

BrightSpring Health Services

Takes from call: guide includes some QIP, in line with our est; growth on track

Reiterate Rating: BUY | PO: 14.00 USD | Price: 9.19 USD

Guide in line with our est; Q1 growth in double digits

On the call, BTSG clarified that the 2024 guide includes \$16m quality incentive program or QIP payments (half of the amount received in 2023), in line with prior comments, which means the guide midpoint is in line with our est (1% below consensus.) The guide is conservative with potential upside on execution, QIP, and deals. The underlying trends are on track with Q1 EBITDA to grow double-digits. Despite the story on track, the stock is reacting negatively given the confusion around what's included and excluded from the guide (some analysts had included future deals, we did not), and the headline growth decelerating (ex QIP and public costs, EBITDA to grow 8% y/y). We maintain our 2024/25 EBITDA ests, roll out 2026 ests. Reiterate Buy given the attractive high-single digits organic growth trading at 8x EBITDA, and expect upside on execution.

Ex QIP, public co. costs, EBITDA to grow 8% in 2024

2024 midpoint implies EBITDA to grow +4% y/y, below the LT targets due to 2 items: 1) BTSG assumes only \$16m QIP in 2024 after receiving \$30m in 2023 (\$20m in 2022) as the program ends this year, 2) \$6m public company costs. Excluding those items, the guide implies +8% y/y (Exhibit 1), with a potential 3% upside from QIP, and future deals. If BTSG receives the same QIP amount it did in 2023, EBITDA would be +10% in 2024.

Expects Operating cash flow of \$275-300m in 2024

Cash flow to grow from \$211m in 2023 given the expected \$100m reduction in interest expense post the IPO and refinancing, and normalizing working capital. BTSG expects to reduce leverage to 3x in 2-3 years from 4.3x pro-forma IPO (under credit agreement).

Oncology growing 15%; expects to win more LDDs

Pharmacy segment revs grew 24% in 2023 driven by Infusion/Specialty growing +30%. The guide assumes +7% growth in Pharmacy revs, which the company said was conservative as it sees no change vs historical trends. Oncology industry is growing 15% annually. BTSG expects to add 12-15 new limited distribution drug (LDD) contracts (has 116 currently) given its high quality (93 NPS) and relationships with biopharma.

Deals excluded from guide. Pipeline full

High-single digits organic growth to be augmented by accretive deals. The pipeline is full; 7-12x multiples; deals to drive density, mkt share. Guide includes denovos (low cost).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.26	(0.14)	0.35	0.52	0.67
EPS Change (YoY)	-65.8%	NM	NM	48.6%	28.8%
Consensus EPS (Bloomberg)			0.62	0.88	1.26
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	35.3x	NM	26.3x	17.7x	13.7x
EV / EBITDA*	9.8x	9.2x	8.9x	8.3x	7.6x
Free Cash Flow Yield*	-3.7%	6.9%	2.6%	10.9%	12.6%

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

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	9,408.9	9,436.5
2025E Rev (m)	10,202.5	10,233.6
2026E Rev (m)	NA	11,098.5
2024E EPS	0.33	0.35
2025E EPS	0.50	0.52
2026E EPS	NA	0.67

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Stock Data

Price	9.19 USD
Price Objective	14.00 USD
Date Established	20-Feb-2024
Investment Opinion	C-1-9
52-Week Range	9.07 USD - 12.14 USD
Mrkt Val (mn) / Shares Out (mn)	1,998 USD / 217.5
Free Float	31.2%
Average Daily Value (mn)	NA
BofA Ticker / Exchange	BTSG / NAS
Bloomberg / Reuters	BTSG US / BTSG.OQ
ROE (2024E)	6.3%
Net Dbt to Eqty (Dec-2023A)	NA

NPS = Net Promoter Score

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Timestamp: 29 February 2024 01:46PM EST

iQprofileSM BrightSpring Health Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.7%	6.5%	5.5%	5.6%	12.1%
Return on Equity	3.9%	-2.4%	6.3%	6.4%	16.2%
Operating Margin	3.9%	3.8%	3.6%	3.6%	3.8%
Free Cash Flow	(75)	137	51	218	252

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-0.2x	NM	1.9x	2.7x	2.4x
Asset Replacement Ratio	0.3x	0.4x	0.4x	0.4x	0.4x
Tax Rate	NM	11.6%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	467.2%	NM	156.8%	136.8%	NA
Interest Cover	1.3x	1.0x	1.4x	1.7x	1.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,446	8,826	9,436	10,234	11,099
% Change	11.2%	18.5%	6.9%	8.4%	8.5%
Gross Profit	1,318	1,434	1,482	1,564	1,661
% Change	5.6%	8.8%	3.4%	5.5%	6.2%
EBITDA	503	538	556	597	650
% Change	2.0%	7.0%	3.4%	7.3%	8.9%
Net Interest & Other Income	(319)	(509)	(250)	(228)	(228)
Net Income (Adjusted)	31	(17)	73	114	149
% Change	-65.8%	NM	NM	56.7%	30.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(33)	(157)	67	108	142
Depreciation & Amortization	204	202	209	217	225
Change in Working Capital	(224)	159	(165)	(40)	(40)
Deferred Taxation Charge	(28)	(53)	0	0	0
Other Adjustments, Net	77	58	25	25	25
Capital Expenditure	(70)	(74)	(85)	(92)	(100)
Free Cash Flow	-75	137	51	218	252
% Change	NM	NM	-62.8%	326.1%	15.7%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(58)	(55)	(778)	(28)	(28)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	14	13	205	359	0
Trade Receivables	776	882	935	1,015	0
Other Current Assets	555	562	578	621	0
Property, Plant & Equipment	229	246	331	421	0
Other Non-Current Assets	3,868	3,830	3,830	3,830	0
Total Assets	5,441	5,533	5,879	6,246	0
Short-Term Debt	108	114	114	114	0
Other Current Liabilities	825	1,134	1,012	1,057	0
Long-Term Debt	3,569	3,556	2,778	2,750	0
Other Non-Current Liabilities	155	116	260	492	0
Total Liabilities	4,657	4,920	4,165	4,414	0
Total Equity	784	613	1,714	1,832	0
Total Equity & Liabilities	5,441	5,533	5,879	6,246	0

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

Company Sector

Medical Specialty

Company Description

BrightSpring (BTSG) is a diversified health care company with 70% of revenues coming from Pharmacy Services provided in home/community settings and facilities, and 30% of revs from its Provider Services segment, which includes services provided to individuals with I/DD (intellectual/developmental disability) and autism, as well as home care assets (home health, hospice, personal care, and home-based primary care physicians). BTSG serves 400k+ patients daily and operates in 50 states.

Investment Rationale

We rate BTSG Buy given the attractive organic growth and value-based care optionality over long-term. We expect high-single digits organic growth driven by Oncology and Infusion growing 10%+ and Home Care growing in the high-single digits. Meanwhile, value-based care (VBC) ramp up could add to growth. Finally, deals (not in our model) would be upside.

Stock Data

Average Daily Volume NA

Quarterly Earnings Estimates

	2023	2024
Q1	-0.10A	0E
Q2	0.15A	0.12E
Q3	-0.27A	0.09E
Q4	0.08A	0.13E

Targets margins of 6-7% long-term

The negative mix shift (Specialty grows the fastest while having the lowest margins) to be offset by: 1) strong growth in other businesses with higher margins, 2) \$25m cost efficiencies, 3) future deals coming with higher margins, 4) scaling value-based care (VBC) which has higher margins

Value based care can be 20% of EBITDA in future

BTSg plans to grow value-based care organically by hiring more clinicians, tuck-in deals.

Ex QIP, public co. costs, EBITDA to grow 8% in 2024

There appears to be confusion around what the underlying EBITDA growth is. We argue that the QIP program and the company becoming public is skewing the headline growth outlook.

Exhibit 1: Excluding QIP fees and public company costs, EBITDA growth is +8-10% in 2024-25

BTSg: Estimated impact of QIP fees ending in 2024 and public company costs starting in 2024 (\$m)

	2022	2023	2024E	2025E
Revs	\$7,446	\$8,826	\$9,409	\$10,203
y/y		18.5%	6.6%	8.4%
Adj EBITDA	\$503	\$538	\$557	\$596
y/y adj EBITDA growth		7.0%	3.5%	7.1%
Public company exp.			(\$6)	(\$6)
Adj EBITDA ex public company exp.	\$503	\$538	\$563	\$602
y/y		7.0%	4.6%	7.0%
QIP fees	\$20	\$30	\$16	\$0
Adj EBITDA ex public co exp & ex QIP	\$483	\$508	\$547	\$602
y/y growth, EBITDA ex public co. costs, QIP		5.2%	7.7%	10.1%

Source: BofA Global Research estimates

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Price objective basis & risk

BrightSpring Health Services (BTSG)

Our PO of \$14 is based on 10.0x 2024E Adj EBITDA, about 20% below the average multiple for the comp group due to its much higher leverage and lower margins. The 10x multiple is about 20% discount to its closest comps for BTSG's Provider segment, and about 30% discount to its closest comps for BTSG's Pharmacy segment. Also, it is a 9% discount to our estimates implied sum-of-the-parts multiple given the higher leverage compared to the comps used.

Risks are government reimbursement changes, high leverage, worse-than expected volume growth, cost pressures, inability to win new limited distribution drug (LDD) contracts, deal integration risks, litigation risks.

Analyst Certification

I, Joanna Gajuk, 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 - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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BUY				
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	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

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

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

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

Other LT Liabilities

Enterprise Value

Denominator

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

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

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

Sales

Basic EBIT + Depreciation + Amortization

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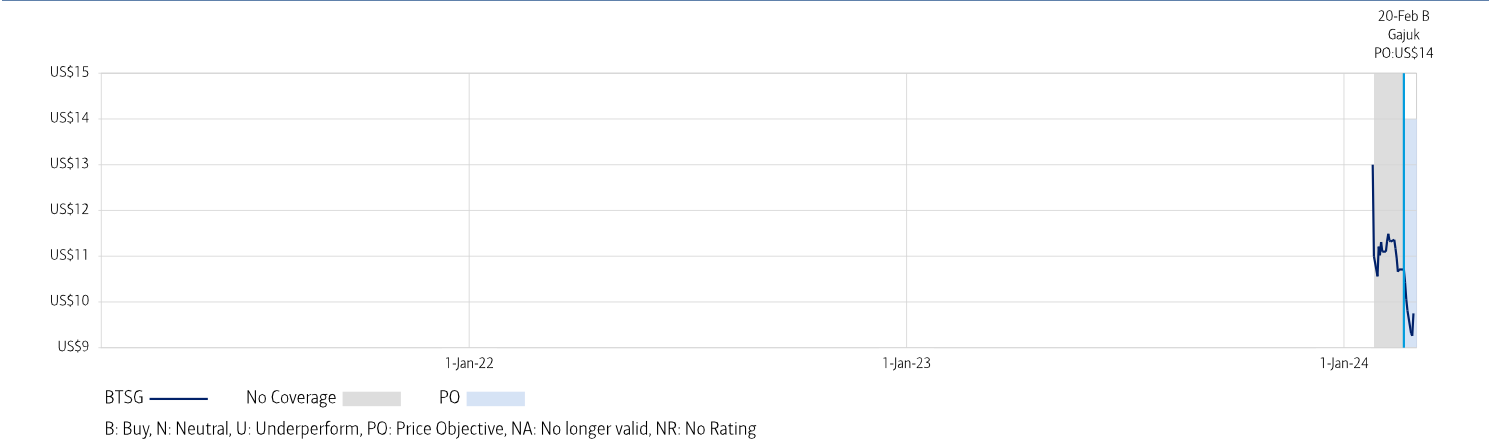
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BrightSpring Health (BTSG) Price Chart



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

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

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

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

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

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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