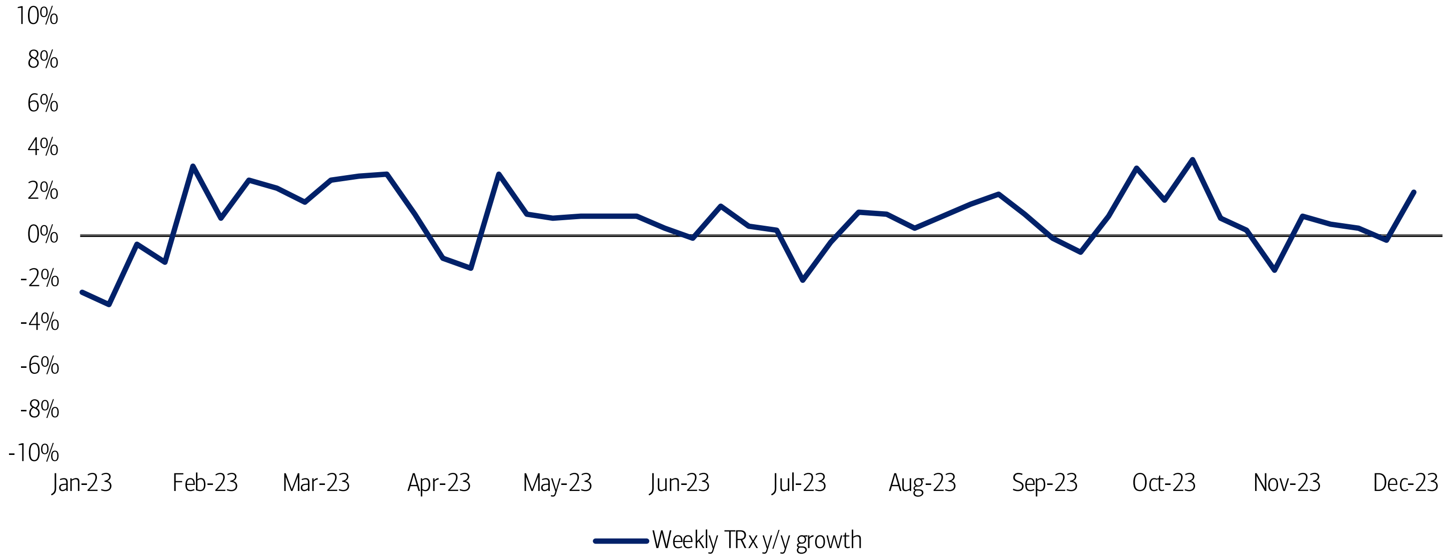

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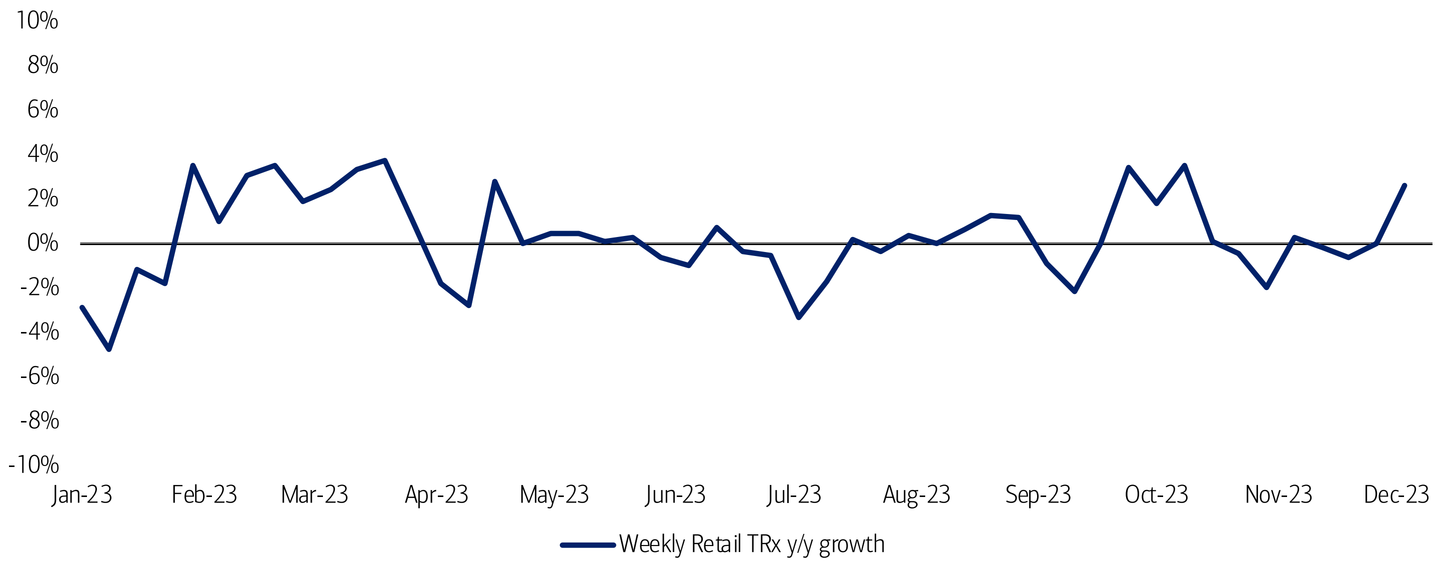
Exhibit 12: Weekly retail prescription volume growth - Jan '23 – Dec '23
Total retail prescription volume growth has seen stable trends over the last year, recently trending at low single-digit growth exiting 2023



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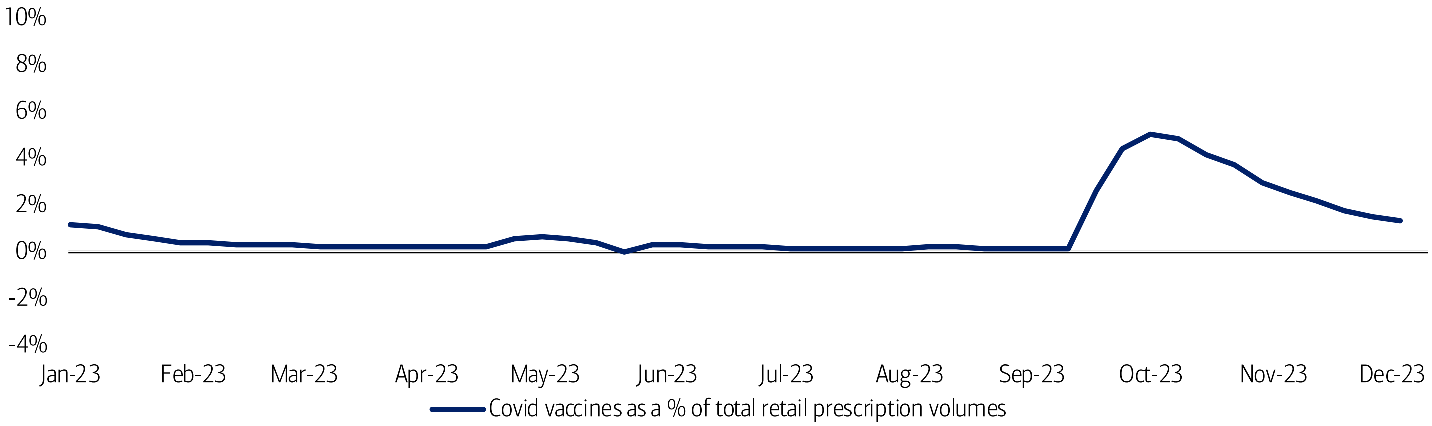
2024 Covid vaccines likely to follow demand for flu shots

While it is difficult to predict future outbreaks and emergence of new Covid variants, we expect 2024 will likely see a seasonal uptick in Covid vaccine trends in-line with the seasonality of other respiratory illnesses. Covid vaccines as a percent of total retail prescription volumes moderated to the low single digits with a spike during the flu season beginning in early fall (Exhibit 13). Covid vaccine uptake has continued to diminish from ~6% of Rx volumes in 2021, to ~2.5% in 2022, to less than ~1% in 2023 (excluding the flu season). The uptick in Covid vaccines in 3Q'23 and 4Q'23 likely mirrors trends associated with the flu season given the Food and Drug Administration (FDA) and the Centers for Disease Control and Prevention (CDC) approved the updated vaccines by Pfizer-BioNTech and Moderna in mid-September. Additionally, IQVIA estimates that 60-70% of overall vaccinations will take place at pharmacies during any flu season typically in the third and fourth quarters. In 2024, we expect to see a pattern similar to the flu, where the updated Covid vaccine formulation is released in the fall and offered as a co-administered shot along with the flu vaccine.

Exhibit 13: Covid Vaccines as a percent of total prescription (TRx) volumes - Jan '23 – Dec '23
Covid vaccines as a share of retail Rxs have stabilized in the low single digits with an uptick in the fall



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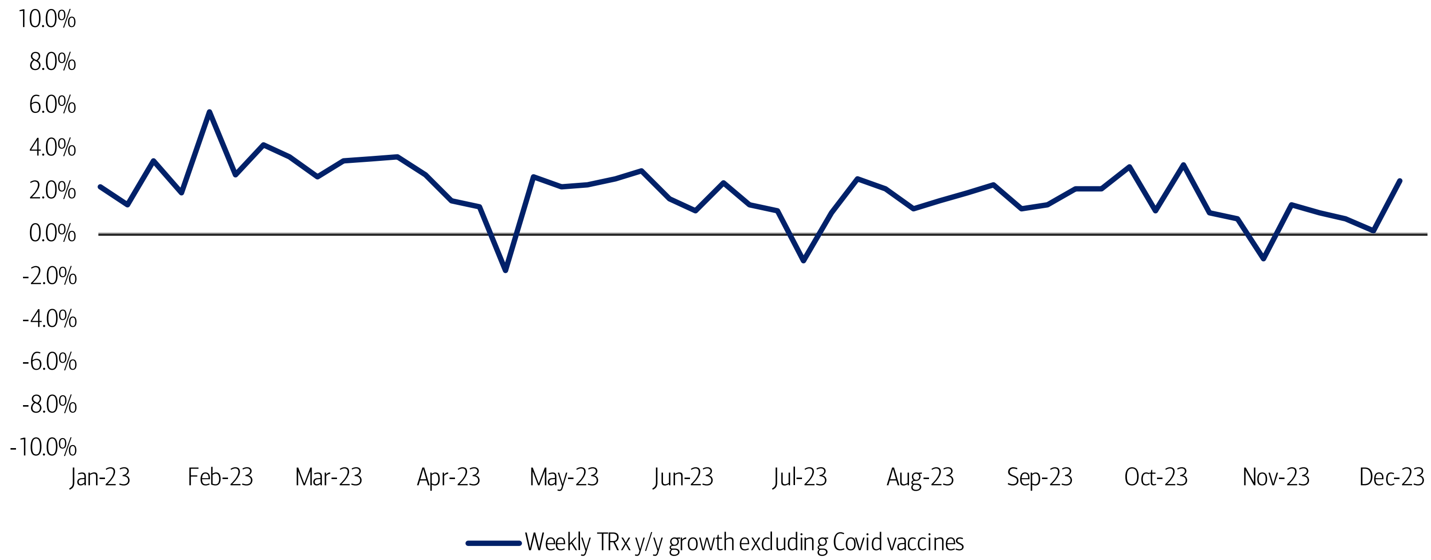
Core script growth ex-Covid vaccines remains healthy

The trend in stable growth is particularly apparent in "core" script growth (excluding Covid-vaccines) which we track as a proxy for underlying market health. Performance over the last year indicates stabilization in the low to mid-single digit range and we expect the longer-term impact of Covid vaccines on growth trends to remain more muted compared to the volatility at the onset of the pandemic (Exhibit 14). For 2024, we expect demand for prescriptions to see less volatility in demand given the ongoing shift to Covid vaccines from the pandemic phase to the endemic phase.

Exhibit 14: Weekly total prescription (TRx) volume growth excluding Covid vaccines - Jan '23 – Dec '23
Total prescription volume growth excluding Covid vaccines is trending at low single-digit growth heading into 2024



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Elevated GLP-1 TRx growth likely to persist in 2024

In 2023, newer diabetes therapies have seen significant growth with GLP-1 agonist use increasing across both diabetes and obesity. Total prescription volumes for GLP-1s have reaccelerated in December to ~50% y/y growth following moderating growth in September and October likely due to supply constraints (Exhibit 15). GLP-1 use has more than doubled since the end of 2020 driven by new patients across diabetes and obesity contributing to the ongoing shortages for these drugs. While more recently updated weekly data shows an acceleration through the beginning of December, we continue to monitor growth rates of GLP-1 Rx volumes heading into 2024 as manufacturers expand production capacity and reimbursement dynamics evolve. Pharma manufacturers such as Novo Nordisk (Covered by Sachin Jain) and Eli Lilly (covered by Geoff Meacham) recently announced plans to increase investments to support additional production capacity to meet the surge in demand for GLP-1s. We expect to see elevated demand for GLP-1s given increased patient demand, changing coverage decisions from employers, and recent data highlighting the effectiveness of GLP-1s in indications outside of weight loss. GLP-1s could see additional upside in Rx volumes over the course of next year if more widely reimbursed.

Exhibit 15: Weekly Total Rx Volume Growth for GLP-1s – Nov. '22 – Nov. '23

Total Rx volume growth for GLP-1s are trending in the low 50s% growth heading into 2024

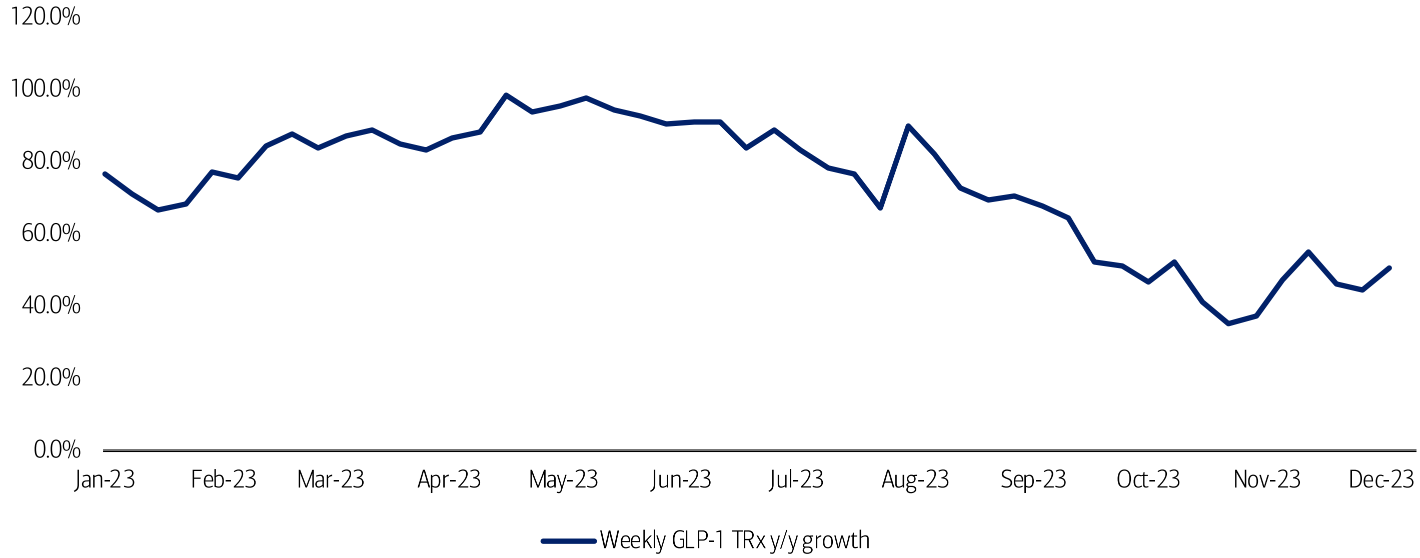

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Exhibit 16: Impact of GLP-1s on weekly total prescription (TRx) volume growth - Jan '23 – Dec '23

TRx growth excluding GLP-1s have stabilized in the low single digits exiting 2023

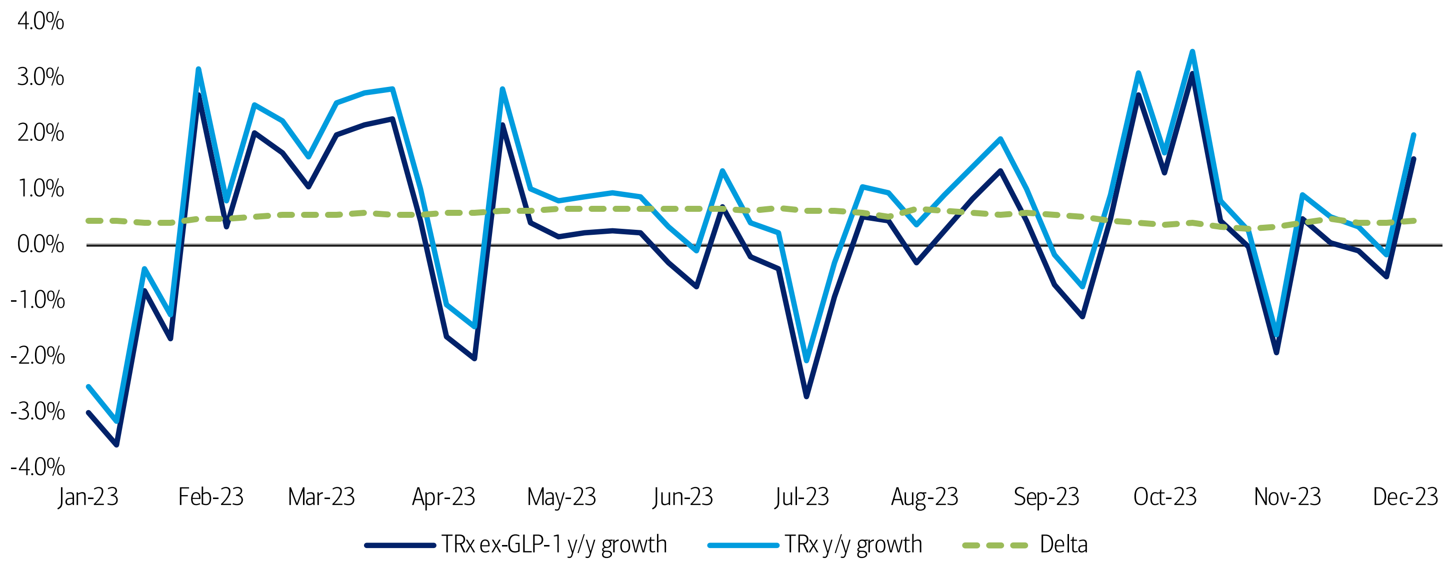

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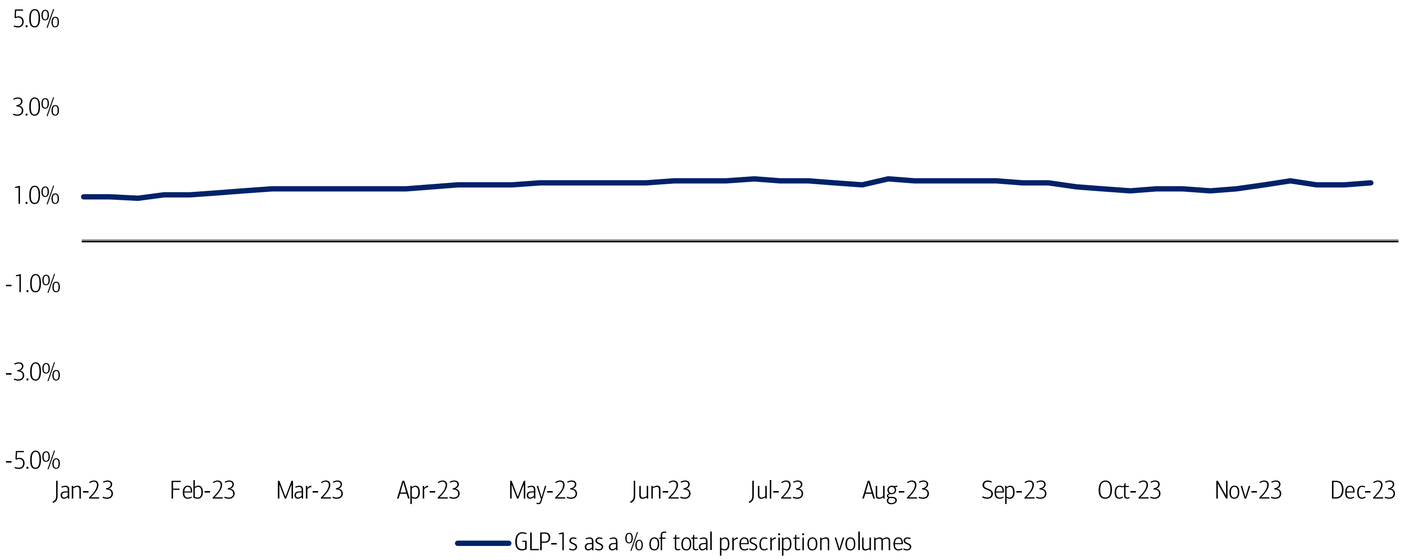
Exhibit 17: GLP-1s as a percent of total prescription (TRx) volumes - Jan '23 – Dec '23
GLP-1s as a share of total prescription volumes have remained in the low single digits throughout 2023



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US Rx pricing and sales trends have also been stable

In 2023, brand sales continued to remain stable at mid-teens growth (Exhibit 18) while generic sales ranged from low to high single-digit growth (Exhibit 19). On a per script basis, brand price per Rx has stabilized to mid-teens growth while generic price per Rx has seen mid-single-digit growth over the past few months (Exhibit 20). We expect trends in the last few months of 2023 to represent the run-rate for Rx sales trends for 2024. IQVIA estimates that over the past five years, spend at list prices have increased from $600Bn to $858Bn, or an average of 7.4% per year. Additionally, IQVIA projects medicine spending to be unchanged over five years reflecting structural market dynamics and competition as well as the effects of new policies and legislation. We note that while policymakers have been focusing on changes to drug pricing through the Inflation Reduction Act, many of the provisions within the Act are phased in with key elements expected to have the greatest impact in 2026 and beyond. Thus, spending growth in the near-term will likely be offset by losses of exclusivity, uptake of biosimilars, legislative impacts, and a shift to Covid moving towards endemic status. As we look to 2024, we anticipate US medicine spending growth is expected to remain steady on an underlying basis for what has been a mostly stable end market at its core.

Exhibit 18: Calendar-adjusted Brand Rx sales growth

Brand sales growth has remained positive overall in recent months

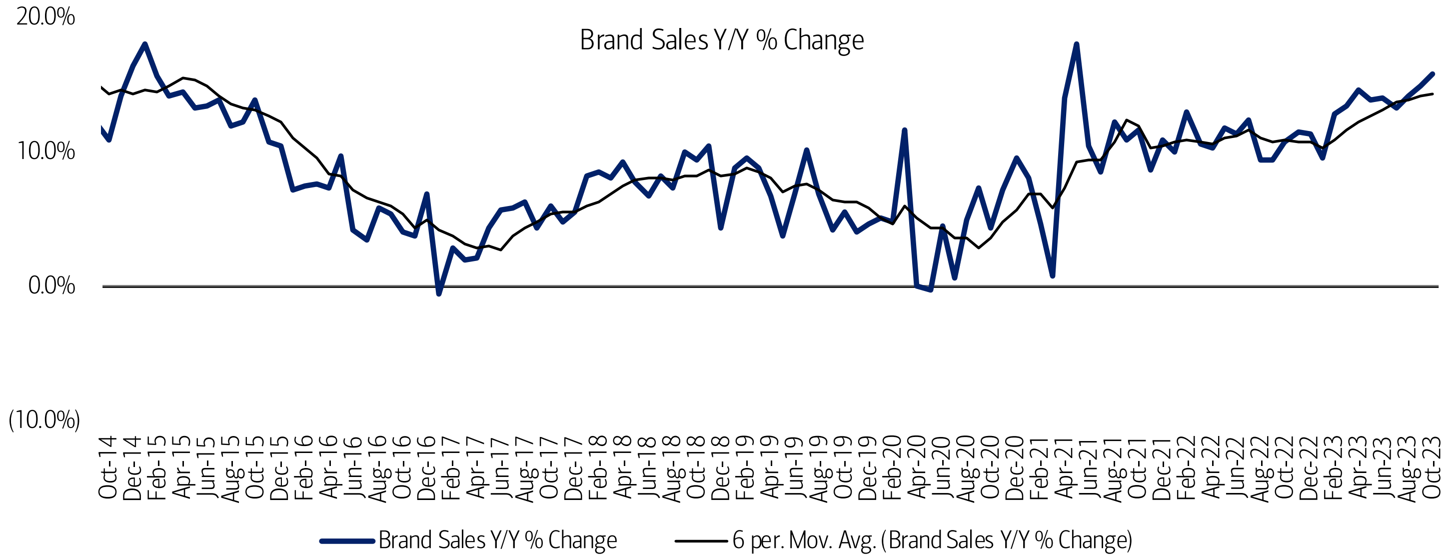

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Exhibit 19: Calendar-adjusted Generic Rx sales growth

Generic sales have moderated in the low to high-single digit range in recent months

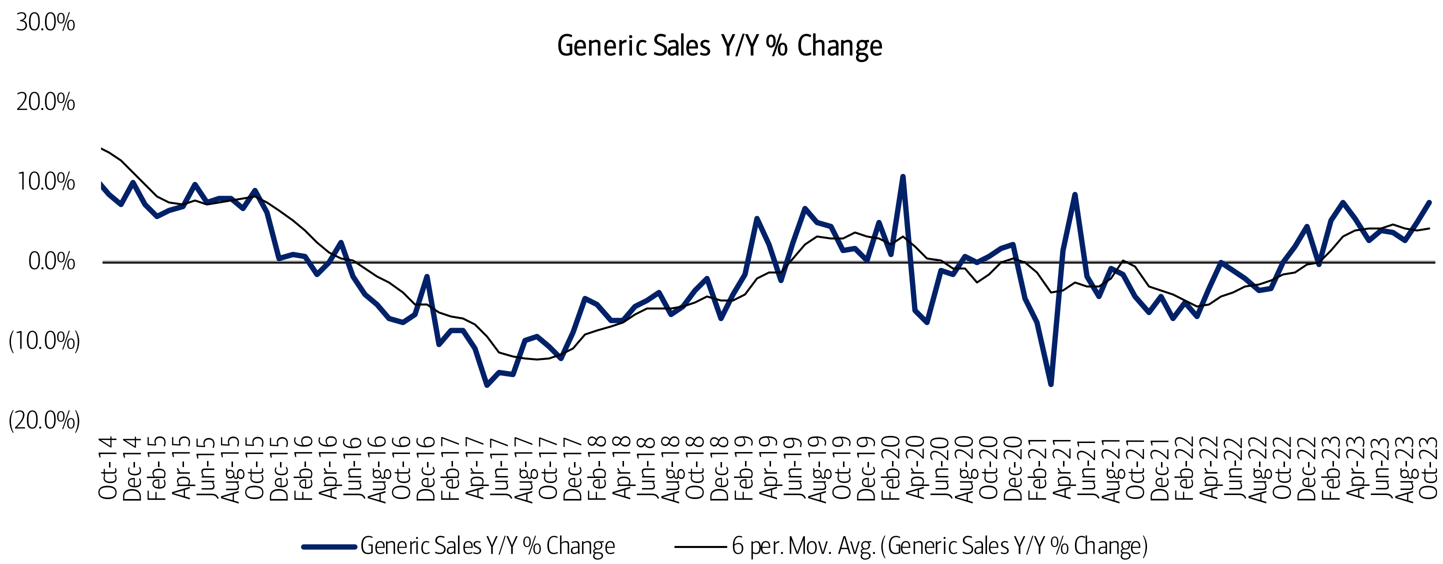

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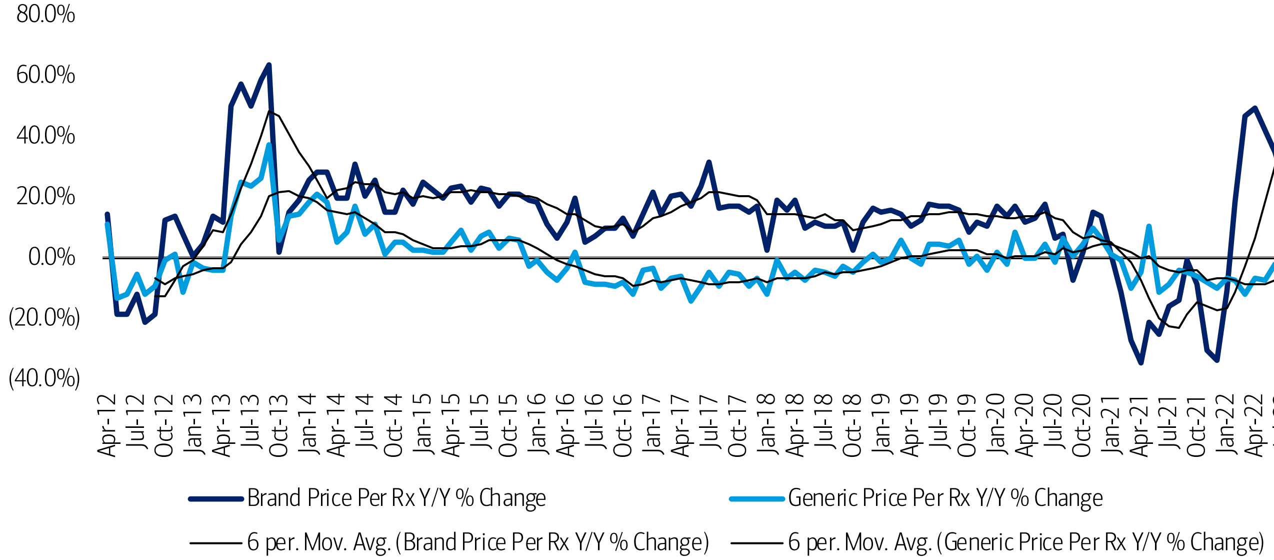
Exhibit 20: 2012-2023 Brand price per Rx and Generic price per Rx
Brand price per Rx has stabilized to mid teens growth while generic price per Rx has seen mid single-digit growth over the past few months



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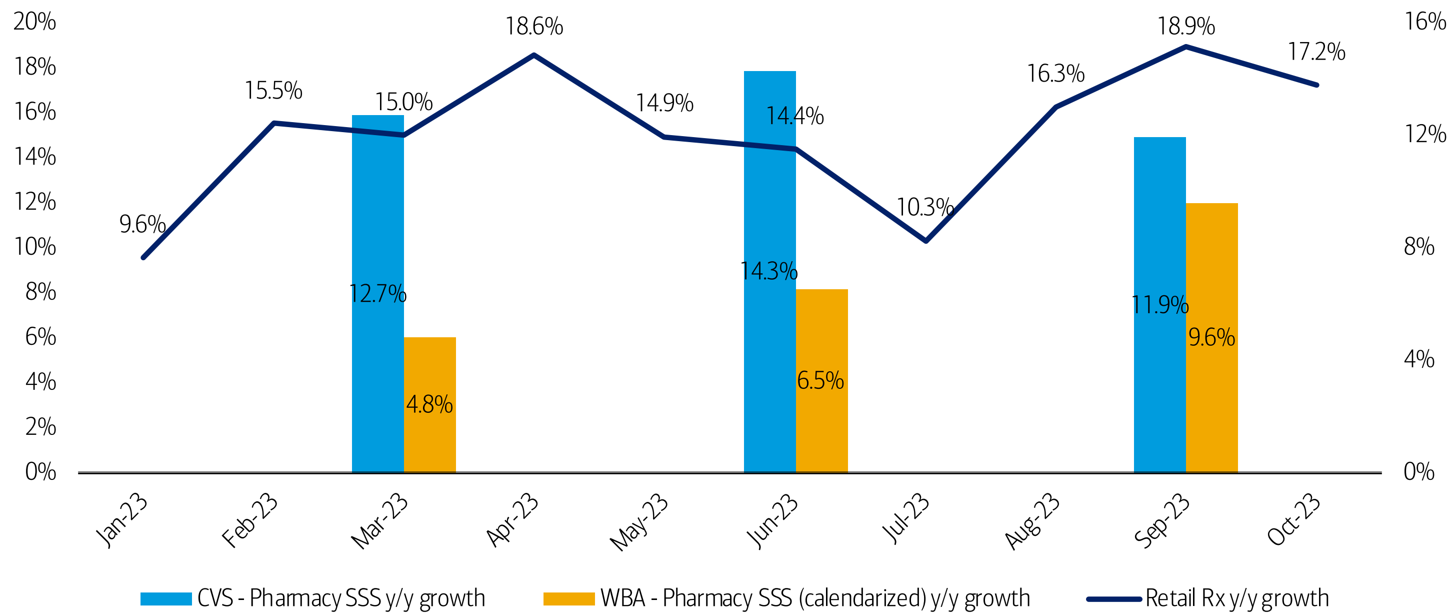
Consistent core market trends to drive 2024 Rx growth

In terms of pharmacy operating performance, in recent quarters we have seen continued stability in script growth as trends normalized to pre-Covid levels. This trend has been more beneficial for CVS compared to WBA given the idiosyncratic headwinds faced in the back-end for WBA which resulted in share loss to peers. WBA has since addressed its inadequate pharmacy staffing issue which limited pharmacy and store hours by extending pharmacy hours back to pre-Covid levels, but saw limited improvements in script volumes over the course of the year. Despite consistent core market trends, we believe that it could be difficult for WBA to recapture a material portion of scripts given the stickiness of pharmacy-customer relationships once established. For 2024, we anticipate prescription volume growth to remain stable driven by overall market growth.

Exhibit 21: Retail Rx growth (from IQVIA) vs. same store adj. pharmacy sales for CVS and WBA
We expect core market trends to drive stable Rx growth in 2024



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Company Reports
SSS – same store sales

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Pharmacy reimbursement pressure to persist in 2024

Pharmacy reimbursement pressure has been a persistent industry challenge negatively impacting pharmacy margins. Reduction in reimbursements continues to be a complex problem for pharmacies particularly with the inflation of generic drugs. As background, when pharma manufacturers increase prices for generics, pharmacy benefit managers (PBM) and payers are typically slow to update the maximum allowable cost (MAC). This results in pharmacies being reimbursed at less than the acquisition cost. However, when the cost of a drug goes down, PBMs can act quickly to update listings for MAC prices to avoid potential over-reimbursements to pharmacies. Given the lack of transparency in the industry, pharmacies are often not informed on how drugs are added or removed from a MAC list or the method used to determine reimbursement. PBMs can also benefit from “spread pricing”, a practice that occurs when PBMs contract with pharmacies at a lower price than negotiated with drug plan sponsors.

Challenging reimbursement dynamics to persist with potential to moderate

At CVS’ recent investor day, the company introduced a new model to address these challenging reimbursement dynamics that have persisted across the industry. The new company plans to shift towards a more transparent reimbursement model in 2025 aimed at ensuring pharmacy reimbursement are aligned to the underlying costs of the business while providing consumers the benefit of CVS’ purchasing economics. Notably, CVS highlighted that it has reached a floor on reimbursement rate erosion. For Walgreens, during their FY4Q’23 earnings call, management noted that 75% of contracts have been signed for CY24 and the company expects reimbursement pressure to be less of a headwind in FY24 than in FY23. In the prior FY3Q quarter, Walgreens also noted that while reimbursement pressure has eased somewhat over the past 18 months, it is not going away and the company will continue to identify ways to offset the pressure. For 2024, we expect pharmacy reimbursement pressure will likely persist and we will likely see additional offsets such as operational efficiencies/improvements from pharmacies to address these ongoing issues.

Utilization pressured in 2023, but could improve in 2024

For medical procedure demand, we have seen higher than expected utilization trends over the course of 2023 driving many Managed Care Organizations (MCOs) to raise medical loss ratio (MLR) guidance (Exhibit 22). Coming out of the period of volatility caused by the pandemic, patient demand has been difficult to predict. This dynamic has made it difficult to accurately forecast costs which resulted in driving the misses/raises in MLR trends through 2023. As we exit FY23, initial 4Q utilization data has pointed to an improving trend which could continue in 2024.

MCO's seeing better trends in commercial offset by pressure in Medicare

We reviewed recent commentary around MLR trends across MCOs as well as elective procedure delays and hospital admissions growth to gauge expectations around medical costs heading into 2024. As of 3Q'23 earnings, MCOs have broadly seen better than expected trends in commercial, partially offset by Medicare coming in higher than expected. We believe this is partially attributable to the difficulty in predicting surges in patient behavior following Covid disruptions as volumes return to more normalized levels. Additionally, the decline in elective procedure cancellations (Exhibit 23) and higher hospital admissions (Exhibit 24) highlight the ongoing volatility we have seen from the normalization of patients returning to in-person appointments/procedures. Additionally, data from BofA's Facilities & Managed Care trend tracker shows that November trend decelerated m/m with the 4Q trend of +0.1% compared to +0.9% in 3Q (note link here). This indicates that utilization has largely decelerated from the elevated levels in 3Q and we could continue to see normalization heading into 2024 should trends continue to improve in 4Q.

Exhibit 22: Recent commentary from Managed Care Organizations (MCOs) on Medical Loss Ratio (MLR) trends
MCOs have commented on higher than expected utilization trends in 3Q

	3Q'23 Medical Loss Ratio (MLR) commentary and guidance changes
Elevance (ELV)	3Q MLR of 86.8%, an improvement of 40 bps y/y, driven by premium rate adjustments to cover medical cost trend and solid performance within the government business.
Cigna (CI)	3Q MLR of 80.5%. MLR was better than expectations, driven by the U.S. commercial business. More specifically, favorable MCR performance reflected ongoing disciplined pricing, and continued affordability initiatives. CI planned and priced for more normalized utilization levels coming into 2023. And CI's claims experience is largely consistent with that expectation. Now, within the quarter specifically, for government product lines, you can think of the Medicare lines and individual exchange lines, ran largely in line with expectations, while U.S. commercial business drove the favorability in the medical care ratio. For FY23, expect MLR to be 81.5%-82%, an improvement of 30 bps from the high end of the prior range.
Centene (CNC)	Q3 consolidated MLR of 87%, slightly higher than expectations, driven by the commercial segment. On track with full year guidance range. FY23 guidance of 87.1%-87.7%. Introduced FY24 guidance of 87.3%-87.9% during the investor day.
CVS Health (CVS)	3Q MLR of 85.7% increased 230 bps y/y, primarily reflecting lower prior period development as well as higher Medicare Advantage (MA) utilization in 3Q. Expect FY23 MLR to be 86% (prior range of the high end of 84.7% plus or minus 50 bps), primarily driven by the impact of higher MA utilization, as well as the impact of higher than expected individual exchange growth during the special enrollment period. Introduced FY24 guidance of 87.2% during the investor day.
Humana (HUM)	3Q consolidated MLR of 86.4%. 3Q insurance segment MLR of 87.4% exceeded expectations by 40 bps due to higher medical costs in the MA business. Continue to experience an increase in Covid admissions in 3Q, whereas HUM forecast previously seen would occur in 4Q. To date, have not seen an offset in non-Covid utilizations which diverged from the consistent patterns seen previously. With respect to non-inpatient trends, HUM previously communicated expected higher PMPM reported in 2Q to continue throughout the back half of the year, reflecting a moderating y/y trends percentage. The most recent claims data suggested a modest uptick in PMPMs for 3Q vs. stable levels HUM anticipated. Considering the most recent trends, HUM is planning for the higher level of utilization seen in 3Q to continue for the remainder of the year. Increasing full-year Insurance segment benefit ratio guidance to 87.5% which implies a 4Q ratio of 89.5%.
Molina (MOH)	3Q consolidated MLR of 88.7%. The Medicare MLR for 3Q was 92.4%, above MOH's long-term target range, reflecting higher utilization of outpatient, professional, and in-home services.
UnitedHealth Group (UNH)	3Q MLR of 82.3%, vs. 81.6% last year, driven by outpatient care, primarily serving seniors, and business mix. Continue to expect FY23 MLR to be toward the upper end of initial 82.6% plus/minus 50 bps range. Care patterns were, as we discussed, focused again on outpatient activity with seniors. Those continue at the levels UNH described during 2Q and that's what really drove a lot of kind of the activity throughout the quarter. It's still in those categories that UNH has been focused on. The sequential move that you see from 2Q to 3Q is largely a seasonal factor. There's always less care activity in 3Q, that has to do just with vacations, a lot of the elements that go in there in terms of certain types of discretionary care, seasonal illnesses, so typical patterns, and also Part D patterns that you see on a regular basis. Introduced FY24 guidance of 84% plus or minus 50 bps during the investor day.

Source: Company Reports

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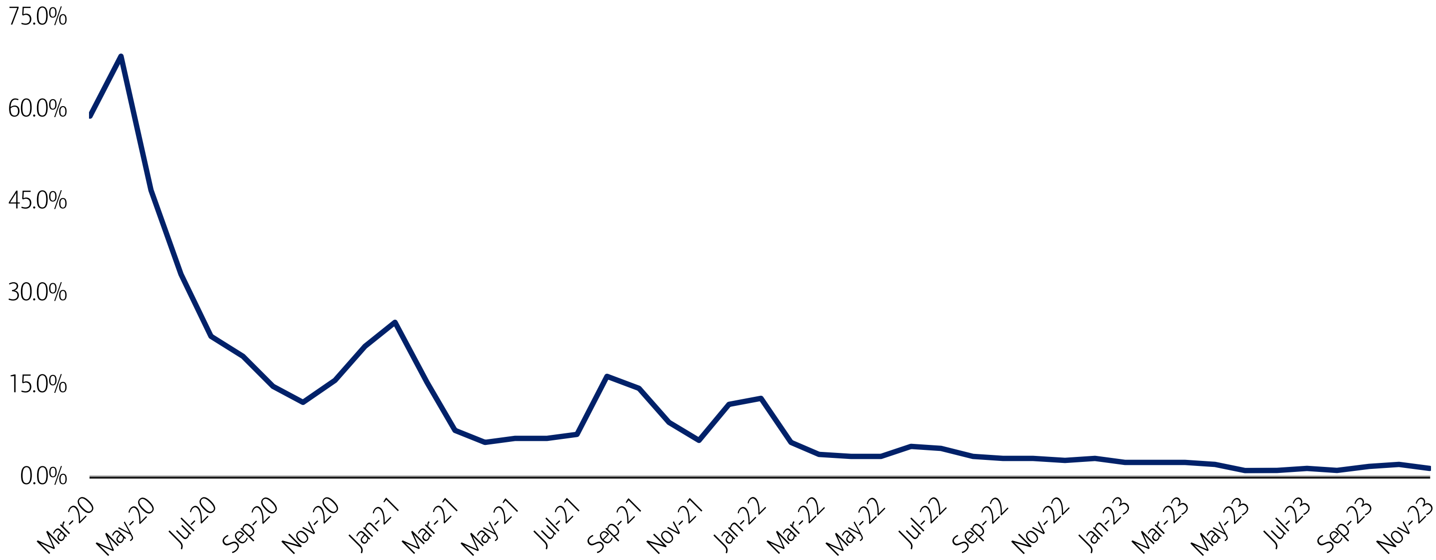
Exhibit 23: Average monthly elective procedures being delayed due to Covid-19
Elective procedure cancellations down to low-single digit percentage in recent months



Source: BofA Global Research

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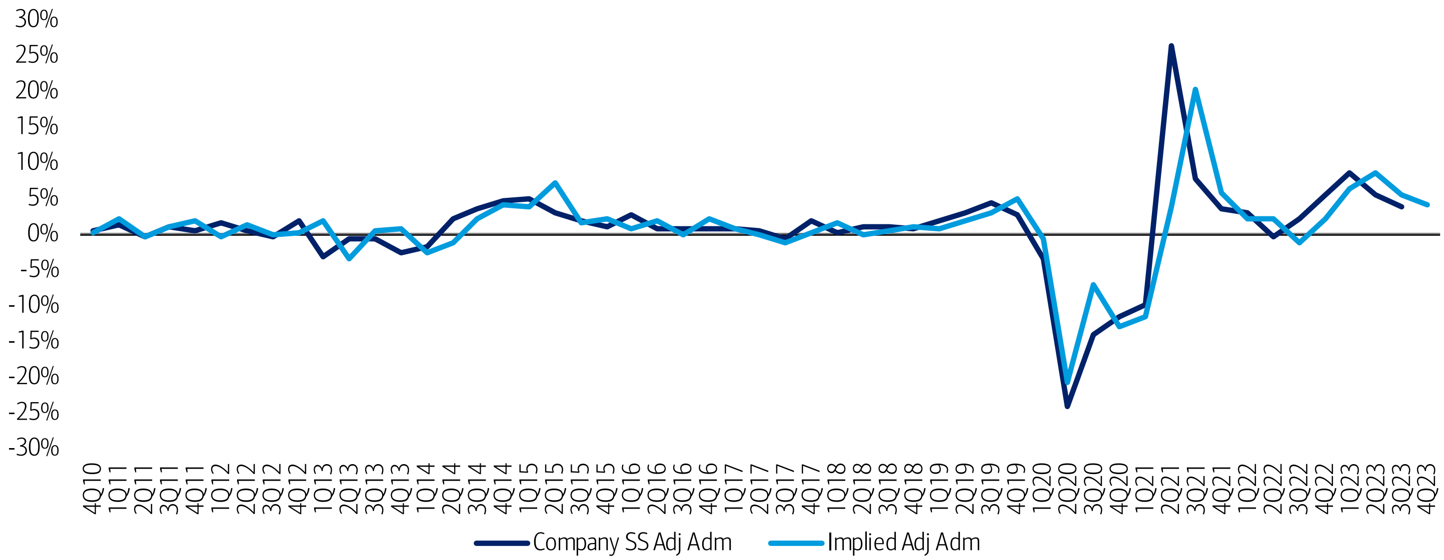
Exhibit 24: Hospital company adjusted admission growth vs. implied volumes based on survey
Volume growth has been volatile coming out of the pandemic



Source: BofA Global Research

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GLP-1 observations and risks into 2024

The increased focus on the GLP-1 market has brought conversations around weight loss as a preventive care and discussions around drug prices/costs to the forefront. In July 2023, the Senate introduced the Treat and Reduce Obesity Act of 2023 with the goal of removing Medicare coverage exclusion for weight loss products as obesity increases risk of multiple chronic conditions thus contributing to the increase in government healthcare spend. Additionally, Novo Nordisk's (covered by Sachin Jain) recent SELECT cardiovascular (CV) trial showed favorable results across multiple endpoints including a reduction in risk of CV events. However, employers continue to grapple with coverage decisions, balancing the surge in demand for these drugs while assessing the health benefits and risks of absorbing additional costs.

GLP-1 volumes should remain elevated in 2024

Given these dynamics and potential implications for employer coverage as additional positive health data emerges from new trials, we have been tracking monthly sales and growth of script volumes to observe real-time trends. GLP-1 sales and total script (TRx) growth in October showed continued moderation, but more recently updated TRx data (through 12/8) has indicated a reacceleration of script growth through the beginning of December (Exhibit 15). Total monthly GLP-1 sales grew 41% y/y in October vs. 53% y/y in September, and 83% in August while monthly GLP-1 TRx grew 46% y/y in October vs. 56% in September and 77% in August (Exhibit 25). While monthly prescription volume growth for GLP-1s continued to moderate in October, likely driven by ongoing supply shortages of multiple GLP-1 receptor agonists, we expect sales and volumes to remain at elevated levels in 2024. Novo Nordisk recently announced plans to invest $6Bn in expanding its existing Denmark facility and $2.3Bn in a facility in France to support increased production capacity for GLP-1 drugs. Eli Lilly (covered by Geoff Meacham) also announced plans to invest $2.5Bn in a new manufacturing site in Germany to further expand capacity for its diabetes and obesity portfolio. We anticipate manufacturers will continue to expand capacity for these drugs to increase supply and support continued growth rates for sales and scripts. It will be important to monitor growth rates of sales and Rx heading into 2024 as pressure increases on payers and employers to cover GLP-1 products.

Exhibit 25: GLP-1 monthly sales and volume growth y/y change (Oct '22 - Oct '23)
In October, GLP-1 total sales grew 41% y/y and total GLP-1 Rx grew 46% y/y

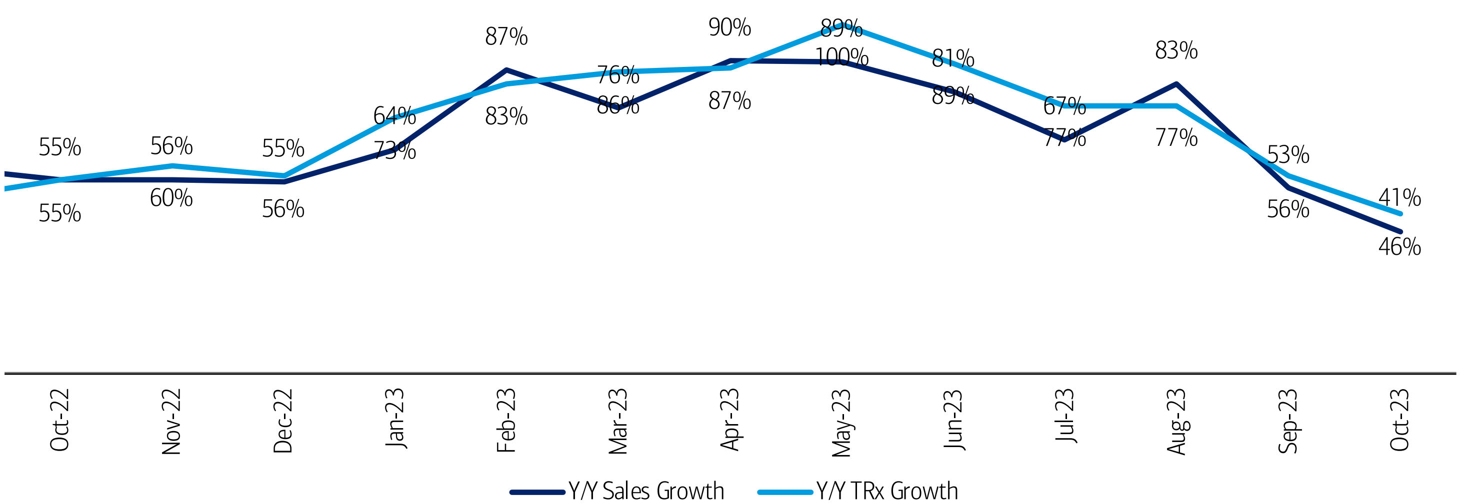

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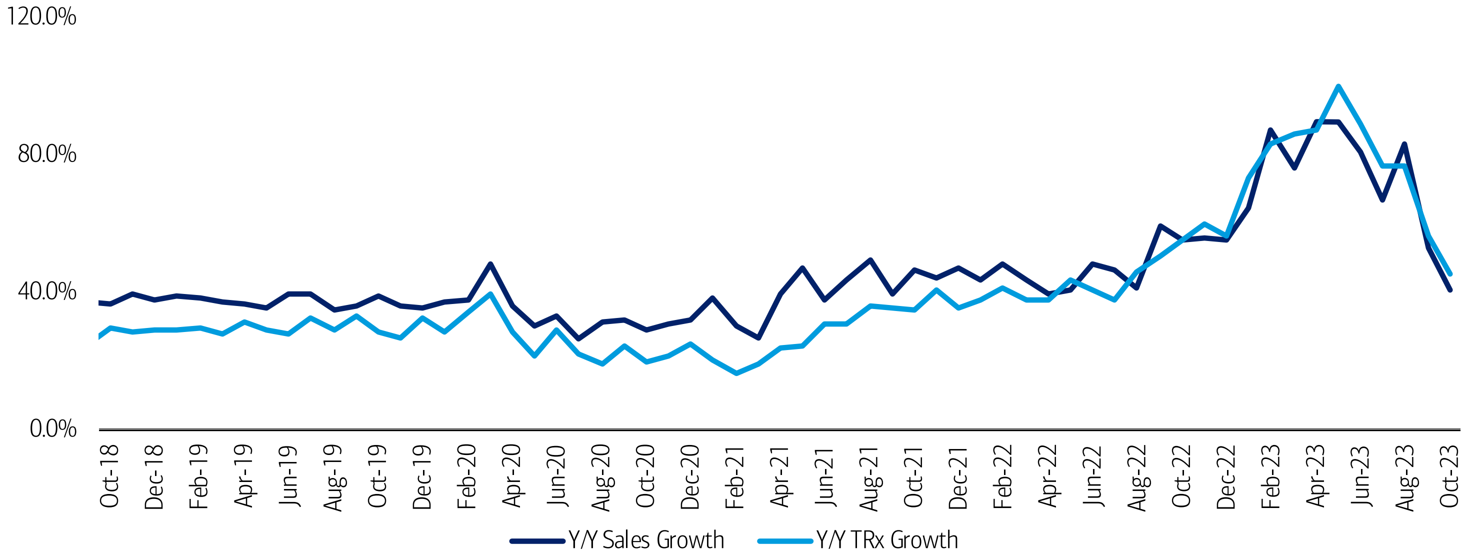
Exhibit 26: GLP-1 monthly sales and volume growth y/y change (Oct '18 – Oct '23)

Total sales and TRx growth for GLP-1s remain elevated, but moderated in October to the low to mid 40s%



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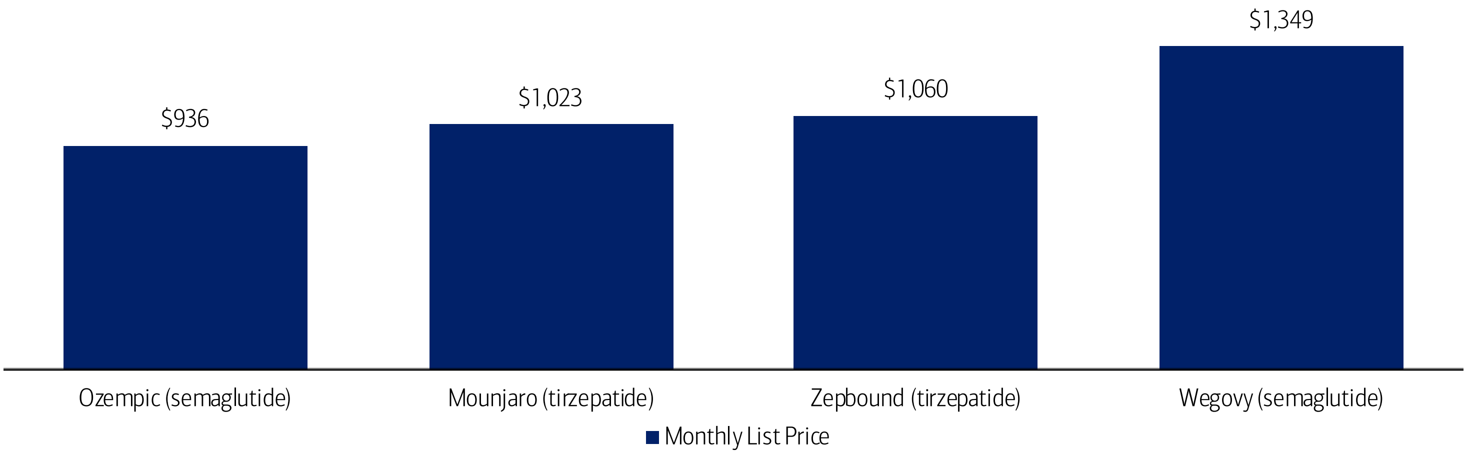
Overall costs remain high for GLP-1s

In November, Eli Lilly (covered by Geoff Meacham) received approval from the U.S. Food and Drug Administration (FDA) for Zepbound (tirzepatide) in obesity. Zepbound is set at a list price of $1,060, 21% below the list price of Novo Nordisk's Wegovy introducing a cheaper alternative to competitor Wegovy. Despite the lower list price, overall costs for GLP-1s remain high with the list prices ranging from $936-$1,349 for a one-month supply (Exhibit 27). The high price of GLP-1s and the relatively large number of patients that can benefit from these medications can potentially result in substantial net new costs to health plans. Combined with the uncertain timeline for how long patients will stay on these drugs, cost management for employers remain one of the key concerns in considering coverage decisions. However, we note that the recent FDA approval for Zepbound will not likely impact changes for plans in 2024 given coverage decisions for next year have largely been set.

Exhibit 27: List prices for GLP-1 drugs
Zepbound is set at a list price of $1,060 for a one-month supply, 21% below Novo's list price for Wegovy



Source: Company Reports

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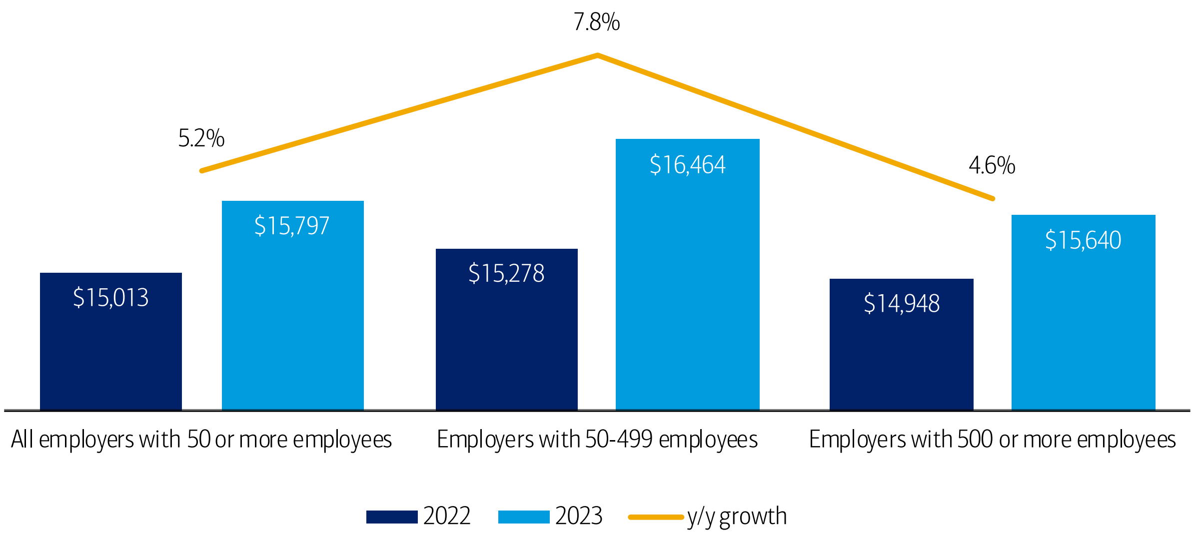
Employer GLP-1 coverage decisions continue to evolve

In 2024, employers will likely continue assessing the financial/clinical implications of GLP-1 medications as coverage decisions could evolve throughout the year. According to Mercer's 2023 National Survey of Employer-Sponsored Health Plans which includes more than 1,900 employer respondents, the average per-employee cost of employer-sponsored health insurance increased by 5.2% in 2023 (Exhibit 28). This compares to an average ~3% growth over the past decade. Factors such as inflation, prescription drug costs, and utilization of GLP-1s have largely contributed to the higher cost increases with the survey also indicating employers are expecting another increase of +5% in 2024. While cost implications remain top of mind, employer coverage decisions could become more complex given the potential for these drugs to reduce future healthcare costs in treating conditions outside of weight loss. We continue to monitor how self-insured employers will handle GLP-1 coverage given rising cost trends, uncertain long-term effects, and as new clinical trial data is released.

Exhibit 28: Average total health benefit cost per employee
Health benefit cost per employee increased 5.2% in 2023 (based on Mercer's 2023 employer survey)



Source: Mercer US Health News

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MCK best positioned for GLP-1s in 2024

For the distributor group (MCK, COR, and CAH), the increase in GLP-1 prescriptions have created a significant category with an outsized impact across the supply chain. GLP-1s are considered a specialty drug but have a margin rate profile that is more in-line with traditional branded drugs. Thus, distributors have seen an outsized revenue benefit given the size of the drug class with very thin margins. Recent commentary from the distributors have been similar across the board highlighting a tailwind to revenue, but low margin contributions. For MCK, the company cited during its FY2Q'24 earnings that the growth of GLP-1 medications provided a revenue tailwind in the quarter while generally recognizing lower margin rates for the distribution of GLP-1s within the US Pharmaceutical segment. Within the Prescription Technology Solutions segment, management noted the growth of GLP-1 medications contributed to increased demand for MCK's access solutions such as prior authorization services. For COR, management highlighted on their FY4Q'23 earnings call that the US Healthcare Solutions segment continued to see significant growth in sales of low-margin GLP-1 products. Similarly, for CAH in FY1Q'24 management cited GLP-1 medications provided a revenue tailwind in the quarter, but is not a meaningful contributor to earnings.

McKesson has a differentiated ability to capture upside from GLP-1s

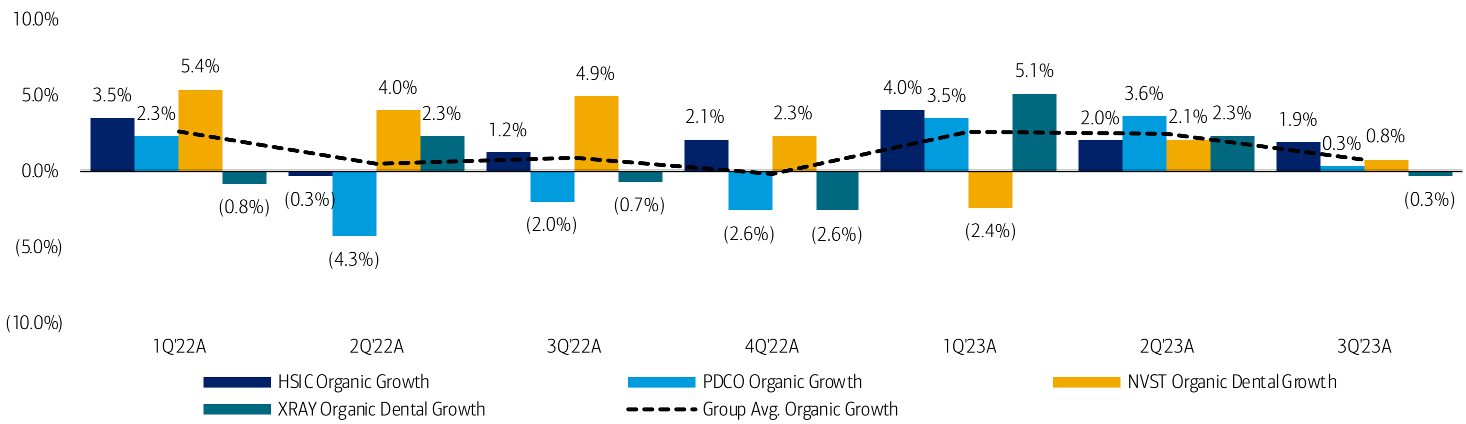
We view McKesson as best positioned for the GLP-1 opportunity in 2024 relative to peers Cardinal Health and Cencora due to its differentiated ability to capture upside. MCK's Prescription Technology Solutions (RxTS) segment includes CoverMyMeds which provides electronic prior authorization (ePA) solutions. CoverMyMeds generates revenue on a per transaction fee per prior authorization, thus benefiting from utilization growth from elevated GLP-1 prescription volume trends. We note that Cencora also has a prior authorization business through its Lash Group Fusion platform that was rolled out in 2017. Additionally, Cardinal Health offers an electronic prior authorization solution through a collaboration with eBlu Solutions that was announced in September 2022. However, commentary from COR and CAH regarding performance and contributions for their respective ePA solutions have been more limited.

Dental – 2023 a clearing event, 2024 reliant on macro

Much like the wider economy, the first half of the year brought unexpected resilience in dental demand against expectations of a slowdown. 3Q earnings may have finally served as a clearing event with results/guidance highlighting deteriorating utilization trends (Exhibit 29) leading to shares selling off to annual lows (Exhibit 30). The near-term demand outlook remains fluid, but expectations have now right sized. The most-recent quarter of earnings showed that consumables and technology & equipment (T&E) demand deteriorated starting in September 2023. Consumables were impacted from lower patient volumes with higher-end procedures challenged the most. On equipment, high interest rates continued to weigh on capex spend, especially in international geographies such as Germany. Heading into 2024, we're continuing to monitor the broader economy to stay ahead of potential downstream impacts to dental volumes and practice capex that ultimately impact the dental supply chain. However, given the dental group is trading a historically high discount to the S&P 500, we see potential for upward mean reversion if macro improves ahead of expectations (more on this below, refer to Exhibit 38).

Exhibit 29: Calendarized organic dental growth across coverage group

Organic growth stepped down in 3Q'23 after a solid first half of the year



Source: Company reports, BofA Global Research

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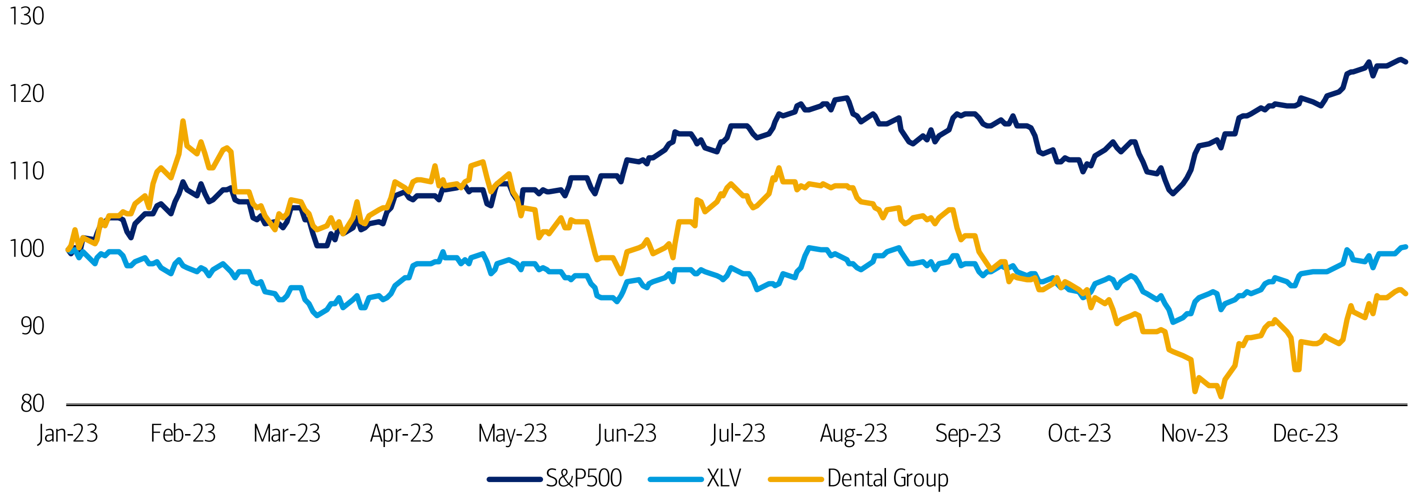
Exhibit 30: Price chart for S&P 500, XLV, and Dental group rebased to 100

Dental group underperformed the S&P 500 and XLV in the back half of 2023



Source: FactSet, BofA Global Research

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Survey suggests there is potential for macro to normalize heading into 2024

To take a pulse of dentists' opinions, we've analyzed data from the November edition of a monthly American Dental Association (ADA) survey, shown below. The survey suggests that practice appointment schedules have improved from a dip in September to a level on par with last year (Exhibit 31). While September appointment fill rates were down ~300bps from last year, the October and November fill rates are on par or better than last year. Further, the November appointment fill rate of 85.3% is up 220bps from September and 150bps from October, the largest m/m increase this year. This data is in line with qualitative commentary at the Greater NY Dental Meeting in late November (Link to note here), where participants were cautiously optimistic around the macro environment. While we acknowledge the limitations of the survey in the context of a large and fragmented dental practice landscape in the U.S., the improvement in appointment fill rates in November is an incremental positive data point suggesting potential for stabilization.

Moreover, the majority of dentists (~60%) are either very or somewhat confident in their practice (Exhibit 32). A smaller majority (53%) of respondents feel either very or somewhat confident in the dental care sector in general. This contrasts with views toward the US economy, where the majority (~52%) were either somewhat or very skeptical. Ultimately, dental demand remains fluid – a slowdown in the real economy and/or an uptick in job loss or further consumer spend pressure could influence procedure type (i.e., customers put off elective procedures, which can be higher-margin for the supply chain) or dental traffic (which would reduce revenues across the board). Given expectations (guidance/outlook/share prices) have right sized, we're cautiously optimistic about the dental industry as we look ahead into 2024.

Exhibit 31: Mean patient appointment schedule fill rate
Appointment fill rates ticked up meaningfully in November and is now in line with prior year fill rates

Source: American Dental Association. Economic Outlook and Emerging Issues in Dentistry. Health Policy Institute. November 2023.

Available from: https://www.ada.org/-/media/project/ada-organization/ada/ada-org/files/resources/research/hpi/nov2023_hpi_economic_outlook_denitstry_report_main.pdf

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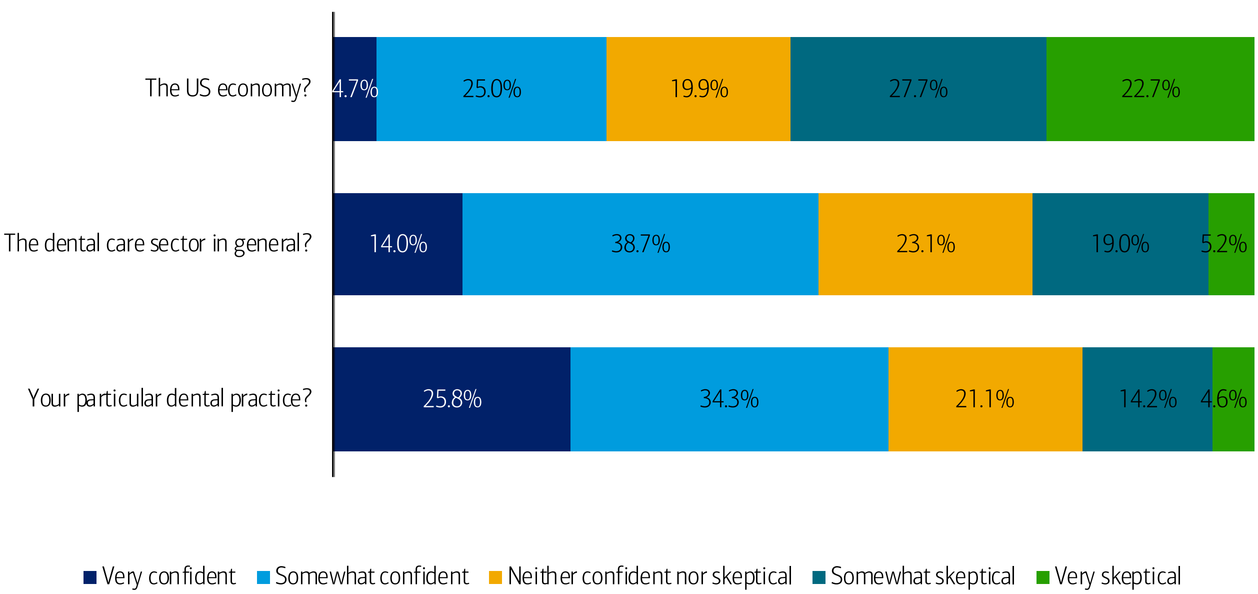
Exhibit 32: Dentist survey on confidence in the U.S. economy, dental sector and practices
Dentists have more confidence in the dental sector and practices in comparison to the wider U.S. economy



Source: American Dental Association. Economic Outlook and Emerging Issues in Dentistry. Health Policy Institute. November 2023.

Available from: https://www.ada.org/-/media/project/ada-organization/ada/ada-org/files/resources/research/hpi/nov2023_hpi_economic_outlook_denitstry_report_main.pdf

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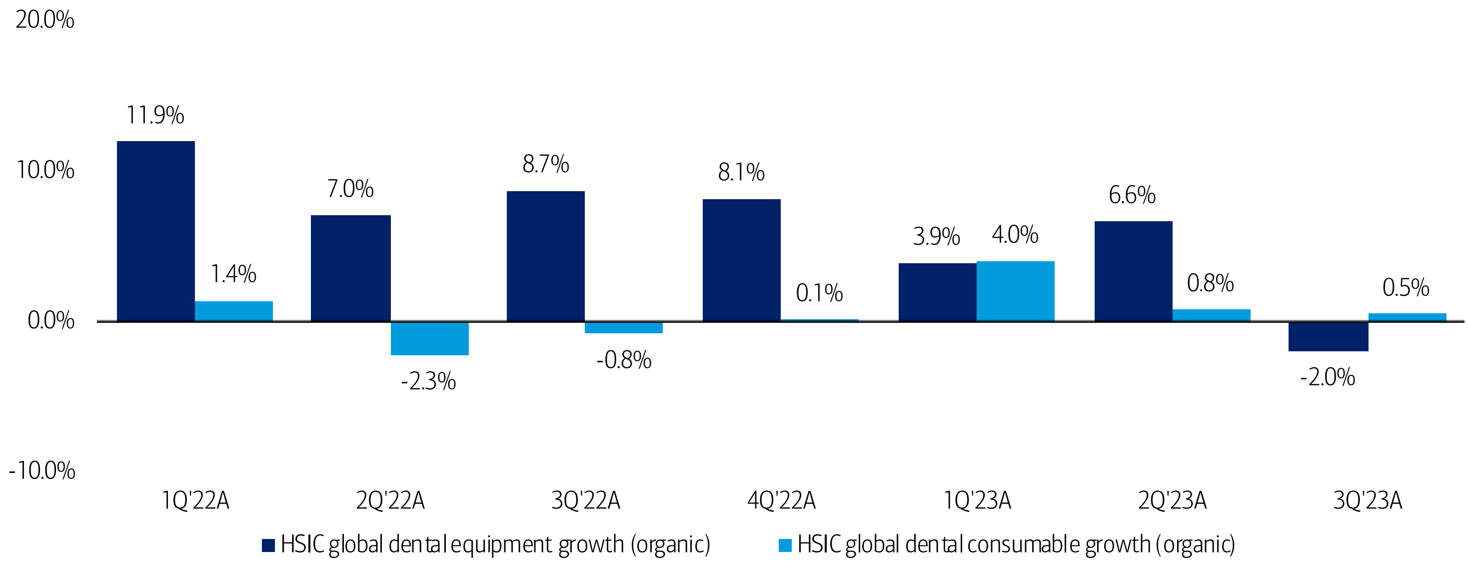
Equipment to be more challenged than consumables

As was the case in 3Q'23, we continue to view equipment, particularly higher-end capital equipment to be more challenged than consumables heading into 2024. Equipment growth was ahead of expectations in 1H'23, but took a material step down in 3Q (Exhibit 33 and Exhibit 34). Meanwhile, consumables grew modestly through the first half of 2023 and managed to grow y/y in 3Q on an easier comp. Incremental consumer weakness could further dampen elective procedures, but routine general dentistry has potential to normalize. Barring a recession (BofA Economist's base case is for a soft landing), we find the likelihood for incremental pressure on consumables to be limited outside of potential for continued softness in higher-end elective restorative/ortho procedures. Meanwhile, capex headwinds from higher interest rates overlayed by caution on lower high-margin elective procedures is likely to continue and pressure equipment spend. In our view, a stepdown in rates is unlikely to materially change the cost of capital until 2025 (BofA Economists expect the first rate cut in June '24 with a just 75bps in total rate cuts through Dec '24).

Exhibit 33: Henry Schein global dental consumables vs. equipment revenue growth y/y
Equipment growth stepped down meaningfully in 3Q



Source: Company reports, BofA Global Research

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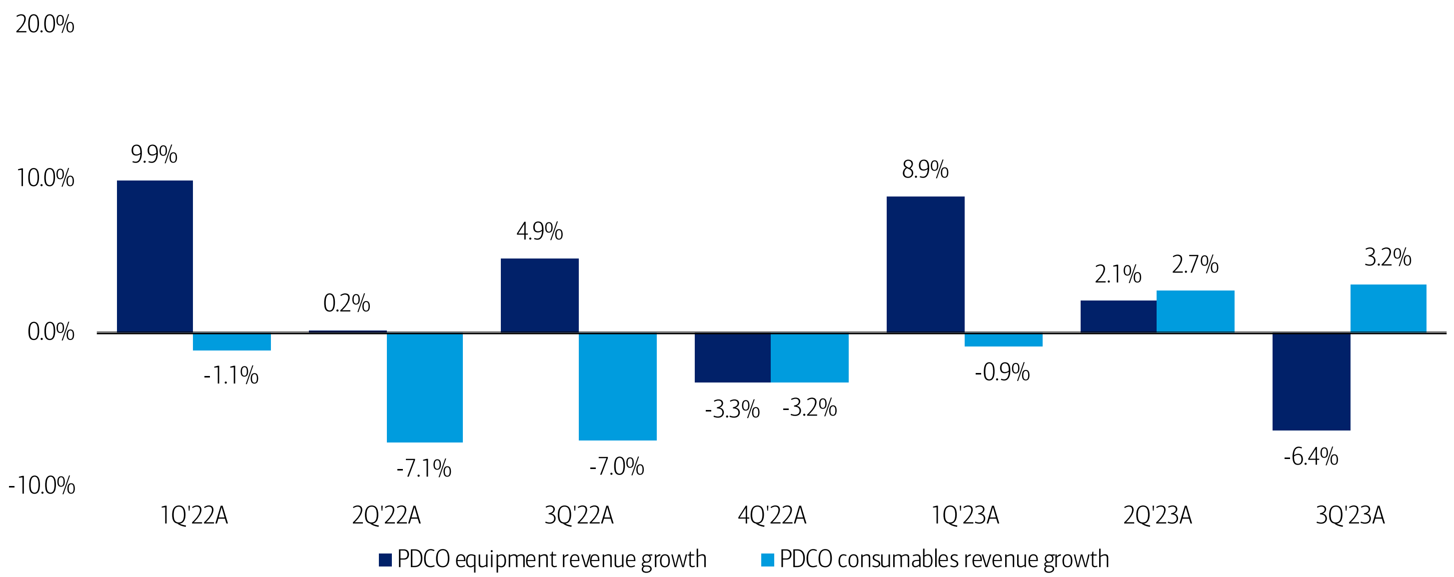
Exhibit 34: Calendarized PDCO dental equipment and consumables revenue growth y/y
Equipment growth decelerated after 1Q'23 with a meaningful stepdown in 3Q



Source: Company reports, BofA Global Research

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NA better on consumables, equipment headwinds worse internationally

Geographic idiosyncrasies could persist into 1H24, but will be highly dependent on consumer sentiment/cost of capital across geographies. In 3Q, pressure on consumables was more pronounced in North America (NA) while equipment had more headwinds internationally. Across the group, international equipment fared worse (HSIC international equipment was down 5.9% and NVST international equipment and consumables were down 3.2% vs. 1% in NA). Geographies such as Germany and Russia were particularly impacted according to XRAY and NVST (German equipment spend challenged by high financing costs, while Russia was impacted by sanctions). Meanwhile on consumables, NA fared worse in 3Q driven by lower elective volumes in adult ortho and softness in implants (HSIC NA consumables were down -1.2% vs. International up 2.9% and PDCO NA consumables was up 2.9%). China growth remained resilient with names across the coverage faring better than anticipated on value-based procurement as volume more than offset pricing headwinds.

Category view: Value>Premium on Ortho/implants, equipment widely challenged

We expect structural trends to continue with macro (patient volumes, consumer sentiment, and cost of capital) influencing growth trends in the near-term.

On **Orthodontics/Clear Aligners,** elective and higher-end procedures are likely to be more challenged in 2024 as adult consumers grapple with student loan repayments and high costs of living (rent/mortgages). Meanwhile, traditional wires and brackets should continue to give way to clear aligner growth (NVST noted LSD decline in wires/brackets through 2023). Aligner growth was better than anticipated across our coverage in 3Q (HSIC noted DD clear aligner growth, SureSmile/Byte grew 13%/7% respectively, and Spark grew 50%+). Considering this in context with ALGN's outlook/results suggests that value aligners remain better positioned heading into 2024. Further, higher-end orthodontic cases were impacted in 3Q according to commentary from NVST and HSIC, with management expecting this trend to persist through at least 1H24.

Implants market growth to be led by international. Overall, the global implant market grew in 3Q. HSIC saw strong growth through acquisitions with 40% y/y global implant growth, XRAY cited LSD growth in implants/prosthetics, while NVST saw LSD declines in implants due to continued weakness in NA and Russia as was the case through most 2023. While XRAY noted that the US/German implant business was impacted, China witnessed 30% sequential growth and doubled y/y. Meanwhile. HSIC noted that the EU implant business is growing well (EU is half of the HSIC implants business) and expects the dental specialty segment (~66% of which is implants) to grow at the lower end of the LT range of 5-8% in 2024.

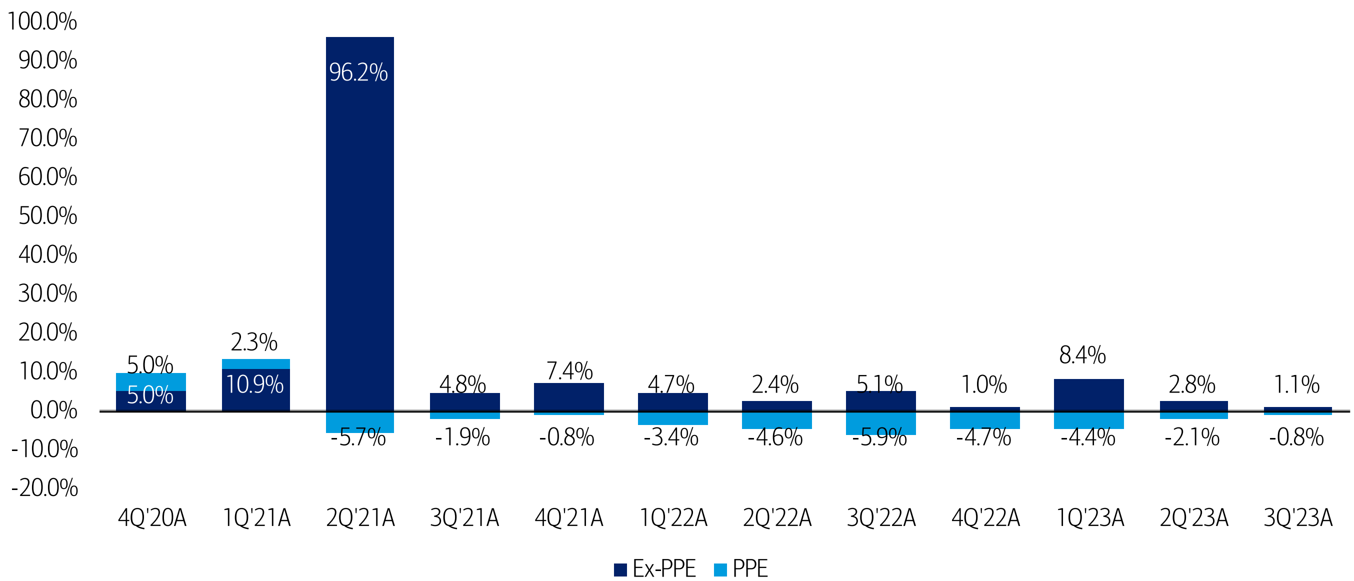
Equipment to be challenged overall, with some pockets of growth. Overall capital equipment spend is likely to be challenged as dentist concerns around potentially lower high-margin procedures overlay on high financing costs. According to HSIC management, DSO/wholesale was more impacted than retail, highlighting the sensitivity of more complex buyers to the cost of capital. Moreover, management noted a shift to lower priced equipment in the back-half of 2023. We expect the shift to lower priced equipment to remain a theme through 2024 until financing costs step down. Digital CAD/CAM growth was impacted across the board in 3Q with pricing pressure on IOS, but NA dental equipment sales reverted to pre-pandemic level MSD growth according to HSIC. XRAY noted DD growth in the U.S. CAD/CAM business on higher volumes and LSD global growth, while NVST saw IOS unit growth in 3Q. Equipment sales will continue to be heavily geography/channel dependent into 2024 with weakness expected to persist in EU, especially in Germany according to XRAY/NVST. Overall, while digital dentistry remains a persistent trend as suggested by our conversations with dentists, nice-to-have equipment (ex. 3D printers, Mills) will likely see near-term pressure until patient volumes normalize and financing costs come down.

PPE stocking headwinds moderating, clarity to build on structural demand

Demand fluctuations around PPE had a meaningful impact on dental distributors in FY22 as companies lapped high period of demand for infection control products from prior years. This headwind moderated for HSIC and PDCO through 2023 (Exhibit 35 and Exhibit 36). PDCO management expects the y/y deflationary effect from infection control product pricing to fully normalize by end of FY24 (April 2024). Overall, we expect PPE stocking headwinds and price deflation on infection control products to further normalize into 2024 supported by easier comps. Importantly, we look to the exit rates in the back half of CY24 for clarity on normalized structural demand in PPE. The market is likely to appreciate improved visibility in underlying structural demand for PPE as it removes a volatility factor that remained an overhang through 2023.

Exhibit 35: Henry Schein Dental Consumables growth y/y for PPE and Ex-PPE

The drag from PPE growth moderated in 2023 with sequential quarterly improvement



Source: Company reports, BofA Global Research

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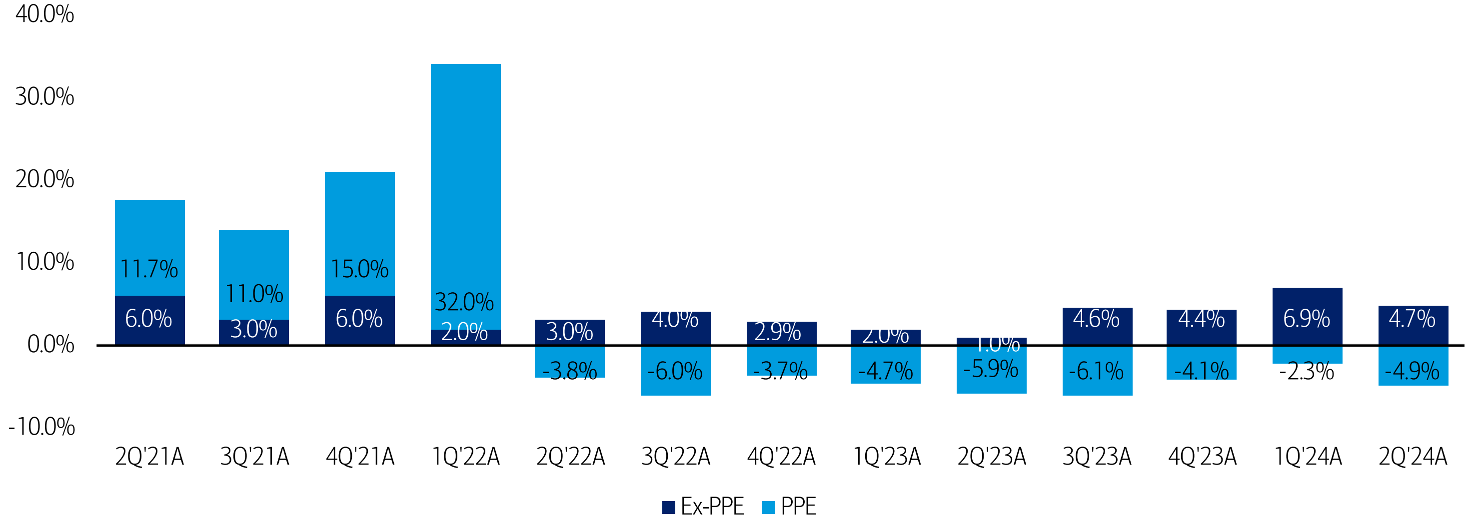
Exhibit 36: Patterson Dental Consumables growth y/y for PPE and Ex-PPE
The drag from PPE on PDCO's dental consumable business is improving on y/y basis



Source: Company reports, BofA Global Research

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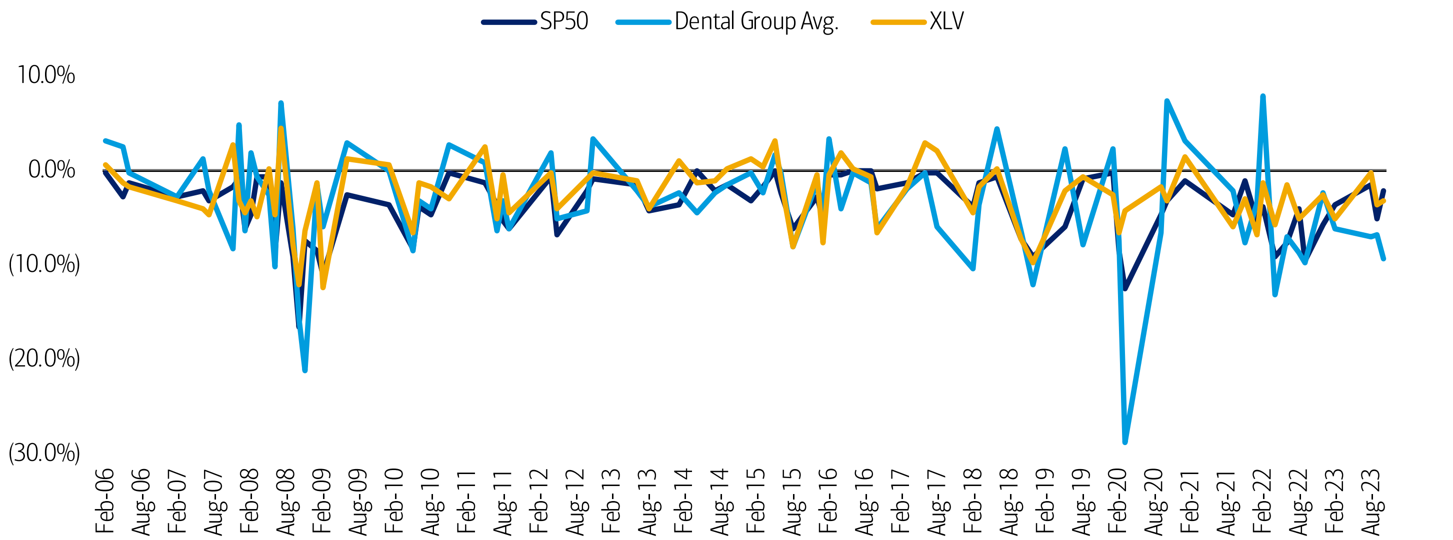
History suggests that the dental group is mildly defensive

A key question in 2023 which remains relevant heading into 2024 is whether dental names serve as a defensive play in a recessionary backdrop. We note that group performance since 2006 highlights a mild defensive quality relative to the S&P 500, but to a lesser extent than the wider healthcare index, XLV. We analyzed monthly share performance of our dental coverage group vs. the XLV and S&P 500 since 2006 (Exhibit 37). We focused on relative share performance on months that the S&P 500 was down (80 out of 215 months from January 2006 through November 2023) to identify the defensive characteristic of share performance. Our analysis suggests that the dental group outperformed the S&P 500 54% of the months when the index is down while XLV outperformed ~66% of the time. This could be attributed to dental names having more pronounced macro exposure vs wider healthcare names. Namely, the dental growth engines, ortho/digital equipment have tended to be impacted more directly by weaker consumer/lower capex spend. Distributors, HSIC and PDCO showcase a more pronounced defensive quality, outperforming the S&P 500 ~62% of the months when the S&P 500 is down (in line with the lower beta). Relative to the wider healthcare index, the dental group only outperforms the XLV ~39% of time when the S&P 500 is down, and 46% of the time in general. On the flipside when the S&P 500 is up, the dental group underperforms the S&P 500 57% of the time while the XLV underperforms the S&P 500 ~ 50% of the time. Moreover, the dental group underperforms the XLV 60% of the months when the S&P 500 is up. This standalone analysis suggests that the dental group is a mild defensive play in a recessionary environment with limited relative upside vs. S&P 500 and wider healthcare (XLV) in a more bullish market.

Exhibit 37: Monthly price performance for dental group and XLV for months when the S&P 500 is down
Dental group outperforms the S&P 500 on ~54% of the months and XLV outperforms the S&P 500 ~66% of the months when S&P 500 is down



Source: FactSet, BofA Global Research

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Dental group is trading at a meaningful discount to the S&P 500

The wider dental group is now trading at the highest 20yr discount to the S&P 500 index on a forward P/E multiple (Exhibit 38). While a discount makes sense considering a lower revenue/earnings growth profile in comparison to the S&P, the magnitude of the discount presents an opportunity for mean reversion, especially if macro improves ahead of expectations. Within our dental cohort, PDCO trades at the highest discount to its historical multiples (~31% below the 10yr avg and ~23% below the 5yr avg) and at a 22% discount to the group vs. 13-17% historically. This could be attributed to PDCO's significant exposure to the consumer across the Animal Health segment (~60% of PDCO's revenue) and concerns around margin expansion (margins in 2Q'24 were meaningfully behind expectations) as PDCO has the lowest margin profile in the group. Meanwhile, HSIC trades at a ~26% discount to the 10yr average, ~16% discount to the 5yr average and a half-turn premium to the group avg. Across the group, the market is likely pricing in rev/earnings growth below the Street considering the current discount, presenting an opportunity for multiple reversion if the Street's earnings growth estimates come to fruition. We view macro as a critical swing factor and note there is potential for estimates to hold barring any incremental degradation in macro.

Exhibit 38: P/E (next-year consensus) multiples for Dental coverage vs. S&P 500
The dental group is trading at one of the largest discounts to the S&P 500 over the last 20 years

	Dental Group	S&P 500	Group Premium/(Discount) to S&P 500	PDCO	HSIC	XRAY	NVST
Current	**13.4x**	**18.7x**	**(28.2%)**	**10.4x**	**13.8x**	**15.7x**	**13.8x**
Since June 2020	16.4x	18.7x	(12.3%)	13.5x	16.0x	17.6x	18.5x
Vs. Current	*(18.1%)*	*(0.0%)*		*(22.6%)*	*(13.8%)*	*(10.9%)*	*(25.5%)*
5yr avg (or since IPO)	16.3x	17.7x	(7.5%)	13.5x	16.5x	17.9x	17.8x
Vs. Current	*(17.9%)*	*5.8%*		*(22.8%)*	*(16.3%)*	*(12.5%)*	*(22.9%)*
10yr avg	17.5x	16.6x	5.6%	15.1x	18.5x	18.3x	17.8x
Vs. Current	*(23.3%)*	*12.8%*		*(30.9%)*	*(25.5%)*	*(14.1%)*	*(22.9%)*
Earnings growth y/y 2024*	9.6%	12.3%	(21.8%)	7.7%	14.3%	11.4%	5.1%
Revenue growth y/y 2024*	2.9%	5.5%	(47.3%)	3.1%	4.9%	1.8%	1.9%
Adj. EBITDA margin 2024	12.9%			5.6%	8.2%	18.6%	19.0%
Net Debt/EBITDA*	0.87	1.03	(15.6%)	0.46	0.66	1.97	0.39

Source: FactSet, Bloomberg, BofA Global Research
* S&P 500 estimates per Bloomberg as December 2023, PDCO estimates for FY25

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Non-pharma medical distribution – outlook mixed

While prior discussions on non-pharma medical distribution centered around PPE headwinds and normalization of volumes post Covid, 2024 brings an opportunity to refocus on structural demand. Broadly, non-pharma medical distribution remained challenged through 2023. For instance, HSIC organic quarterly medical revenue growth averaged ~6.7% in 2018/2019 vs LSD growth ex-Covid through 2023. While we expect the end market to remain challenged, we find the potential for above average patient volume growth outside of possible elective surgery pressure in a downturn and easing labor headwinds as incrementally positive. However, equipment related distribution is likely to remain pressured given high financing costs are unlikely to meaningfully change until 2025. Heading into 2024, we look for PPE stocking/Covid related headwinds to moderate further and continue to track the end-market for indications on structural growth.

Volume trends should be supportive in 2024

Hospital volumes decelerated in 3Q'23 after above average growth in 1H'23. However, BofA Healthcare Facilities analyst estimates that 2024 (Link to Facilities YA here) will have above average volume growth which should be supportive to medical distribution. However, we note there is potential for above average 1H'23 volumes to result in more difficult comps in the first half of 2024.

Wider health system cost pressures could lead to continued scrutiny on spend

At HCA's (covered by Kevin Fischbeck) investor day in November, the company noted plans to reduce inventory by 10% in 6-12 months and by 25% over 24 months, leveraging shared capacity across the organization. While this may not directly translate to lower annual gross volumes for distributors, it speaks to a trend in providers increasingly scrutinizing the cost structure amidst recent P&L pressure. We look to monitor trends herein but expect the more pronounced scrutiny on provider cost structures post Covid to challenge distribution.

Healthcare Information Technology / Digital Health

Overall, the HCIT and Digital health space continued to see ongoing volatility in 2023 driven by regulatory changes, competitive dynamics, and wider shifts in healthcare. While a majority of the names in our coverage rebounded in the first half of the year, many of the gains were given back in 2H. A handful of names in our coverage delivered positive returns in 2023 led by HIMS, ACCD and GDRX. However, most names continued to feel pressure from unfavorable sentiment and execution behind expectations. Overall, sector performance in 2023 was driven largely by revisions to growth estimates and to a lesser extent, multiple expansion/contraction (Exhibit 53). As the industry moves past three challenging years of volatility, 2024 provides an opportunity for investors to gain more clarity into structural demand. The focus will remain on deciphering the sustainable growth rate and profitability of varying business models, and how each company fits in within an evolving supply chain in healthcare. As we move through the year, there is potential for some overhangs to alleviate if visibility improves on the GLP-1 impact on 2025 selling season, profitability, and competitive positioning vs. payors/PBMs. Heading into 2024, we'll be keeping an eye on:

- Benefit manager considerations in 2024 and impact to digital health (virtual therapy, navigation, and fertility). Namely, the potential for GLP-1 and healthcare costs to surprise employers in 2024, impacting the 2025 selling season.
- Changing competitive landscapes resulting from bankruptcies and consolidation
- Changes in pharma ad-budgets and allocation of spend across the patient/healthcare practitioner journey
- Health system profitability, patient volumes, and the capex outlook
- Capital structures across our coverage and impact of restructuring debt

Exhibit 39: Considerations for end markets in 2024

Expect broad based headwinds to continue, but with potential to ease.

	Considerations for 2024	Coverage Impact
Direct-to-Consumer	•Consumer wallet pressure from student loan repayment, onerous housing costs •Changes in consumption model of virtual therapy (from out-of-pocket to in-network solutions)	•-Ve TDOC - BetterHelp growth to be challenged •-Ve HIMS - Weaker consumer could challenge growth, although recent price reductions make HIMS more competitive
Employer	•GLP-1 costs have potential to be underestimated, dampening the 2025 selling season •Soft landing could support broader business - limited headcount reductions •Cost pressures to continue and drive vendor consolidation	•+Ve TDOC/ACCD - Employer sponsored comprehensive weight management solutions that help manage GLP-1 utilization could see greater demand •Mixed PGNY - lower risk of head-count reduction, but potential for wider benefits to be squeezed due to healthcare costs
Payor	•MLR headwinds for payors could impact investments in digital health •Changes in PBM landscape could spill over across Rx supply chain and impact digital health names with exposure •Payors continuing to find ways to drive direct engagement with members (through partnerships and investments)	•+Ve ACCD/GDRX - Payors may look to partner with players that can support direct-to-consumer/employee interactions •-Ve GDRX - PBMs squeezing margins from the value chain
Pharma	•Visibility into pharma marketing budgets remain opaque, and could be further impacted by an election year •Lower interest rates could support pharma investments and drive incremental spend toward vendors •Balancing commercialization vs. R&D could impact demand for data vendors	•Mixed DOCS - limited visibility/higher volatility on marketing budgets, though budgets could improve vs. lowered expectations •+Ve DH - data modules supporting commercialization could see incremental demand
Provider	•Above long-term average volume growth/profitability a positive •Capex survey points to stabilization/potential for y/y growth •Easing labor costs could drive reconsideration of outsourcing	•+Ve RCM - Increasing patient volumes can support net patient revenue •+Ve OMCL - Stabilization in capex outlook could support product revenue

Source: BofA Global Research

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Outlook for end-markets: Broader headwinds could ease

The growth algorithm for HCIT names within our coverage have significant influence by end-market exposure. While this was of lesser significance during periods of broader macro expansion, it was increasingly important in 2023. While there were broad based headwinds across each end market in 2023, exposure to pharma and providers proved particularly challenging (pharma ad-budgets and provider capex). Meanwhile, employers and consumers remained relatively resilient vs. expectations heading into the year. Looking into 2024, we continue to expect broader headwinds across each end market to continue to some extent but anticipate there to be pockets of strength/potential upside. For instance, while providers will continue to be challenged from structural headwinds (reimbursement pressure), easing labor pressure and above long-term average volume growth could be incrementally positive.

Big pharma ad budgets: Potential for improvement on lowered expectations

Pharma advertising plays a key role in supporting revenue growth across names in our coverage with exposure to digital advertising, namely DOCS and to a lesser extent, GDRX. Key questions in this space center around the pace of overall pharma ad budget growth, pace of digitization, and the allocation across various digital channels given the increasing noise around programmatic advertising.

Our conclusion is that while long-term structural shifts to digital channels remain prevalent, near-term visibility on the magnitude of growth remains opaque. However, given expectations for pharma advertising growth have come down meaningfully, potential for incremental improvements to drive share performance seems more likely vs. continued macro challenges that further dampen sentiment. On potential for improvement, we note that big pharma should be more recession resilient than other digital health customers. As such, we expect that top 20 pharma budgets will begin normalizing ahead of other, more cyclical businesses, with easing of long-term interest rates a potential tailwind for accelerated investments that support advertising spend.

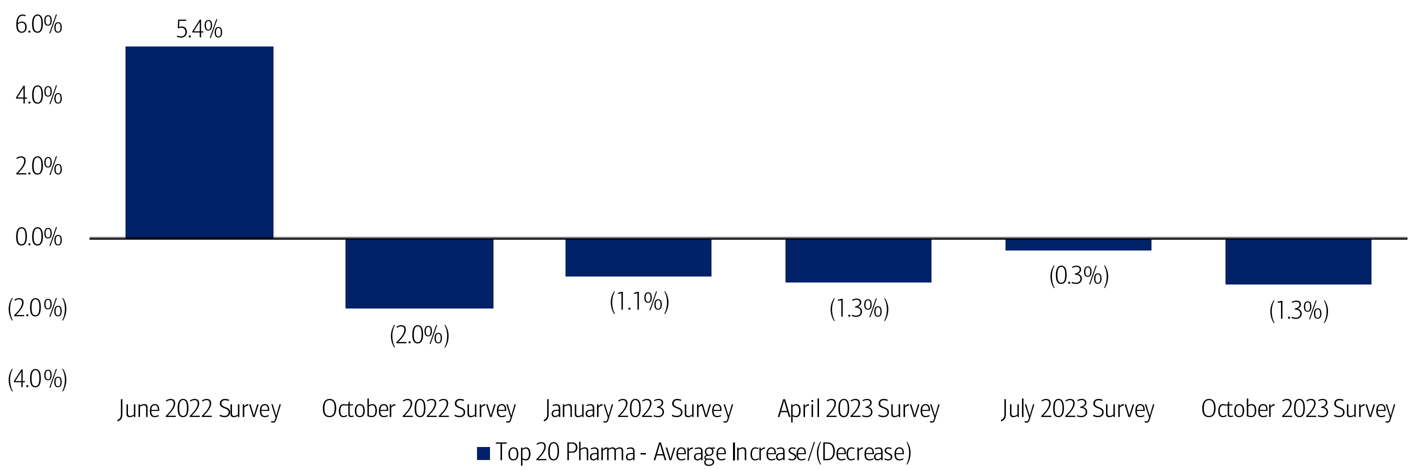
Expectations for growth have come down

Continued macro challenges may not be important given the initial slowdown began in mid-2022 and these headwinds are now well known. Consensus growth expectations seem to embed no improvement. For example, Doximity's consensus growth expectations have reset from 20%+ growth through FY26 to just ~11% today. We view this reset to lowered expectations positively. The likelihood for continued macro challenges to further dampen sentiment seems less likely vs. the potential for incremental macro improvements to read positively across the space.

Big pharma budgets likely to remain challenged, but digital share should grow

2023 pharmaceutical manufacturer advertising spend trends remained volatile and in line with last year as marketing budgets were adjusted to reflect broader changes in the pharma landscape. Looking ahead to 2024, our 2Q and 3Q pharma manufacturer surveys found sentiment for pharma manufacturers was generally negative with greater caution around marketing spend due to the macro environment. However, allocation to digital is still expected to grow. In our latest survey, top 20 pharma respondents indicated total marketing budgets are expected to decrease 1.3% over the next 12 months, worsening from the 0.3% expected decrease per our 2Q survey (Exhibit 40). This is in line with pharma respondents viewing macro as a bigger headwind than in 2Q. Meanwhile, digital marketing budgets are expected to increase 3.1% over the next 12 months (Exhibit 41). Based on our survey results, we remain cautious on overall pharma marketing budgets in 2024 but find it likely that the digital marketing wallet share will continue to grow, although the magnitude of growth remains unclear.

Exhibit 40: How quickly is your organization's overall marketing budget increasing/decreasing over the next 12 months versus the last 12 months?
On average, top 20 pharma respondents expect a 1.3% decrease to overall marketing budgets over the next 12 months, down from a 0.3% decrease reported in July



Source: BofA Global Research

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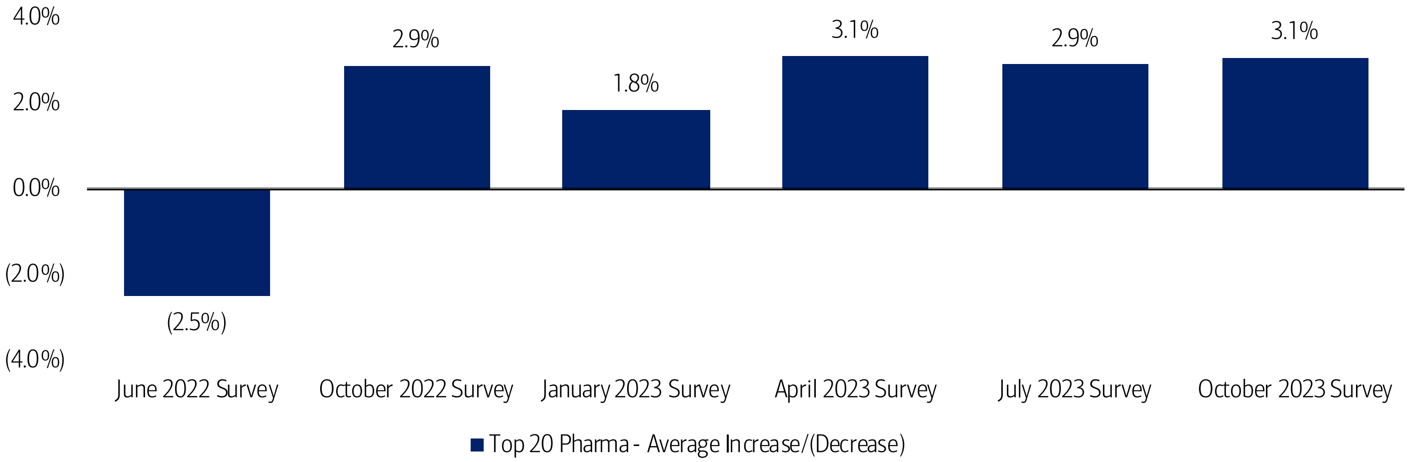
Exhibit 41: How quickly is your organization's digital marketing budget increasing/decreasing over the next 12 months versus the last 12 months?
Top 20 pharma respondents expect a 3.1% increase to digital marketing budgets vs. 2.9% in our July survey



Source: BofA Global Research

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Recent commentary from healthcare IT companies with top pharma customers including DOCS, GDRX, DH, and VEEV suggest that pharma marketing spend remains under pressure. DH cited that budget scrutiny remains elevated and that getting transactions through the final buying stages is challenging. Additionally, Veeva (VEEV, covered by Brad Sills) cited that some deals have been pushed out from the back half of this year into next year. Lastly, DOCS noted that the macro backdrop remained relatively unchanged over the last year and expects next year's market growth to look similar to 2023. As we look ahead to 2024, the trajectory of growth remains largely unclear with overall budget declines a potential based on our survey results. We expect to continue conducting quarterly surveys to gauge marketing spend expectations and monitor commentary from top 20 pharma.

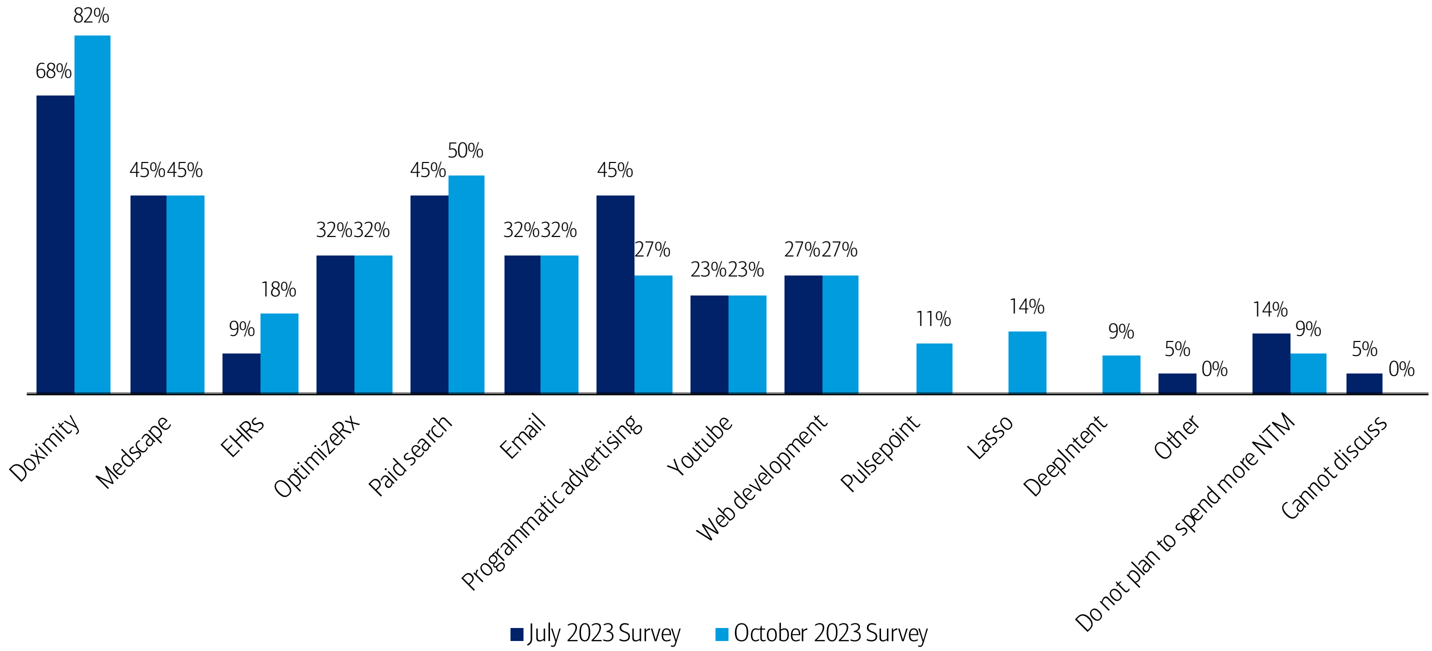
Election year may create noise in wider advertising channels that impact digital

The election year could result in tighter ad inventory and higher spot rates across the larger advertising landscape (including television, Over-the-top media, and Search). According to MediaRadar, pharma ad spend tends to ramp up in election years as incremental spend is targeted toward influencing policies deemed important by large pharma. This results in a large bolus in political ad volume across platforms that impact wider industry spending patterns. In turn, this has potential to impact ROIs across various traditional channels which could tilt the allocation of wider marketing budgets as brand managers titrate spend to balance ROIs. While it is difficult to quantify the direct impact to digital, this acts as another deterrent to visibility on digital ad-spend in 2024.

Impact from programmatic players appear limited for now

While big pharma continues to evolve in how they leverage various digital channels, the impact from programmatic vendors appear limited. In 2023, conversations around digital pharma advertising evolved to include programmatic advertising and enhancement of in-house data capabilities to improve targeted advertising across the patient/Healthcare practitioner (HCP) journey. Big pharma is looking to capitalize on the emergence of richer data engines with more breadth, depth, and real-time information by integrating them with existing digital channels to deliver more targeted messaging across the patient/HCP journey. Our channel checks suggest that large pharma is increasingly focused on this trend but KOL's also mentioned that progress may be limited by the conservative nature in how pharma adopts new technologies. In our most recent survey, only 27% of top 20 pharma respondents expected to increase spend in programmatic advertising vs. 45% in the July survey (Exhibit 42). This stands in contrast to 82% of respondents planning to spend more on Doximity over the next 12 months. While it's clear that programmatic advertising has an evolving use case, in the near term, we believe it remains a limited threat to walled garden solutions such as Doximity. We look to continue and track how pharma allocates digital ad budgets over the coming year to identify potential inflections across marketing assets.

Exhibit 42: If you plan to spend more on digital marketing over the next 12 months, where is the increase allocated to?
Top 20 pharma respondents expect the greatest allocation in spend to Doximity, paid search, and Medscape. Allocation to programmatic advertising remains limited.



Source: BofA Global Research
Note: Pulsepoint, Lasso, and DeepIntent were introduced as vendors to this question selection in our October 2023 survey

BofA GLOBAL RESEARCH

Monitoring trends in healthcare benefits and navigation

The 2023 employer benefits selling season proved resilient amidst concerns of potential headwinds arising from wider macro softness and above trend healthcare premium increases for 2024. Across our coverage, ACCD, TDOC, and PGNY had relatively solid selling seasons considering the backdrop. While the wider economy may benefit from rates cuts next year, we remain more cautious on the 2025 selling season. Heading into the year, we'll be tracking the following themes, a) GLP-1 utilization and potential for the cost burden to surprise employers, resulting in a potential headwind to the 2025 selling season, b) emergence of digital musculoskeletal (MSK) solutions and maturity in adoption of diabetes solutions, c) shifts in consumer consumption of virtual therapy from out-of-pocket to in-network options, and d) the adoption of navigation/comprehensive weight management solutions that help manage GLP-1 utilization.

Underestimated GLP-1 costs could result in a headwind to the '25 selling season

As GLP-1 coverage and pricing discussions evolve over the coming year, we believe there is potential for employers to underestimate the cost trends in 2024, which could ultimately be a headwind to the 2025 selling season. While managing GLP-1 costs could also benefit digital health players addressing weight management through comprehensive solutions (more on this below), higher than expected cost trends could take away from overall digital health budgets into 2025.

Accolade published a survey on GLP-1 coverage (Link here to our full survey takeaways) that raised some important concerns heading into 2024. The three biggest takeaways were 1) GLP-1 coverage is increasing from 24% of employers to 43% (nearly 100% y/y); 2) Of the 24% of employers covering GLP-1 drugs today, two-thirds reported an increase in enrollment after the medications were added; and 3) 21% of HR decision makers are unaware of GLP-1 medications. If these three takeaways are even remotely accurate, some employers may be drastically underestimating the inflection in healthcare spend in 2024. If healthcare spend significantly exceeds expectations next year, it could drive employers to require step therapy or lifestyle modification programs which could benefit emerging solutions from companies like Teladoc. On the other hand, other digital health solutions could face a difficult selling season next year as employers focus substantial attention toward GLP-1s and perhaps away from other digital health solutions.

Comprehensive weight management solutions could see adoption in 2024
As employers grasp the cost burden from GLP-1s and potential coverage options, recent developments have made it clear that comprehensive solutions are required to support weight management. In 2023, we saw a handful of program announcements aimed at comprehensive weight management expected to launch in 2024. These include TDOC's Provider-Based Care for weight management and prediabetes (already in market) and HIMS Weight Loss. While both are a provider led wrap-around services (focused on nutrition, behavior, movement, and medical treatment using digital tools/touchpoints) that support weight management, HIMS is not considering prescribing GLP-1s at the moment. Moreover, while TDOC is positioned to support a large employer sponsored client base, HIMS' solution is direct-to-consumer (D2C). While HIMS may consider prescribing GLP-1s in the future, we note it would be somewhat tricky to implement such as program without employer sponsorship. Most recently, OptumRx launched a similar program, Weight Engage that is positioned to serve the PBM's employer client base. While it's too early to tell if and to what extent these solutions will see adoption, the pace of launches in the space is indicative of potential demand. We look forward to tracking the pace of adoption and the competitive dynamics between payor solutions and 3rd party options through 2024.

Musculoskeletal gaining mindshare, diabetes penetration closer to maturity
Another key theme within digital health is the emergence of digital musculoskeletal (MSK) solutions and the ongoing maturity in adoption of diabetes solutions. Our recent broker channel checks suggest that MSK is gaining mindshare among employers due to the high price tag of physical injuries. For instance, in October, Teladoc announced a commercial partnership to offer clients access to MSK solutions through Hinge Health. While MSK adoption is increasing, according to our broker checks, the bellwether digital health solution, diabetes, looks to be reaching a point of maturity in the adoption curve.

Shift in consumption of virtual therapy from out-of-pocket to in-network
Heading into 2024, the consumption and financing models for virtual therapy may see incremental changes. In July 2023, the Center for Medicare and Medicaid Services (CMS) announced a proposal to expand behavioral health coverage under Medicare, including provisions to expand access via telehealth. We think this will further improve awareness of virtual therapy alternatives covered by insurance. In addition, virtual therapy start-ups have aggressively entered health plan networks (allowing patients to get part of therapy expenses reimbursed). Moreover, health plan venture capital funds have invested in several virtual therapy start-ups and integrated many of them into its insurance coverage, creating the potential for more rapid adoption. Taken together, we believe there is an evolving dynamic that may shift the consumption model for virtual therapy from out-of-pocket to in-network options.

Health plan Venture Capital arms have led the transition
Health plan VC arms like Optum Ventures, CVS Ventures, and Cigna Ventures invested in behavioral health start-ups during Covid. Many of these start-ups entered health plan networks of its parent companies, creating a more integrated payor/provider model for virtual behavioral health. Refer to Exhibit 43 for a non-exhaustive list of portfolio companies for some of the larger VC arms of major health plans in the U.S. Many of these start-ups entered health plan networks of its parent companies, creating a more integrated payor/provider model for virtual behavioral health.

Exhibit 43: Health plan venture capital investments in mental health
Health plan venture capital arms have increasingly focused investments in virtual therapy offerings such as Alma and Vita Health

Health Plan	Venture Capital Arm	Mental Health Investment	Description	Investment ($ in millions)	Select Participating Health Plans
CVS Health	CVS Health Ventures	Array Behavioral Care	Offers virtual behavioral healthcare in hospitals, community clinics, primary care offices, and patient's homes. Part of the Aetna network of providers	$25.0	Aetna, Humana, Optum/United Healthcare, Cigna (select states), Blue Cross Blue Shield (select states)
CVS Health	CVS Health Ventures	Vita Health	Youth focused behavioral health platform that offers telehealth and digital tools	Participated in $9.9MM funding round	In-network with most major health insurance plans
UnitedHealth	Optum Ventures	AbleTo	Virtual therapy and coaching	n/a	Aetna, Blue Cross Blue Shield, Kaiser Permanente, Oscar Health, UnitedHealthcare
UnitedHealth	Optum Ventures	Alma	Membership-based network that helps providers accept insurance	Participated in $130MM funding round	Aetna, Cigna Oscar Health, Oxford Health Plans UnitedHealthcare
UnitedHealth	Optum Ventures	Brightline	Pediatric focused virtual therapy platform	Participated in $72MM funding round	Premera, Aetna, Blue Cross Blue Shield
UnitedHealth	Optum Ventures	Mindstrong (acquired by SonderMind)	Virtual behavioral health and digital biomarker platform	Participated in $100MM funding round	SonderMind accepts Aetna, BlueCross Blue Shield, Cigna, Kaiser Permanente, Oscar Health, UnitedHealth
Cigna	Cigna Ventures	Ginger (acquired by Headspace)	Virtual therapy provider that offers coaching, therapy, psychiatry, and self-guided content	Participated in $50MM funding round	Headspace accepts insurance for select plans only (Blue Cross Blue Shield in CA)
Cigna	Cigna Ventures	Alma	Membership-based network that helps providers accept insurance	Participated in $130MM funding round	Aetna, Cigna Oscar Health, Oxford Health Plans UnitedHealthcare
Cigna	Cigna Ventures	Octave	Offers hybrid behavioral care services that include individual, couples, and family therapy	Participated in $52MM funding round	Aetna, Anthem, Health Net, MWN, UMR
Cigna	Cigna Ventures	Valera Health	Virtual mental health platform for high-acuity patients	Participated in $44.5MM funding round	Aetna, Blue Cross Blue Shield, Cigna, Humana, MVP, Oscar, UnitedHealthcare
Kaiser Permanente	Kaiser Permanente Ventures	Ginger (acquired by Headspace)	Virtual therapy provider that offers coaching, therapy, psychiatry, and self-guided content	Participated in $35MM funding round	Headspace accepts insurance for select plans only (Blue Cross Blue Shield in CA)
Blue Cross Blue Shield	Blue Venture Funds	Fort Health	Youth focused virtual mental health platform	$4.5	Aetna, UnitedHealthcare, Cigna, Evernorth, Oxford Health Plans, Geisinger, Humana

Source: BofA Global Research

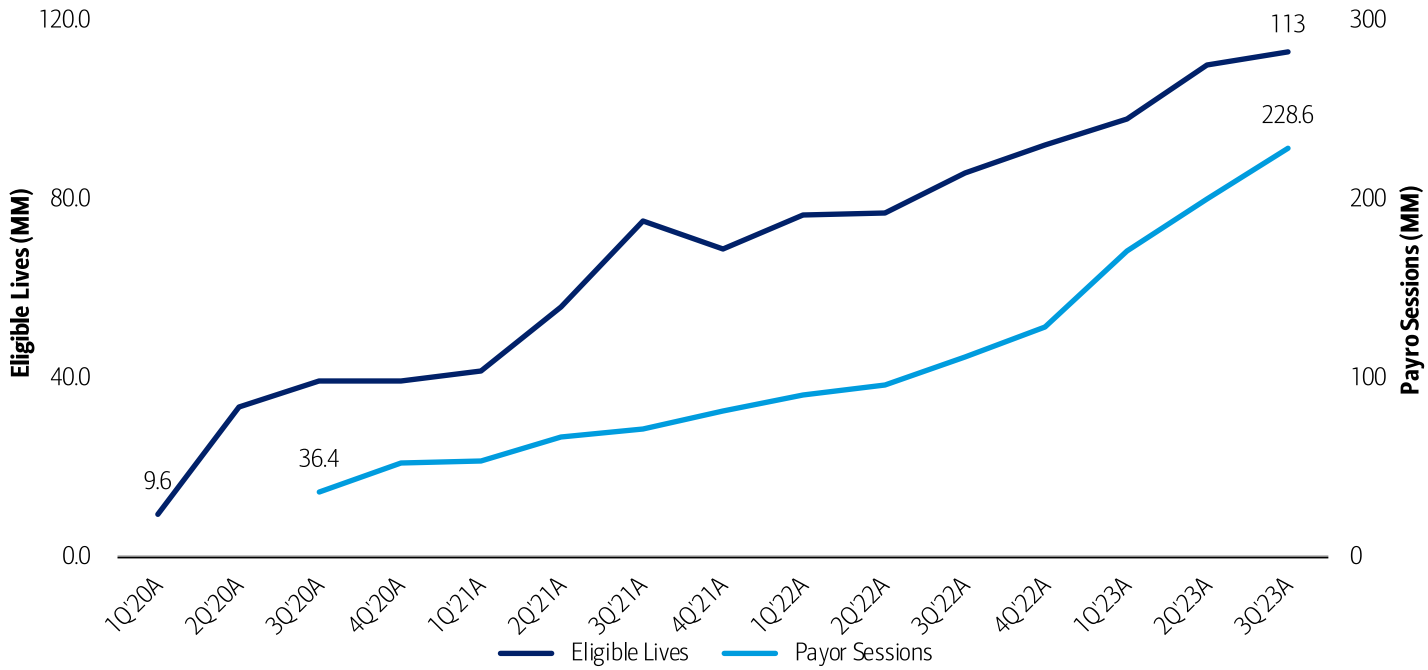
BofA GLOBAL RESEARCH

Out-of-pocket market will remain relevant but continues to be pressured

The direct-to-consumer (D2C) out-of-pocket model remains pertinent, especially for consumers seeking specialized services outside of what might be covered through insurance. However, data from public firms highlight pressure on the D2C channel. BetterHelp, the largest D2C virtual therapy company in the U.S. continues to grow at MSD-HSD, but the pace of growth has decelerated materially from the historical mid-to-high teens growth. Meanwhile, public peer Talkspace has executed the payor playbook successfully. In response to unfavorable customer acquisition costs over the last 24 months, Talkspace shifted its business away from the D2C channel and toward health plan networks. TALK's health plan eligible lives increased to 113MM by September 2023, up from 9.6MM at the start of Covid (Exhibit 44). TALK's payor revenue increased 132% last quarter, more than offsetting a 32% decline in the D2C business. While we expect D2C virtual therapy to continue and be an important option for consumers, in the mid-to-long term, there is potential for changes in the consumption model to pressure TDOC's BetterHelp business.

Exhibit 44: Talkspace's eligible covered lives payor sessions 1Q'20 – 1Q'23

Talkspace has increased its insured lives 11x and payor sessions almost 7x over the past three years



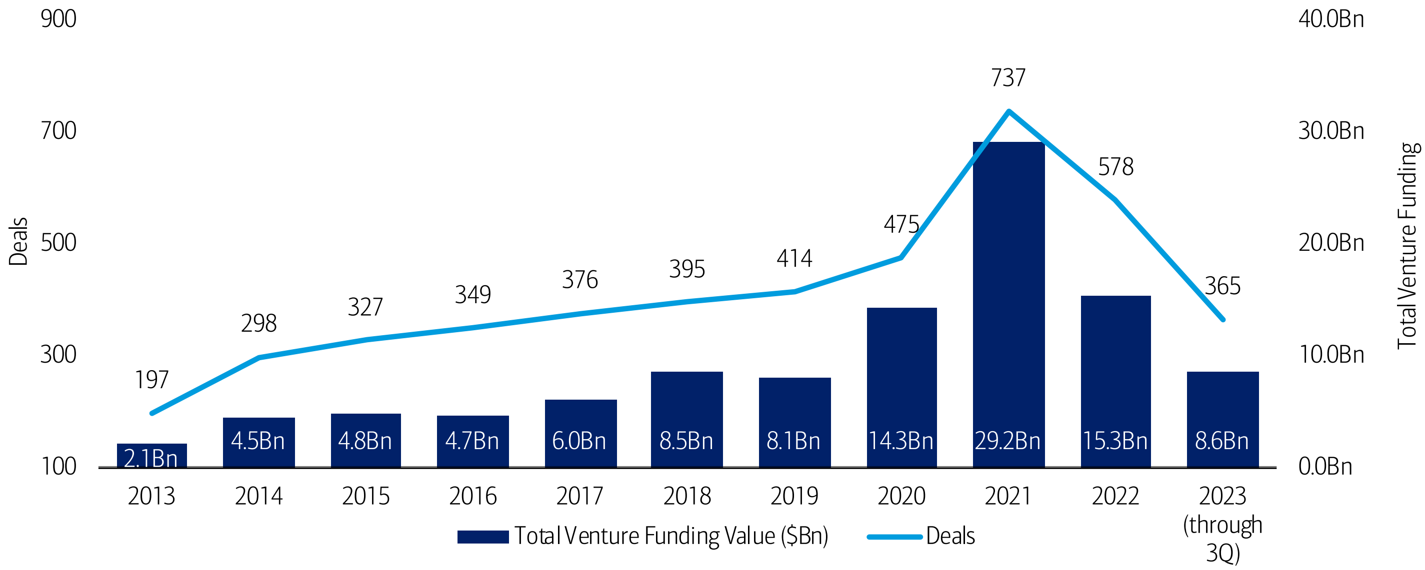
Source: BofA Global Research, TALK filings

BofA GLOBAL RESEARCH

Changing competitive landscape in digital health

Following the digital health funding surge from 2020 to 2021 that supported the rapid expansion of digital health startups, 2023 witnessed a narrowing of the field driven by further consolidation as well as the emergence of bankruptcies. While we don't quantify the full universe of companies in the space, multiple trends and commentary suggest that the relevant competitive field looks to have narrowed. Venture funding has come down materially from the highs in 2021 (Exhibit 45), and 2023 was the first year where bankruptcies in the space came to the forefront (e.g., Babylon Health). Meanwhile, public players like Teladoc have explicitly noted benefits from the funding challenges smaller competitors have faced. In 3Q'23, Teladoc noted a competitive takeaway of 4MM+ lives resulting from a competitor faltering. We view a narrowing competitive landscape as beneficial for larger scaled players such as Teladoc. Heading into 2024, we expect the competitive landscape to remain tilted in favor of larger players with scale, especially in areas trending toward commoditization (virtual therapy, revenue cycle management, navigation) where scale remains a key competitive advantage.

Exhibit 45: Digital health venture funding and deals by year
Venture funding and deals through 3Q'23 are meaningfully below 2021, and is trending below 2022 YTD through 3Q'23



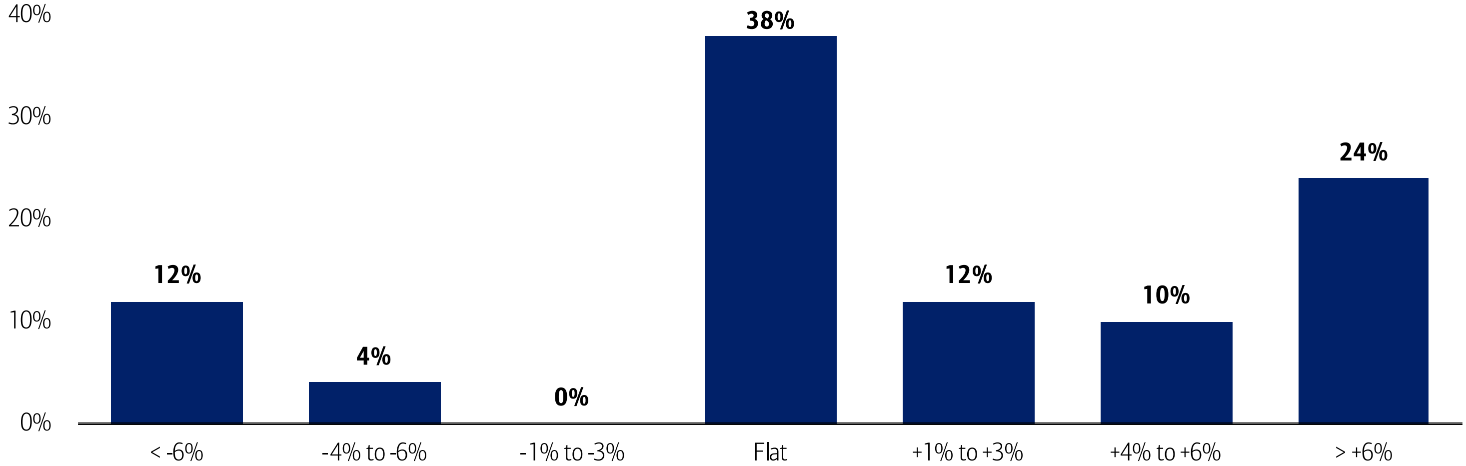
Source: RockHealth

BofA GLOBAL RESEARCH

Health system capex outlook marginally positive for 2024

Based on our latest quarterly capex survey (survey link here) performed in conjunction with the Facilities and Managed Care Team, the initial outlook for CY24 points to stabilization with modest y/y growth in pharmacy IT budgets into CY24. Overall, respondents expect less delays/cancellations of capex projects, but cited that access to capital worsened. Our survey continues to suggest that market sentiment around CapEx spend remains challenged but improving marginally with 46% of respondents expecting CapEx spend to increase y/y in in CY24 (Exhibit 46). Particular to pharmacy IT, budgets are expected to grow ~5% in CY24 (Exhibit 47), up modestly from the low-single digit range expected for CY23. We find this directionally encouraging, but view overall CapEx spend to still be challenged by hospital financial performance and competing priorities (labor) while improving marginally y/y into CY24. We view this as incrementally supportive for OMCL, but remain cautious on OMCL's product revenue as the product portfolio struggles to compensate for the deceleration in Automated Dispensing Cabinet (ADC) revenue resulting from the maturing XT upgrade cycle.

Exhibit 46: How would you describe your hospital/hospital system's plans for capital spending in 2024 relative to 2023?
46% of respondents expect CapEx to be up y/y, while 38% expect CapEx spend to be flat y/y in 2024



Source: BofA Global Research

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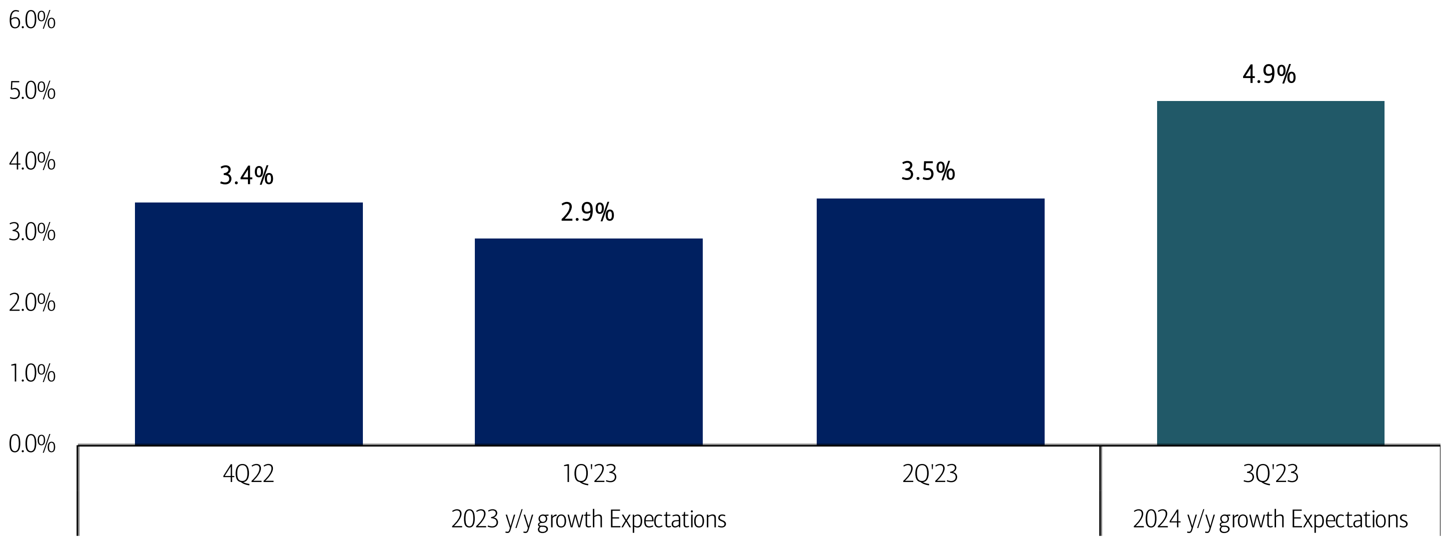
Exhibit 47: Expectations for pharmacy IT budget growth into 2024 up modestly from LSD expectations in 2023
Overall pharmacy IT budgets expected to grow 4.9% in 2024 vs LSD in 2023



Source: BofA Global Research

BofA GLOBAL RESEARCH

For HCIT, balance sheets continue to come into focus

Rising interest rates in 2023 prompted investors to start focusing on the balance sheet dynamics of healthcare IT (HCIT) companies. Across our healthcare IT coverage, funding needs remain limited with a majority of our coverage expected to generate free cash flow (FCF) in 2024 and 2025, with ample liquidity to meet obligations in the near-term. AMWL remains the only name in our coverage expected to be unprofitable (on an EBITDA basis) in 2024 but is well capitalized to fund losses through 2025 based on current consensus estimates (Exhibit 48).

Exhibit 48: Profitability, Liquidity, and Debt maturities across our HCIT coverage

In general, our coverage exhibits solid balance sheet strength. AMWL is the only name in our coverage expected to be unprofitable in 2024.

	ACCD	AMWL	DH	DOCS	GDRX	HQY	HIMS	OMCL	PINC	PGNY	RCM	TDOC
Total Debt (latest period)	317.4	14.8	275.8	15.6	717.0	994.5	5.3	616.7	451.6	7.7	1,914.4	1,586.9
Cash + ST Investments (latest period)	321.1	538.5	331.9	841.0	757.2	254.3	179.6	352.8	89.8	189.3	110.1	918.2
Net Debt	(3.7)	(523.7)	(56.0)	(825.4)	(40.1)	740.2	(174.3)	263.9	361.8	(181.6)	1,804.3	668.7
Weighted rate on debt	0.50%	nm	7.62%	nm	8.22%	5.37%	nm	0.25%	6.70%	nm	5.75%	1.12%
Debt availability	79.0	-	75.0	-	91.0	1,000.0	-	350.0	-	995.0	539.0	-
Total Liquidity (Cash + Debt available)	400.1	538.5	406.9	841.0	848.2	1,254.3	179.6	702.8	89.8	1,184.3	649.1	918.2
2024E EBITDA	15.4	-123.7	81.9	234.8	222.1	442.6	74.4	131.3	450.4	229.7	691.0	368.1
2025E EBITDA	28.9	-93.1	92.6	262.1	251.1	505.5	118.1	145.9	450.8	278.0	814.4	408.4
2024E Int. expense	6.2	20.3	7.8	-	39.1	52.6	-	19.9	13.0	4.5	148.0	28.9
2025E Int. expense	3.7	20.5	7.8	-	39.1	44.0	-	19.5	13.0	6.9	163.1	27.8
2024E Int. coverage ratio (EBITDA/Int. expense)	2.5	(6.1)	10.5	nm	5.7	8.4	nm	6.6	34.7	51.3	4.7	12.7
2025E Int. coverage ratio (EBITDA/Int. expense)	7.8	(4.5)	11.9	nm	6.4	11.5	nm	7.5	34.7	40.5	5.0	14.7
2024E OCF	24.6	(96.6)	76.9	200.1	174.4	305.0	112.9	151.7	272.9	174.4	383.4	380.3
2025E OCF	30.7	(52.2)	100.7	230.5	204.7	355.3	152.9	151.0	355.9	232.1	487.2	427.3
2024E Capex	5.9	2.5	6.4	3.1	1.3	22.1	13.8	33.2	85.4	3.9	129.7	108.0
2025E Capex	3.0	2.8	6.2	3.9	1.2	24.5	10.9	33.7	88.4	4.7	139.7	122.4
2024E OCF-Capex	18.6	-99.1	70.5	197.0	173.1	282.9	99.0	118.5	187.5	170.5	253.7	272.3
2025E OCF-Capex	27.7	-55.0	94.5	226.6	203.4	330.9	141.9	117.3	267.5	227.5	347.5	305.0
Debt Maturities 2024	-	-	-	-	-	-	-	-	-	-	-	-
Debt Maturities 2025					661.8			575.0				550.6
Est. Liquidity end of 2025*	446.4	384.4	571.9	1,264.6	562.9	1,868.0	420.6	363.6	544.7	1,582.3	1,250.3	944.8
Debt Maturities 2026	211.0		261.3			286.9					725.1	
Debt Maturities 2027											513.0	1,000.0

Source: FactSet, Bloomberg

*(Total liquidity + 24E/25E OCF -24E/25E Capex - debt maturities)

BofA GLOBAL RESEARCH

Debt restructuring likely to be a theme over the coming years

While some companies took advantage of cheap convertible financing during COIVD, some of these notes are coming due from 2025-2027. Heading into 2024, investors will look for further clarity on how these companies will manage cash and address outstanding debt. Within our coverage, ACCD and TDOC have convertible debt outstanding.

Accolade's recent refinancing highlights the importance of active management**.** The company repurchased ~27% of its outstanding convertible in November. ACCD is saving about $11MM by buying the debt at market rates ($76.5MM - $65.8MM) as opposed to paying back par at maturity. We estimate Accolade purchased back the debt at a yield to maturity (YTM) of 7.0-7.5%, which is about 2-3 percentage points above where Accolade could place cash today.

Teladoc has two outstanding convertible notes coming due in the near-term, a $550MM convert due June 2025 and a $1Bn convert due June 2027. Importantly, these converts carry coupon rates <1.3%, which has enabled TDOC to benefit from holding cash, (~$918MM in cash and short-term investments as of 9/30/23). At a market rate of ~5%, this implies a ~$46MM interest income benefit that supports CF. Restructuring the debt at current rates could result in a two-fold impact to CF, a higher cash interest expense and lower cash interest income (if a portion is paid down with existing cash). If restructuring the debt, the cash interest burden could be substantial. For instance, according to BofA Global Equity Derivatives Analyst Michael Youngworth, converts trading at 75-90 of par may need to pay between 630-740bps more in coupon upon refinancing (Link to Global Convertibles YA 2024).

2024 Company Quick Views

Pharma Supply Chain

1. For **Cardinal Health (CAH)**, 2023 was characterized by ongoing progress with the Medical segment turnaround efforts, inflation mitigation, and continued operating momentum within the core pharma business. While core pharma benefitted from macro pharma utilization trends throughout the year and positive performance from the Red Oak generics sourcing program, we continue to have questions on the Medical segment ramp required to achieve FY24 EBIT guidance of $400MM. CAH has line of sight into items such as lower freight costs, but we still have limited visibility on the timing and contribution from contract renegotiations and Cardinal Health Brand growth. On the other hand, core pharma distribution should continue to benefit from stable volumes, operational execution, and the multi-year benefit from biosimilars which should support the entire industry. We expect CAH's core pharma growth to be steady, although modestly slower compared to peers McKesson (MCK) and Cencora (COR) in our view. We continue to see limited room for relative multiple expansion from here and reiterate our Neutral rating. We update our PO from $104 to $107 based on ~15x CY24 P/E (14x CY24E P/E prior) due to an increase in peer multiples.

2. **Cencora (COR)** saw continued momentum throughout the year supported by solid underlying business fundamentals, broad-based utilization trends, and leadership in specialty distribution. For FY24, we view the initial guidance as reflecting steady growth with contributions from recent acquisitions helping to bolster the overall business. We continue to view COR's upstream specialty/distribution assets including PharmaLex, World Courier, and OneOncology as key differentiators for the company and expect COR to remain active in buying assets to drive patient access and connectivity with manufacturers. Opportunities in specialty distribution should also drive excess growth as COR expands its presence in these higher growth/margin areas and given the upcoming biosimilar wave. We also expect performance within the core US business to remain on steady footing and is positioned to benefit from positive pharma utilization trends we saw this fiscal year. We see ongoing strength in core performance and reiterate our Buy rating. We increase our PO to $228 ($215 prior), based on ~17x CY24E P/E (16x prior) due to higher peer multiples.

3. Our top pick is **CVS Health (CVS)** as the company reset earnings growth expectations at its recent investor day while also continuing to move past headwinds that weighed on the stock through 2023. CVS is well positioned for a "controlled acceleration" of earnings in 2025 driven by two key factors: 1) the recapture of Star rating bonus payments; and 2) the full capture of higher MA utilization in pricing in 2025. CVS' Star rating impact to 2024 was sized by the company at ~$800MM and the company expects to recapture the majority of that revenue in 2025 (while also reinvesting a portion to continue improving the business). Like CVS' managed care peers, CVS recently highlighted that Medicare Advantage (MA) utilization will be a headwind to 2024. MA bids are due in June and CVS and peers did not fully price in the increase in utilization for its 2024 plans. However, CVS will be able to price better in 2025, which supports further margin upside from 2024 to 2025. These two dynamics support both accelerating earnings growth into 2025 AND provide CVS will more control over growth/investment, something that we believe will help support multiple expansion over the course of the next year. And last, CVS' new CostVantage program could help reduce reimbursement pressure on pharmacy margins, something that has negatively impacted the business for the past decade. Any improvement to pharmacy reimbursements could help support multiple expansion over time. We see limited downside risk and potential for multiple expansion as the company executes over next year. We maintain our Buy rating and update our PO to $95 ($86 prior) based on ~11x CY24 EPS (10x prior). We increase our multiple to reflect peer group multiple expansion and incremental confidence on CVS' earnings profile.

4. **McKesson (MCK)** continued to deliver strong results throughout CY23 as the best-in-class drug distributor with a differentiated set of healthcare assets to drive long-term growth. As we head into 2024, we expect the company to continue its steady execution while benefitting from stable utilization and pricing trends. In particular, we expect continued momentum from the company's specialty business and from the fast-growing, margin-accretive Prescription Technology Solutions (RxTS) segment. The recent quarterly strength in the RxTS business highlights the company's ability to capture upside from the commercial success of weight loss GLP-1 drugs through CoverMyMeds which benefits from higher demand for prior authorizations. MCK's core distribution business and differentiated asset base supports our expectation for double digit long-term EPS growth at a multiple that can be sustained at current levels. We maintain our Buy rating given MCK's consistent growth algorithm and impressive free cash flow generation potential. We increase our PO to $510 ($492 prior) based on ~17x CY24 P/E (~16.5x prior) due to an increase in peer group multiples.
5. Looking to 2024, **Walgreen's (WBA)** key priorities will be addressing numerous operational challenges and stabilizing its pharmacy gross margins, which have seen ongoing pressures. In 2023, the company continued to prioritize improvements in profitability and cash flow through initiatives such as cost realignment and CapEx reductions. While the newly appointed CEO, Tim Wentworth, could help facilitate WBA's buildout of its healthcare services enterprise strategy, transforming the business will likely be a longer-term story. For FY24, we remain focused on execution within the US Health segment and profitability ramp of VillageMD given the recent strategy to reduce 60 VillageMD clinics. Within the core US Retail Pharmacy segment, we expect a continuation of challenging trends that impacted FY23 including lower Covid-related contributions, a weaker respiratory season, and continued consumer pressure. We remain cautious on WBA's multi-year growth trajectory and see increasing concerns around cash flow and the company's ability to balance dividends and debt payments. Additionally, we see limited near-term offsets to core headwinds including pharmacy reimbursement pressure, loss of cash pay scripts, consumer pressures, and capital requirements for the US Healthcare segment. Thus, we reiterate our Underperform rating and increase our PO to $22 ($20 prior) based on ~6.5x CY24E P/E (~6.0x prior) to reflect peer group multiple expansion.

Dental / Medical / Vet Supply Chain

6. **Denstply Sirona (XRAY) -** 2023 was a rebuilding year for XRAY. After a strong start in 2023, 3Q macro headwinds overwhelmed, resulting in a slower near-term growth and lower margin trajectory. While XRAY saw solid growth in China, momentum in the clear aligner business continued, and NA CAD/CAM volumes grew, NA implants and global equipment/imaging saw softening demand. Overall, while macro uncertainty remains a focus heading into 2024, the new management will be tasked with executing toward the $3 2026 EPS target reaffirmed at the recent Investor Day. While we view recent execution favorably, delivering on recent cost savings initiatives and progress on the driving DS Core penetration will be key to gain investor confidence. 2024 is setup to be a meaningful year for XRAY, with execution against stated initiatives to be rewarded given Street expectations are well below the company targets for growth/EPS. However, with limited visibility on macro and valuations already at a premium to the group, we view risk reward as being more balanced. We reiterate our Neutral rating and increase our PO to $38 (from $35) based on ~12.5x CY24E EV/EBITDA (12x prior). We increase our target multiple to reflect incrementally lower risks related to management and culture.

7. **Envista (NVST)** has experienced a challenging 2023 with organic dental growth lagging peers after strong core execution in 2022. Heading into 2023, the biggest question was on the impact of value-based procurement in China, and on this front, NVST executed relatively well (along with the rest of peers) with HSD growth in China and expansion of local operating margins despite pricing pressure. However, macro headwinds in NA, Germany, and Russia dampened performance. As expected, the FY23 rev growth/Adj. EBITDA margin guide was brought down in 3Q, partially alleviating a steep 4Q ramp. We continue to expect near-term macro headwinds (particularly in NA Ortho, Germany, and Russia) but we see these dynamics as significantly factored into the stock. While macro and distribution challenges remain a concern near-term, we continue to view the composition of the overall portfolio conducive to MSD growth with potential for improved margin expansion if macro alleviates ahead of expectations. We continue to expect the company's operational strength and momentum in the underlying business (Spark) to outpace dental peers in the longer-term. We are reiterating our Buy rating and reducing our PO to $32 (from $37) on ~11.5x CY24 EV/EBITDA (~13x prior). We reduce our target multiple to reflect peer group multiple contraction.

8. **Henry Schein (HSIC)** was pressured from a cybersecurity incident in November which resulted in a $500MM+ guide down to FY23 revenue. While the impact is more one-time in nature (peer PDCO benefitted minimally from the event, suggesting customer erosion is unlikely), FY24 is likely to see pricing pressure related to meaningful discounts that were offered in concession to customers. We think this may also have potential to manifest in a stocking effect that results in a volume headwind in 1H24. Further, disruptions from systems outages, discount vs. volume contributions on revenue, and global macro exposure create a level of uncertainty that is likely to make FY24 guidance a moving target. On the plus side, HSIC still remains a well-operated business with incremental contributions from its technology and value-added service businesses as well as the recent pickup of its traditional M&A strategy. Going into next year, it will be important to monitor channel checks and peer commentary to better gauge follow through impacts from the cyber incident and any changes in the market share. We maintain our Underperform rating and $65 PO on ~9.5x CY24 EV/EBITDA.

9. **Owens and Minor (OMI) -** OMI shares saw significant volatility in 2023, at one point down ~45% from annual highs driven by 4Q'22 earnings before recovering to reach annual highs late in the year. Meanwhile, fundamental topline execution through 3Q'23 was fine. Heading into FY24, sentiment has improved with the recent investor day and a LT outlook providing a new bogey for shares. However, execution toward these goals will be key, and 4Q earnings will be the first hurdle on this path with guidance implying a steep ramp requiring 140% y/y adj. EPS growth. In 2024, customer destocking trends and elective procedure volumes will be an important trend for assessing when OMI could see a resumption in normal customer demand. We expect OMI's Patient Direct segment to be a remain a bright spot with higher growth and margins underpinned by growing demand for home health services. There is a solid long-term strategy at play with potential for core stabilization, Apria driving growth, and leverage improving, but execution risks remain high. We maintain our Underperform rating and $16 PO on 6x FY24 EV/EBITDA.

10. **Patterson Companies (PDCO)** shares capitulated after 2Q'24 earnings as high expectations heading into the quarter met a more tamed print. Meanwhile, the benefit from peer Henry Schein's cyber incident was meaningfully below Street expectations. We view this as marginally positive given consumables growth showed resilience despite the lower-than-expected benefit. However, underperformance in segment margins and continued investments in ERP systems (in Canada) raised concerns on the trajectory of margin expansion which has remained a moving target for the company. Overall, we view PDCO well positioned among the dental

distributors due in large part to an almost entirely North America-based revenue exposure. PDCO is now trading at an historically high discount to its own average and its peer group with risks now adequately priced in. We see PDCO well positioned to execute ahead of rebased expectations if macro improves. We are reiterating our Buy rating and reducing our PO to $35 (from $37) on ~9.5x CY24E EV/EBITDA (10x prior). We reduce our target multiple to reflect peer group multiple contraction.

Healthcare Information Technology / Digital Health

Healthcare IT and Digital health names in our coverage have seen significant multiple contraction since peaking in 2021. Only HQY and HIMS have delivered positive returns since January 2022, while the rest of the group is still down ~64% on average. The reversal spurred by a rising rates proved particularly detrimental for this sector as our HCIT coverage underperformed almost all major S&P 500 sectors over the last two years. Overall, the valuations and growth expectations have now rebased to account more adequately for risks. Meanwhile, the anticipation of rate cuts could support multiple expansion in growth-oriented equities. While prudency is required in assessing idiosyncratic risks to business models/growth, we remain cautiously optimistic on the broader sector heading into 2024.

11. **Accolade (ACCD)** – After an unexpected loss of Comcast (ACCD's largest customer at the time) last year, ACCD rebounded well with strong execution through CY23. Heading into 2024, ACCD's ability to deliver cost reductions could prove incrementally more useful as employers look to manage above trend healthcare costs and GLP-1 utilization. While there is potential for wider digital health benefits to be squeezed in the 2025 selling season if healthcare cost trends surprise, we think ACCD is well placed to support employers in addressing these costs as care navigation continues to be a bright spot in our conversations with healthcare brokers and consultants. Overall, we estimate that Accolade can continue to grow revenue above health IT peers for at least the next few years. While ACCD's multiple expansion ahead of peers in 2023 temper our views, we believe a premium is warranted given recent execution. We remain confident in the company's path to adj. EBITDA breakeven in FY25 and maintain our Buy rating with $16 PO on 2.4x CY24 sales.

12. **Amwell (AMWL) -** The biggest question for AMWL heading into 2024 is on whether the company can control cash burn and take meaningful strides toward profitability. On revenue growth, the recent Defense Health Agency contract partially derisks the near-term growth profile, although execution on go-live timing will be important to track through 2024. With Converge migration more than half-way through, the risk to churn has also come down. While investments will be required ahead of the DHA contract launch, AMWL should see material leverage on the Opex as Converge related development costs step down. Looking ahead, we believe AMWL has the potential to expand current and new relationships to become increasingly linked with emerging care models leveraging digital access. More importantly, we remain optimistic on AMWL's ability to improve the cash burn profile over the next few years. We reiterate our Buy rating and reduce our PO to $2.00 (from $2.30) on ~1.9x CY24E EV/Revenue (2.2x prior). We reduce our multiple to reflect incremental risks around profitability.

13. While the challenging macro environment continues to persist, **Definitive Health (DH)** enters 2024 with stabilizing key performance indicators (KPIs) and a more achievable outlook for revenue growth. Over the past year, DH's end markets remained pressured due to the macro environment resulting in slower revenue growth from elevated budget scrutiny and a slowdown in client decision processes. However, in 3Q'23 current remaining performance obligations (cRPOs) grew in the

high-single digit range, reflecting an improvement in deceleration over the past few quarters and greater stability in the current run-rate. DH also increased the number of enterprise customers (those spending >$100K on the platform) 5% sequentially, the first q/q growth since 4Q. Looking to 2024, we continue to monitor macroeconomic impacts to new customer growth and potential improvements to KPIs as the company makes progress on various initiatives to minimize customer churn. We view DH as well-positioned long-term to capture market share and we see a path to double-digit top-line growth and margin expansion. We reiterate our Buy rating and increase our PO to $11.50 ($9 prior) on ~21x CY24 EV/EBITDA (16x prior). We increase our multiple to reflect group multiple expansion as well incremental confidence on the pharma end-market in 2024.

14. **Doximity (DOCS)** - We are upgrading shares of DOCS from Underperform to Neutral as earnings expectations have been appropriately reset and given pharma manufacturer budgets could begin to improve over the next year as pressure from higher interest rates begin to ease. Doximity heads into 2024 with a conservative FY24 guide embedding a 10-11% growth profile, closer to where we think the growth rate is likely to persist barring an inflection in macro. Street expectations have also reset to a more achievable 11% revenue growth rate through FY26. Meanwhile, our recent survey work suggests that Doximity remains an industry leader with strong physician engagement and limited impact from programmatic players, giving us more confidence that Doximity's recent slowdown in growth was a result of macro vs. a change in competitive positioning. Looking ahead, we continue to closely monitor the trajectory of pharma spend/pricing dynamics and remain cautiously optimistic on the near-term outlook, but believe expectations and valuation look more reasonable. We are upgrading DOCS shares to Neutral and increasing our PO to $29 from $21 on ~22.5x CY24 EV/EBITDA (15x prior). The change in our multiple reflects peer group multiple expansion as well incremental confidence in Doximity's competitive position.

15. The **GoodRx (GDRX)** story continues to evolve with recent changes to the competitive landscape and pharmacy ecosystem driving greater uncertainty heading into FY24. Throughout 2023, GDRX has taken the right steps to focus on profitability and cash conversion through executing a hybrid retail pharmacy strategy with PBM/retail agreements and rightsizing the pharma manufacturers solutions business. While the ongoing transition to a partnership integration model remains an important driver to growth heading into FY24, recent announcements from CVS to transition to a new pharmacy reimbursement model could reduce the volatility of PBM reimbursement rates over time. This dynamic combined with the introduction of competing offerings from various PBMs and retail pharmacies could create near-term risks to valuation and intermediate term risks to GDRX's earnings profile. We also note that while the PBM agreements at scale could add incremental EBIT in FY24, the partnership integration model raises questions about the brand value of GDRX longer-term. The rapidly evolving discount card landscape over the past year creates an uncertain outlook for GDRX and we are downgrading shares of GDRX from Buy to Underperform with a $4.50 PO ($8.0 prior) based on approximately 8.5x CY24 EV/EBITDA (14x prior). The reduction in our multiple reflects the incremental uncertainty related to the company's intermediate term growth profile. Separate note available here.

16. **HealthEquity (HQY)** continues to benefit from the increase in interest rates over the last two years as new contracts roll-over at higher yields. As a result, HQY saw meaningful operating leverage in the P&L through 2023. We view the initial FY25 guide as conservative given it contemplates EBITDA margins in-line with FY3Q'24 despite 400bps+ of y/y margin expansion with progression likely to continue given the rate tailwind into FY25. Through CY23 HQY offset modest weakness in the WageWorks consumer-directed benefits (CDB) business from the benefits of higher

rates, steady growth in health savings account (HSA) members and assets, and member adoption of enhanced rates products. We see HealthEquity as well positioned to grow faster than the market on the top-line with significant operating leverage over the course of the next year from higher yields as well as operational improvements. We maintain our Buy rating and $85 PO, based on ~17.5x CY24 EV/EBITDA.

17. **Hims & Hers (HIMS)** has delivered on an impressive track record of beat and raise quarters since the company has been public. In 2023, Hims outperformed on revenue and gross margin progression amidst a softer macro and price reductions across the product portfolio by lowering product costs. We view the investments in price as a potential differentiator for Hims as some of its private, less capitalized peers may be less able (particularly over a longer period of time) to compete and scale in the same way. Meanwhile, the company also continues to push for growth, as evidenced by entry into new markets (cardiovascular/weight management). The big question heading into 2024 is on the sustainable growth profile into 2025 and beyond given a competitive landscape, especially in new markets such as cardio/weight management. However, given a multi-year runway for growth (from core solutions and potential cardio/weight management adoption) and an improving margin profile, we believe HIMS is well positioned to hit 2025 targets of $1.2Bn+ revenue and $100MM+ Adj. EBITDA. We maintain our Buy rating and $12.50 PO at 2.1x CY24 EV/Sales.
18. **Omnicell (OMCL) -** Heading into 2023, the expectations for OMCL were reset meaningfully downward. However, a worse than expected trajectory on product revenue resulted in execution even behind those lowered expectations. While we view incremental cost cutting measures as prudent against near term macro pressure, the limited clarity on improvement in product revenue could result in a wide potential of outcomes for 2024 revenue and EBITDA. While the outlook for hospital CapEx may see marginal improvement y/y into FY24, we remain cautious on OMCL's ability to compensate for lost product revenue from a maturing XT cycle. On the plus side, we see no signs of a major shift in the competitive landscape for pharmacy automation, which remains a duopoly market with OMCL well positioned to drive growth in outer years from new product cycles. We continue to track pharmacy automation trends to check for any acceleration of IVX and XR2 adoption which can support a product revenue ramp in the near-term. We maintain our Buy rating and $49 PO on 15x CY24 EV/EBITDA.
19. **Premier (PINC) –** We continue to view Premier as well positioned competitively in the Group Purchasing Organization (GPO) business, although structural fee pressure remains a headwind. In 2023, underperformance within Supply Chain Services revenue reflected ongoing customer destocking dynamics for PPE demand, volatility in utilization trends, and impact from customer consolidation. We remain cautious on the duration and trajectory of these dynamics. Moreover, the lack of formal guidance limits visibility into FY24, although directional commentary suggests pressure on fee shares and mid-high single digit revenue growth within Performance Services and nominal growth in Direct Sourcing. The outlook for utilization remains a key question for FY24 and we continue to look for improving trends and release of formal FY24 guidance. We estimate Performance Services represents ~30% of EBITDA in FY24/FY25 and thus continue to view PINC as a steady supply chain company rather than as a health IT-oriented provider, which would warrant a different multiple range. Lastly, we find it difficult to get constructive on the name until there is further clarity on the outcomes of strategic review by the board. We maintain our Underperform rating and $21 PO on ~5x CY24 EV/EBITDA.

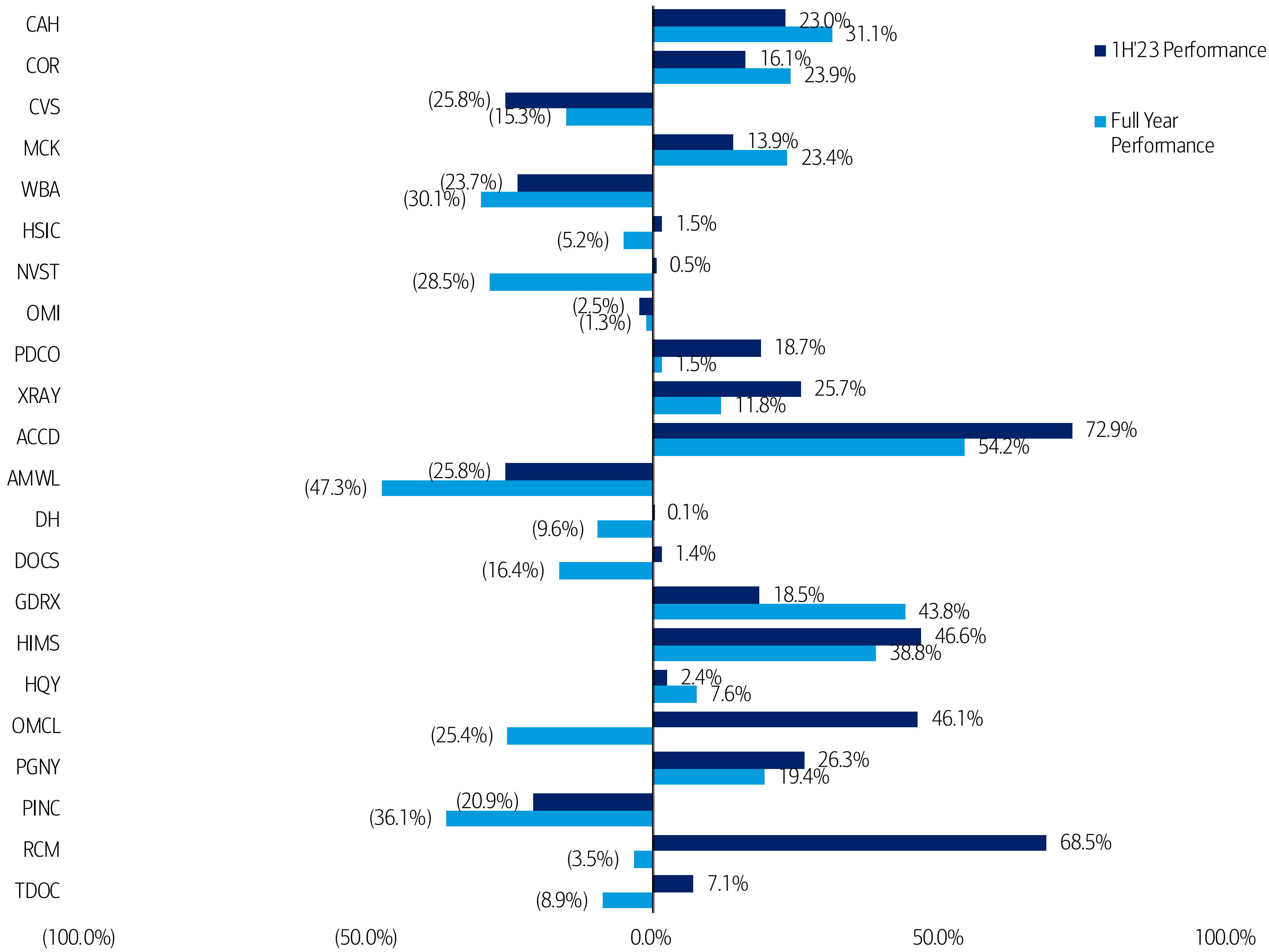
20. **Progyny (PGNY)** - Demand for PGNY's solutions and fertility services in general remain solid. The 2024 selling season delivered on topline expectations for member adds (~1.3MM vs. 1.2MM expectations) but excluding a federal government contract (a first for PGNY), commercial member adds came behind expectations. Importantly however, in a year where corporate cost scrutiny was at the forefront, fertility benefit uptake remained relatively strong. Flattish y/y member adds with meaningful portion coming from a federal government plan with limited services and attachment rates of Rx nearing peak levels suggests that a weaker macro environment is having some impact on incremental client demand. Organic client headcount expansion and utilization are becoming increasingly important as the client base grows. Heading into 2024, we remain confident in PGNY's competitive position, especially with some notable peers having hiccups, and believe the fertility market in general remains underappreciated. We continue to believe than PGNY will be close to a rule-of-40 company in the coming years that can grow into the premium multiple. We maintain our Buy rating and $47 PO on ~19.5x CY24 EV/EBITDA.
21. Execution will be the key focus for **R1 RCM (RCM)** in 2024 as the company balances numerous operational challenges which have continued to weigh on investor sentiment through the back half of 2023. This includes incremental integration and execution risks from the recently announced Providence deal accompanied by the acquisition of Acclara, managing ongoing customer losses, and the uncertain timing of new customer adds. While the recent $14Bn Net Patient Revenue (NPR) deal validates the CloudMed cross-sell opportunity, RCM will need to demonstrate consistent improvement in operations over the course of 2024 as it onboards a new large customer, implements existing customers, and potentially announces additional deals. Despite near-term risks, we believe RCM can continue to drive gross margin improvements as it builds towards higher +30% long-term adj. EBITDA margins over time. Initiatives such as robotic process automation, synergy, and cross-sell opportunities combined with broader end-market strength/favorable outsourcing trends in the industry could help support growth in 2024. We remain optimistic on the growth trajectory of the business and reiterate our Buy rating with PO to $17 ($19 prior) based on 13x CY24 EV/EBITDA (14x prior). The reduction in our multiple reflects incremental risks on margin expansion from new large customer wins.
22. Heading into 2024, the biggest risk for **Teladoc (TDOC)** is the potential consumer shift to in-network coverage therapy which may grow in intensity throughout the year. In 2023, Teladoc's growth algorithm appeared to have shifted due to tailwinds in the Integrated Care segment and headwinds to BetterHelp. In 3Q'22, Integrated Care captured significant takeaways due to the fallout of cash strapped peers with unprofitable business models. Additionally, the company saw steady growth within chronic care enrollment which could be further supported by the new GLP-1 weight management program provided as a bundled chronic care offering. Meanwhile, BetterHelp growth has recently slowed (partially a factor of the seasonal pullback in advertising spend) and we believe that virtual therapy peers aggressively pursuing insurance network access could further impact the segment's growth over time. Overall, the range of outcomes for 2024 EBITDA remain wide and will depend on enterprise revenue growth, execution of operating efficiencies, and BetterHelp's ability to capture improvements in customer acquisition costs (CAC). We continue to view Teladoc as one of the most scaled assets in healthcare technology, but await more datapoints on the evolution of the cost structure and BetterHelp's growth. Thus, we reiterate our Neutral rating and increase our PO to $24 ($22 prior) based on ~12x CY24 EV/EBITDA (11x prior) to reflect peer group multiple expansion.

Group Performance/Valuation

Group performance mixed across subsectors

Exhibit 49: Healthcare Technology & Distribution 1H'23 and full-year performance

Full-year performance was mixed across sub sectors. ACCD led full year performance, while AMWL shares saw the biggest pullback



Source: FactSet

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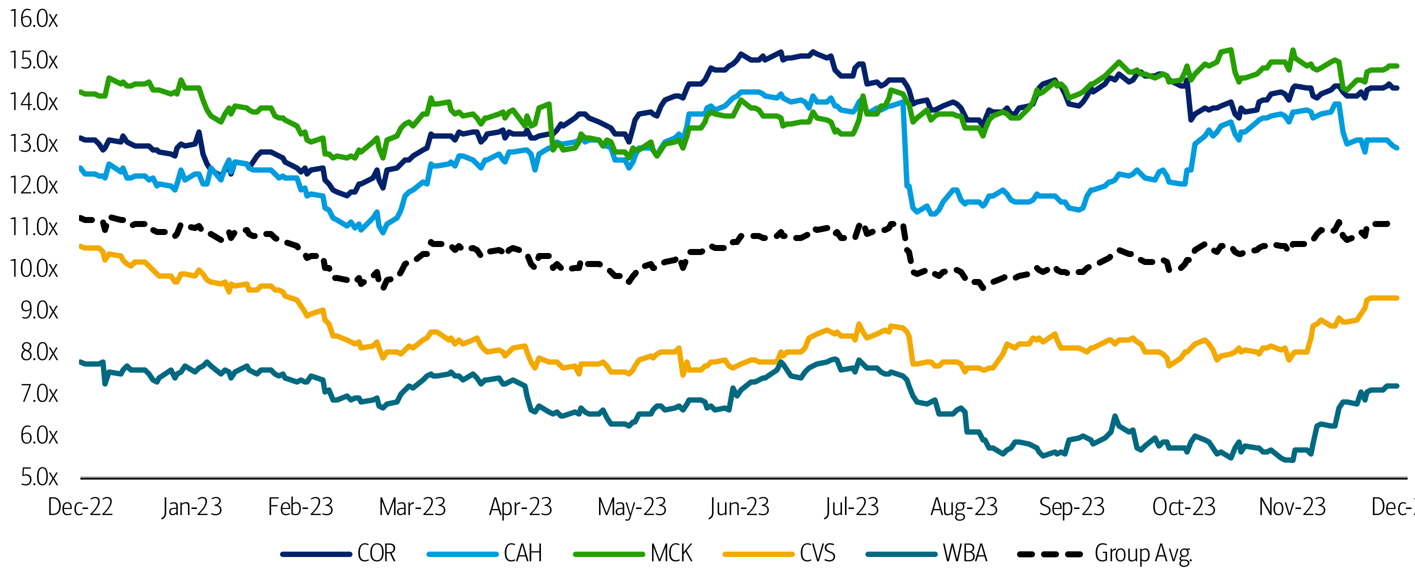
Exhibit 50: Pharma Supply Chain NTM P/E multiple

Group multiples have been mixed, WBA continues to lag the peer group, while CVS has seen the largest multiple compression through the year



Source: FactSet

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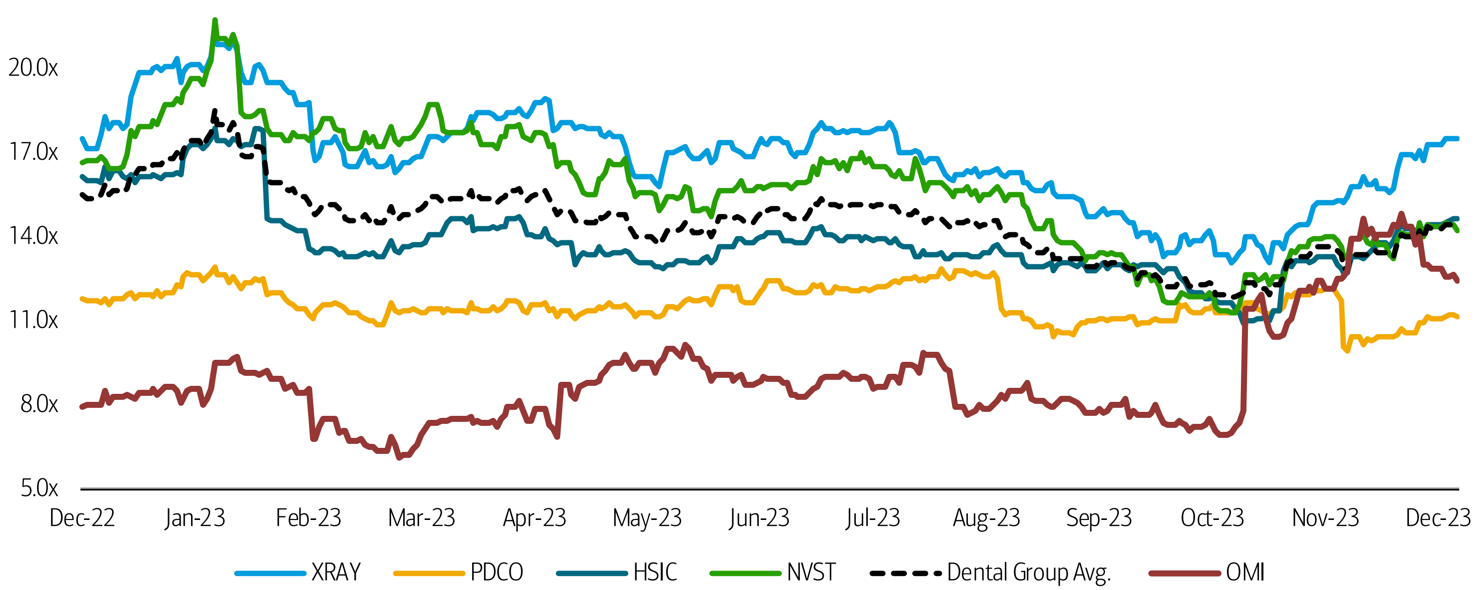
Exhibit 51: Dental/Medical/Vet Supply Chain NTM P/E Multiple

Dental manufacturers continued to trade at a premium to distributors through most of 2023. Meanwhile, OMI now trades at a premium to PDCO



Source: FactSet

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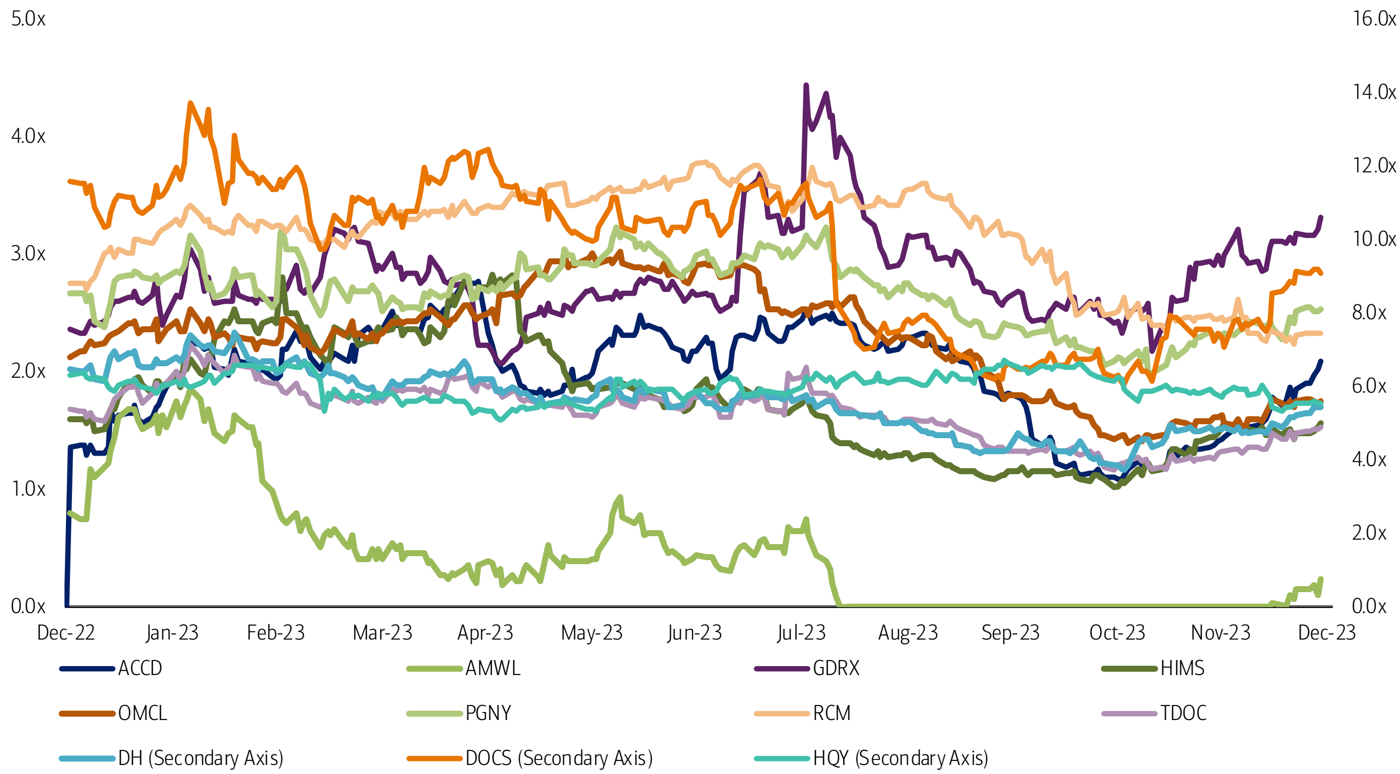
Exhibit 52: Healthcare IT and Digital Health NTM EV/Sales Multiple

The group has saw relatively stable multiples through the year. DOCS experienced meaningful multiple compression.



Source: FactSet

Note – AMWL's EV was reflected as negative for a period of time as the market cap fell below the net debt estimate

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Exhibit 53: Healthcare IT and Digital Health share performance deconstruction, multiple vs. revenue growth

YTD performance has been driven by a combination of multiple expansion/contraction and changes in the forward growth outlook.

Company	Ticker	YTD Performance	NTM EV/Rev Multiple as of 1/1/2023	NTM EV/Rev Multiple as of 12/29/2023	Δ in Multiple	CY24 Rev growth estimate (as of 1/1/23)	CY24 Rev growth estimate current	Δ in CY24 growth outlook
Healthcare Information Technology								
Accolade	ACCD	54.2%	1.31x	2.18x	66.5%	20.2%	19.1%	(5.2%)
Amwell	AMWL	(47.3%)	0.85x	0.12x	(85.9%)	45.4%	5.2%	(88.6%)
Definitive Healthcare	DH	(9.6%)	6.23x	6.04x	(3.0%)	21.8%	8.9%	(59.4%)
Doximity	DOCS	(16.4%)	11.86x	11.17x	(5.8%)	42.4%	11.1%	(73.9%)
GoodRx	GDRX	43.8%	2.41x	3.58x	48.4%	18.5%	4.7%	(74.6%)
HealthEquity	HQY	7.6%	6.22x	6.36x	2.1%	13.3%	15.8%	19.0%
Hims & Hers	HIMS	38.8%	1.58x	1.89x	19.3%	1.9%	26.3%	1300.3%
Omnicell	OMCL	(25.4%)	2.16x	1.62x	(25.2%)	19.0%	(4.8%)	(125.4%)
Premier Inc.	PINC	(36.1%)	3.32x	2.75x	(17.2%)	13.3%	1.8%	(86.4%)
Progyny Inc.	PGNY	19.4%	2.83x	3.13x	10.7%	20.6%	20.0%	(3.1%)
R1 RCM	RCM	(3.5%)	2.45x	2.77x	12.7%	17.9%	16.3%	(9.0%)
Teladoc	TDOC	(8.9%)	1.65x	1.56x	(5.5%)	16.0%	6.3%	(60.7%)
		Mean	3.57x	3.60x	1.4%	20.8%	10.9%	61.1%
		Median	2.43	2.76	(0.4%)	18.7%	10.0%	(60.0%)

Source: FactSet, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 54: BofA coverage and ratings

We updated several POs to reflect peer group multiple changes and updated views across our coverage

($ in millions, except per share data)

Company	Ticker	Rating	Price Objective	Market Cap	CY24 Rev	CY25 Rev	CY24 Rev Growth	CY25 Rev Growth	CY24 EBITDA	CY25 EBITDA	CY24 EBITDA Margin	CY25 EBITDA Margin	CY24 EPS	CY25 EPS	QRQ
Rx Supply Chain															
Cencora	COR	Buy	$228.00	$40,955	0.2x	0.1x	7.8%	6.2%	10.6x	9.9x	1.5%	1.5%	15.4x	14.2x	B-1-7
Cardinal Health	CAH	Neutral	107.00	$24,844	0.1x	0.1x	9.7%	7.5%	8.4x	7.9x	1.3%	1.3%	13.7x	12.4x	B-2-7
McKesson	MCK	Buy	510.00	$61,378	0.2x	0.2x	8.7%	6.9%	11.9x	11.2x	1.7%	1.7%	15.3x	13.5x	B-1-7
CVS Health	CVS	Buy	95.00	$101,330	0.5x	0.4x	0.9%	6.1%	8.2x	7.8x	5.7%	5.6%	9.3x	8.4x	B-1-7
Walgreens Boots Alliance	WBA	Underperform	22.00	$22,403	0.4x	0.4x	3.5%	4.2%	10.5x	9.7x	3.7%	3.8%	7.7x	7.0x	B-3-7
				Mean	**0.3x**	**0.2x**	**6.1%**	**6.2%**	**9.9x**	**9.3x**	**2.8%**	**2.8%**	**12.3x**	**11.1x**	
				Median	**0.2x**	**0.2x**	**7.8%**	**6.2%**	**10.5x**	**9.7x**	**1.7%**	**1.7%**	**13.7x**	**12.4x**	
Dental / Vet / Medical															
Dentsply Sirona	XRAY	Neutral	38.00	$7,536	2.3x	2.3x	1.9%	3.6%	12.6x	11.4x	18.6%	19.9%	17.4x	15.0x	B-2-7
Envista	NVST	Buy	32.00	$4,124	1.9x	1.8x	1.6%	4.8%	10.0x	9.1x	19.0%	19.9%	14.4x	12.7x	B-1-9
Henry Schein	HSIC	Underperform	65.00	$9,791	0.9x	0.9x	4.9%	3.9%	10.5x	9.8x	8.7%	9.0%	14.7x	13.2x	B-3-9
Owens & Minor	OMI	Underperform	16.00	$1,463	0.3x	0.3x	3.3%	2.2%	6.1x	5.7x	5.6%	5.8%	12.6x	10.2x	C-3-7
Patterson Companies	PDCO	Buy	35.00	$2,628	0.5x	0.5x	3.2%	3.3%	8.5x	7.9x	5.7%	6.0%	11.5x	10.4x	B-1-7
				Mean	**1.0x**	**1.0x**	**2.5%**	**3.0%**	**8.0x**	**7.3x #**	**9.6%**	**10.1%**	**11.8x**	**10.3x**	
				Median	**0.9x**	**0.9x**	**3.2%**	**3.6%**	**10.0x**	**9.1x #**	**8.7%**	**9.0%**	**14.4x**	**12.7x**	
Healthcare Information Technology															
Accolade	ACCD	Buy	$16.00	$927	2.0x	1.7x	19.2%	17.3%	N.M.	N.M.	2.3%	4.8%	N.M.	-10.1x	C-1-9
Amwell	AMWL	Buy	2.00	$382	-0.1x	-0.1x	5.1%	11.3%	N.M.	N.M.	N.M.	N.M.	N.M.	-2.8x	C-1-9
Definitive Healthcare	DH	Buy	11.50	$1,582	5.6x	5.1x	8.9%	10.4%	19.0x	16.5x	29.8%	30.9%	36.1x	26.9x	C-1-9
Doximity	DOCS	Neutral	29.00	$5,940	10.4x	9.4x	11.1%	10.3%	22.8x	20.5x	45.5%	45.9%	32.2x	29.1x	C-2-9
GoodRx	GDRX	Underperform	4.50	$2,776	3.4x	3.2x	4.7%	7.5%	12.0x	10.6x	28.5%	30.0%	23.1x	17.5x	C-3-9
HealthEquity	HQY	Buy	85.00	$5,673	5.5x	4.9x	15.8%	12.5%	14.4x	12.5x	38.3%	39.3%	24.0x	20.1x	C-1-9
Hims & Hers	HIMS	Buy	12.50	$1,831	1.5x	1.2x	26.3%	21.0%	21.8x	13.5x	6.8%	9.0%	N.M.	88.5x	C-1-9
Omnicell	OMCL	Buy	49.00	$1,720	1.7x	1.6x	(4.0%)	3.7%	14.1x	13.1x	12.1%	12.5%	23.1x	23.6x	C-1-9
Premier Inc.	PINC	Underperform	21.00	$2,665	2.2x	2.1x	2.1%	2.5%	6.7x	6.9x	32.6%	31.2%	10.5x	10.4x	B-3-7
Progyny Inc.	PGNY	Buy	47.00	$3,593	2.5x	2.1x	20.0%	19.6%	14.3x	11.8x	17.5%	17.7%	53.3x	36.6x	C-1-9
R1 RCM	RCM	Buy	17.00	$4,455	2.3x	2.0x	16.7%	14.1%	8.8x	7.5x	26.1%	26.8%	59.9x	26.0x	C-1-9
Teladoc	TDOC	Neutral	24.00	$3,593	1.5x	1.4x	6.2%	5.3%	11.5x	10.5x	12.9%	13.6%	N.M.	-23.8x	C-2-9
				Mean	**3.2x**	**2.9x**	**11.0%**	**11.3%**	**14.6x**	**12.3x**	**22.9%**	**23.8%**	**32.8x**	**20.2x**	
				Median	**2.3x**	**2.1x**	**10.0%**	**10.9%**	**14.2x**	**12.1x**	**26.1%**	**26.8%**	**28.1x**	**21.9x**	

Source: FactSet, BofA Global Research

BofA GLOBAL RESEARCH

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The statements, findings, conclusions, views, and opinions contained and expressed herein are not necessarily those of IQVIA Inc. or any of its affiliated or subsidiary entities. Any analysis is independently arrived at by BofA Global Research, on the basis of information from various sources.

Exhibit 55: Stocks mentioned
Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ACCD	ACCD US	Accolade	US$ 12.01	C-1-9
AMWL	AMWL US	American Well Corp	US$ 1.49	C-1-9
CAH	CAH US	Cardinal Health Inc	US$ 100.8	B-2-7
COR	COR US	Cencora Inc	US$ 205.38	B-1-7
CVS	CVS US	CVS Health	US$ 78.96	B-1-7
DH	DH US	Definitive Hlthcare.	US$ 9.94	C-1-9
XRAY	XRAY US	Dentsply Sirona	US$ 35.59	B-2-7
DOCS	DOCS US	Doximity	US$ 28.04	C-2-9
NVST	NVST US	Envista	US$ 24.06	B-1-9
GDRX	GDRX US	GoodRx	US$ 6.7	C-3-9
HQY	HQY US	HealthEquity	US$ 66.3	C-1-9
HSIC	HSIC US	Henry Schein	US$ 75.71	B-3-9
HIMS	HIMS US	Hims & Hers	US$ 8.9	C-1-9
MCK	MCK US	McKesson Corp	US$ 462.98	B-1-7
OMCL	OMCL US	Omnicell Inc.	US$ 37.63	C-1-9
OMI	OMI US	Owens & Minor	US$ 19.27	C-3-7
PDCO	PDCO US	Patterson Companies	US$ 28.45	B-1-7
PINC	PINC US	Premier, Inc.	US$ 22.36	B-3-7
PGNY	PGNY US	Progyny	US$ 37.18	C-1-9
RCM	RCM US	R1 RCM	US$ 10.57	C-1-9
TDOC	TDOC US	Teladoc	US$ 21.55	C-2-9
WBA	WBA US	Walgreens	US$ 26.11	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Investment Rationale

Accolade

We see ACCD's ability to steer its members through the healthcare continuum as aiding both clinical and financial outcomes for themselves and their employers, driven by strong engagement rates and a high-touch tech-enabled model. And while still being unprofitable, the near-term (and accelerating path) to EBITDA/FCF breakeven should position ACCD for upside potential, leading to our Buy rating.

Doximity Inc

Doximity is an industry leader in the digital transformation of healthcare marketing, changing how pharmaceutical manufacturers and health systems connect with doctors. While growth has slowed, the company exhibits a uniquely high margin profile amongst HCIT peers in a still nascent market. This is offset by a challenging macro that may further pressure growth/margins and concerns about contributions from new modules.

GoodRx

While GDRX remains the leading marketplace for prescription transparency, we view risks to the size of the addressable market which could impact the company's earnings profile over time. We believe the multiple may come under pressure given recent announcements from some of the largest stakeholders in the pharmacy ecosystem. The rapidly changing competitive landscape including the introduction of competing offerings from large PBMs and retail pharmacies creates near-term risks to valuation.

Teladoc Health

We have a Neutral rating on shares of TDOC. At current valuation, the shares trade at a premium on an EV/sales basis to unprofitable direct peers and a discount to higher-margin peers. We think shares are adequately priced weighing the risk to the behavioral health business and potential upside from GLP-1 related weight management solutions.

Price objective basis & risk

Accolade (ACCD)

Our $16.00 price objective is based on about 2.4x our CY24 EV/revenue estimate. We utilize the group of high-growth health IT companies as our universe, which all have a mix of software/internet-deployed capabilities alongside incremental high-touch services. Our valuation assumes a premium to the non-telehealth HCIT universe trading at about 2.1x sales due to its significant total addressable market (TAM), strong growth potential (even if on a revenue basis below some of the other names), and combination of both recent margin capture and incremental margin opportunity over time.

Downside risks are member attrition due to increased unemployment (in particular the two large airline customers), the ability to deliver on new customer wins, incremental spending in order to support new customer growth, delivering on its cost savings targets (particularly for the portion of at-risk revenue), maximizing the benefits from the 2nd.MD acquisition, and competition both from other standalone tech-enabled players and traditional carriers. Upside risks are better upsell to the Total Health & Benefits offering, capitalizing on expansion outside of the traditional self-insured employer market, and faster-than-expected demand for new employer customers.

American Well Corp (AMWL)

Our $2.00 price objective is based on 1.9x our CY24 EV/revenue estimate. The revenue multiple is toward the middle of AMWL's unprofitable health IT peers. An in-line multiple is reasonable in our view given AMWL's strong cash position and lack of capital requirements, somewhat offset by weaker growth.

Upside risks to our PO are faster acceleration of revenue growth into 2024 through Subscription cross-sales or rapid growth in AMG volume. Additionally, our assumptions around cash burn over the next 2-3 years may prove overly punitive which would imply shares trade at a more reasonable valuation today.

Downside risks are the inability to accelerate Subscription revenue, inability to scale gross margins, slower growth in visits and continued high levels of cash burn.

Cardinal Health (CAH)

Our $107 price objective is about 15x CY24E EPS. This multiple is above the five-year average of 11x, but below peer multiples. The discount incorporates differential in growth rates across both the comparable pharma distribution businesses as well as the long-term appeal of the ancillary businesses.

Upside risks to our PO are any potential volume pickup, increases in buyside/sellside spreads, quicker contribution from the various growth initiatives, accelerated capital deployment beyond what we currently forecast, and any value-added changes from the Board strategic review. Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of Amazon or another disruptive force entering the supply chain market, ongoing uncertainties to finalizing the opioid litigation process, demand challenges caused by a COVID outbreak, and Medical revenue/profit shortfalls related to market-wide pricing dynamics as well as ongoing supply chain/inflation headwinds.

Cencora Inc (COR)

Our $228 price objective is based on about 17x CY24E P/E. This multiple is at about the five-year high, although we would argue that was artificially high due to the period of generic inflation. This also represents a bigger discount to the S&P 500 vs. the last five years. We think this discount is warranted given it incorporates the modest growth slowdown seen by COR and the rest of the supply chain as well as encompasses some competitive risks.

Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of Amazon or another disruptive force entering the supply chain market, ongoing uncertainties and headlines related to the opioid litigation process, fundamental questions tied to EU-related profit pressures and Fx headwinds, inability to mitigate hyperinflation in Türkiye, any market volatility tied to the COVID outbreak, and potential government intervention in drug pricing controls.

Upside risks to our PO are any potential volume pickup, increases in buyside/sellside spreads, further opportunities for cost savings, upside related to the Alliance Healthcare acquisition, incremental contributions from COVID antiviral pills, and a deepening relationship with Walgreens, COR's largest customer.

CVS Health (CVS)

Our $95 price objective is based on about 11x our CY24 EPS estimate. This multiple is below the five-year average on an absolute basis and near the lower end of the historical range of 10.0x-17.5x. This also represents a bigger discount to the S&P500 vs. the last five years. The discount reflects margin pressure across CVS's core Pharmacy Services and Retail Pharmacy segments and uncertainty around drug prices.

Downside risks to our PO are failure to generate expected benefits from the Aetna combination (or have any regulatory issues in a highly regulated business), growing competitive risks in the pharmacy benefit market (including competitive pricing around rebates), business disruption tied to Covid any potential impact from ongoing opioid-related investigations, any issues with the closing and integration of the pending Signify Health/Oak Street transactions, costs and mitigation efforts needed to address the lost Stars ratings for CVS' MA plans, potential regulatory risk across the HCB and Pharmacy Services businesses, a slowdown in 340B, and slowing prescription/insurance trends. Upside risks to our PO are any potential prescription volume pickup, faster and stronger than expected synergies from Aetna, biosimilar contributions, and improving front-end performance (including better attach rates post-Covid).

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.

Dentsply Sirona, Inc. (XRAY)
Our $38 price objective is based on about 12.5x our CY24E EBITDA estimate. We note that this multiple is about 0.5x below its five-year average, due to a slower total growth rate (vs. peak) and the uncertainty around profit progression.

Downside risks are a slowdown in total demand tied to lagging equipment sales (either from failure to reignite growth or continued distribution channel challenges), as well as a slowdown in the consumables market, a recovery in Byte growth, an inability to achieve the company's margin targets (including the successful completion of the targeted restructuring plan).

Upside risks to our PO are better-than-expected equipment sales from successful sales force and marketing efforts and the penetration of Primescan and affiliated products, as well as strong consumables sales driven by a faster rebound in the consumables market, and heavy investment in margin expansion from cost savings benefits that drive overachievement of the initial savings targets that are critical to the FY26 EPS target.

Doximity Inc (DOCS)
Our $29 price objective is based on 22.5x CY24E EV/EBITDA, ahead of profitable health IT peers (group average of 16x) and below Software/Internet peers (group average 31x). We believe that DOCS should trade at a premium to HCIT peers on a EBITDA multiple basis given a peer topping margin profile and at a discount to Software/Internet peers with more sustainable revenue profiles. We believe our target multiple of 22.5x is warranted when considering DOCS low double-digit growth and high margin profile.

Downside risks are slower-than-expected revenue growth through the remainder of FY24 and into FY25. According to our survey, Doximity remains a share gainer in the space, but if programmatic peers take more share, it could hinder revenue growth. Additionally, EBITDA margins could decline in FY25 if pricing pressure persists as our survey indicates an increase in pricing incentives offered across market. Physicians may also choose to engage less with Doximity's platform or leave it altogether, which would weaken engagement rates with Doximity's core customer base and reduce the utility of the platform for advertisers. Lastly, valuation could contract if revenue growth slows further or margins contract.

Upside risks are faster reacceleration of revenue growth if macro pressure on large pharma abates quickly, and margins expand beyond current expectations driven by better revenue growth and incremental margin pull through.

Envista (NVST)
Our PO of $32 is based on roughly 11.5x our CY24 EBITDA estimate. Since NVST is a pure-play dental company, we use the dental comp group as our primary peer group. We believe NVST should trade at a premium to the peer group of 8-12x CY24 EBITDA due to faster revenue growth and higher EBITDA margins supported by a strong core of product offerings. However, we note that its most important comp trades at a premium to NVST despite divergent organic growth profiles.

Downside risks are a slowdown in total demand tied to macro challenges, a lack of rebound in its various new growth drivers (in particular demand from its newly-introduced products in aligners and implants), ongoing softness in global dental demand (particularly China and Russia), pricing pressure related to the growth of dental service organizations purchasing scale, and a lack of pull-through on cost savings targets.

Upside risks are faster-than-anticipated adoption of the Spark clear aligner system, incremental contributions to total margin expansion, and unexpected attractive M&A that supplements core growth.

GoodRx (GDRX)

Our $4.50 price objective is based on 8.5x our CY24E EBITDA . We used a blended multiple to arrive at our PO, evaluating both health IT companies as well as a wide range of internet companies that have a combination of technology/consumer solutions. Our target multiple is below the blended peer group to account for the outlook uncertainty that has arisen following recent announcements from large stakeholders in the pharmacy ecosystem. We think EV/EBITDA is the most appropriate metric given the profitable nature of GDRX.

Downside risks to GDRX are the inability to drive prescription volumes through pharmacies/repeatability of model as well as failure to gain traction in subscription services. The rapidly changing competitive landscape including the introduction of competing offerings from large pharmacy benefit managers (PBMs) and retail pharmacies could drive lower and unpredictable utilization trends. We also see downside risks in the inability to gain traction in telehealth and pharma manufacturing services. Finally, any meaningful shift in the drug pricing paradigm could potentially lower the value of GDRX's transparency discount model. Upside risks include higher-than-expected use of repeatability/subscription options and outperformance in utilization and scripts in a post-Covid normalization. Additionally, the shift to the new PBM partnership model could drive incremental upside.

HealthEquity Inc (HQY)

Our $85 price objective is based on c.17.5x CY24E EBITDA estimate. This represents a 1-2 turn premium to peers. We believe HQY should trade at a premium to peers given HQY's depressed EBITDA base, faster top-line growth, and rates optionality.

Downside risks to our PO are any long term changes in demand for Commuter benefits from a broader shift in preference to work from home could permanently impair that part of the business. Additional downside risks to our PO are inability to drive expected revenue/operational synergies from recent M&A, and slower than expected growth from the HSA market and changes in interest rates. Less significant risks are new entrants to the market gaining share, and fewer opportunities to acquire peer portfolios from companies exiting the HSA market.

Henry Schein (HSIC)

Our $65 PO is based on about 9.5x CY24E EV/EBITDA. This is close to the company's historical trading range and accounts for a less visible growth/margin opportunity offset by demographically-positive end markets and incremental contribution from increased technology revenue.

Upside risks to our PO are stronger than expected dental consumable/equipment sales (from either new relationships or ongoing equipment upgrade cycles), faster growth acceleration from specialty dental products and technology services, and cost rationalization leading to margin upside.

Downside risks incremental pressure from a slowdown in dental consumables/equipment growth tied to macro conditions, any supply constraints related to worldwide shortages, slowdown in overall demand tied to the Covid outbreak, new competition from Amazon creating significant growth, and margin pressures in both segments.

Hims & Hers (HIMS)

Our $12.50 price objective is based on about 2.1x our CY24 revenue estimate. We use a range of health IT companies, both newer digital health as well as more traditional software for comparison, comparing relative growth and relative margin rates, with the digital health side being more representative. Given relative growth rates, spend levels, and margin characteristics, our target multiple is in-line with some of the other digital health companies that are currently unprofitable.

Downside risks are lack of differentiation vs. more traditional pharmacy providers, a limited number of disease categories serviced, the need to continue to spend on both R&D and sales & marketing to remain competitive, and a slower return of overall market script growth post-COVID. Upside risks are increased demand from consumer-oriented disease categories, faster growth from targeted marketing spend (leading to stronger LTV/CAC), and potential upside from moving into new disease categories.

McKesson (MCK)

Our $510 price objective is based on roughly 17x our CY24 EPS estimate. This multiple is in line with/slightly above the long-term year average and is essentially in line with the S&P 500 multiple. This multiple contemplates MCK's attractive long-term growth profile relative to peers in the index.

Downside risks to our PO are incrementally worse drug pricing pressure, increased competition creating gross profit headwinds, the risk of other disruptive force entering the supply chain market, ongoing uncertainties and headlines related to the opioid litigation process, any volatility tied to COVID-related utilization drop-offs, any impact from changes in customer standing, and lack of available attractive capital deployment opportunities.

Upside risks are any potential volume pickup, increases in buy-side/sell-side spreads, increasing contribution from COVID vaccines and other related products, and further opportunities for cost savings or capital deployment contributions post-health IT divestiture.

Omnicell Inc. (OMCL)

Our $49 price objective for Omnicell Holdings (OMCL) is based on 15x CY24E EV/EBITDA (a slight discount to OMCL's historical average). We believe OMCL has a long runway for growth given the ongoing industry shift to autonomous pharmacy, somewhat offset by a weak macro environment that is temporarily impacting pharmacy IT spending.

Downside risks are a greater-than-expected or longer-than-expected slowdown in capital spending from health systems due to macro conditions, weaker upsell of its new subscription/software solutions, a more limited replacement market for cabinets, and greater competitive pressure from peers.

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/EVITDA 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.

Patterson Companies (PDCO)

Our $35 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 PDOC 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.

Premier, Inc. (PINC)

Our $21 price objective is based on about 5x our CY24 EV/EBITDA estimate. This multiple is roughly in line with the five-year average, both on an absolute multiple basis as well as its relative 25% discount to the S&P 500, and incorporates the mix shift toward lower-margin non-GPO revenue as well as not fully normalizing for the tax changes.

Downside risks to our PO are enhanced pricing pressure in the GPO market, shifts in profitability tied to the change in admin fee share due to the ownership restructuring, competition from new e-commerce entrants, ongoing pressures on Performance Services revenue growth, any volume fluctuations related to the COVID-19 outbreak, and a slowdown in specialty market growth. Upside risks are accelerated demand for new IT systems, share gains within the GPO market, and incremental contributions from deployed cash flow.

Progyny (PGNY)

We have a $47 price objective on shares of PGNY, based on about 19.6x CY24E EV/EBITDA. PGNY does not have any pure-play comps, and we use a mix of high-growth healthcare services / healthcare IT companies, including recently public companies. We use the median of the comp group primarily as comparison given the wide diversion of the companies used in our group. Our valuation assumes a slight premium to the broad health IT/digital health comp universe but a discount to some of the other high-growth names, as the balance of high-end revenue growth is offset by rate-limiting gross margins (as more of a service with tech-enablement vs. a more pure technology company). However, we still see PGNY's long-term EBITDA margins as appealing.

Downside risks are potential competition from traditional health insurers vs. the carve-out plan, a potential slowdown in utilization (including ongoing pressure tied to the COVID-19 impact and recessionary concerns), and the inability to maintain its growth rate in attractive new customers. Upside risks are better cross-sell of additional services (notably Progyny Rx and more Smart Cycles), increased awareness of fertility offerings driving better utilization, a faster rebound in volumes as part of the broad economic reopening, and new business opportunities due to a competitive labor market.

R1 RCM (RCM)
Our $17 price objective is based on about 13x our CY24 EBITDA estimate. We used a blended multiple to arrive at our PO, evaluating both health IT companies as well as a wide range of other business services-oriented companies that have a combination of technology/consulting solutions. Our target multiple is well below the peer group mean of 18-19x to account for the current operational and macro headwinds RCM is facing. We think EV/EBITDA is the most appropriate metric and use a fully adjusted diluted share count to reflect the warrants outstanding.

Downside risks to our price objective are the inability to convince hospitals to outsource the entire revenue cycle, increased cost associated with cash collections leading to margin pressure, excess costs needed to help support ongoing implementations and recent billing headwinds, a slowdown in utilization that weighs on overall net patient revenue, and M&A risk. Upside risks to our price objective are incremental revenue uplift for outperformance (given the % of collections model), further gross margin contribution from automation activities, and incremental M&A that bolsters the customers served.

Teladoc Health (TDOC)
We have a $24 price objective on shares of TDOC, based on approximately 12x our CY2024E EBITDA estimate (1.5x EV/sales). This represents a modest premium to its unprofitable peer group on an EV/sales basis (1.0x-2.0x), which we believe is warranted given TDOC's positive FCF. On an EV/EBITDA basis, this represents a discount to higher-margin peers. The most significant long-term risk factor, in our view, is growing competition across core virtual therapy/telemedicine/chronic care management and the ability to drive paid membership growth in line with consensus expectations.

Risks to our price objective are a) slower-than-expected utilization growth, b) execution risk around the behavioral health business, c) the competitive landscape/pricing, and d) failure to adequately integrate new acquisitions to the platform.

Walgreens Boots Alliance (WBA)
Our $22 price objective is based on about 6.5x our CY24E EPS. This multiple is below its five-year average on an absolute basis of around 11x. The discount to the five-year average reflects our view that Walgreens' core retail pharmacy business is under long-term structural pressure and must diversify into stable business lines to improve the growth outlook.

Upside risks are better-than-expected generic savings from new partnerships in healthcare and other areas that support long-term growth, contributions from additional new partnerships and strategic investments for Walgreens Health (including Summit Health), and faster recovery in overall script trends.

Downside risks to our PO are ongoing pricing and reimbursement pressure, higher prescription attrition from Part D relationships, uncertainty on front end and pharmacy sales during the Covid outbreak, ongoing growth and profitability pressure within the Retail International business, incremental spending tied to building out the Walgreens Health platform (including investments in Summit Health), the risk of a disruptive force entering the supply-chain market, a slowdown in 340B, various opioid trials that could include financial penalties, and lack of available/appealing attractive capital deployment opportunities.

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
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
	Omnicell 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

Disclosures

Important Disclosures

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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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.

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[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.

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.
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