

Option Care Health

Takes from the call: long-term growth algorithm intact

Reiterate Rating: BUY | PO: 43.00 USD | Price: 33.36 USD

Core beat stronger, guide conservative

With the beat and bullish call commentary, we are surprised that OPCH stock is underperforming – it could be because the stock was up 8% in February prior to today. Q4 included \$8m of procurement benefits, lower than the \$10-12m estimate, implying core results were actually much better than the headline. While gross margin was lower, it was due to Chronic growing faster, which should be well understood. The 2024 guide implies 12% growth in the core and is typically conservative. OPCH continues to expect LT growth of mid-single digits at the top line and low double-digits at the bottom line. Meanwhile, deals would be upside as OPCH has ample capacity (FCF of \$265m+, leverage 1.8x). We raise rev ests, ticking down 2024E EBITDA for the guide, noting we expect upside; we roll out 2026 est. Reiterate Buy on solid trends, capital deployment.

Infusion suites next area to aid margins

OPCH sounded bullish on the optionality that suites bring (164 suites with 660 chairs); while adding to G&A, they accrue benefit on the gross margin line (increased nurse productivity), helping to offset the negative mix shift as Chronic therapies grow faster. The oldest suites achieved labor productivity of 20% (vs 10% prior comments). There is no need to open new suites to unlock more productivity; there is still room to drive utilization of existing suites while ramping up new suites. Suites allow OPCH to improve profitability of non-typical services such as injectables that require health professional oversight, or Acute patients who need additional service (dressing change, blood draw).

OPCH well positioned to benefit from infusion mkt growth

Chronic therapies should grow in the low-double digits while Acute growth should be in the low-single digits. OPCH's clinical knowledge, logistics, and national platform, combined with the expanded suite footprint put the company in a strong position to work with biopharma companies launching new products. Also, home infusion is a clear cost savings for payors (especially as they look to offset higher utilization) – OPCH is seeing more from smaller payors.

Biosimilars help gross margins

While biosimilars are typically a headwind to revenues, the competition drives gross margins higher and de-risks supply chain. Given OPCH's scale and the direct relationship with drug makers, the company is responsive when payors want to manage drug formularies. The guide assumes puts and takes on therapies coming in and out. Biosimilar to Tysabri (we est 2% of revenues) is expected in 2024, Stelara in 2025 (see our [deep dive report](#)).

| Estimates(Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|--------|-------|-------|
| EPS | 0.83 | 1.48 | 1.12 | 1.26 | 1.42 |
| EPS Change (YoY) | 7.8% | 78.3% | -24.3% | 12.5% | 12.7% |
| Consensus EPS (Bloomberg) | 0.82 | 1.24 | 1.17 | 1.35 | 1.66 |
| Valuation (Dec) | | | | | |
| P/E | 40.2x | 22.5x | 29.8x | 26.5x | 23.5x |
| EV / EBITDA* | 18.7x | 15.5x | 15.1x | 13.7x | 12.5x |
| Free Cash Flow Yield* | 3.9% | 5.6% | 4.5% | 4.9% | 5.3% |

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

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Timestamp: 22 February 2024 12:47PM EST

22 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| 2024E Rev (m) | 4,587.2 | 4,699.5 |
| 2025E Rev (m) | 4,908.3 | 5,051.9 |
| 2026E Rev (m) | NA | 5,430.8 |
| 2024E EPS | 1.24 | 1.12 |
| 2025E EPS | 1.41 | 1.26 |
| 2026E EPS | NA | 1.42 |

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 33.36 USD |
| Price Objective | 43.00 USD |
| Date Established | 5-Sep-2023 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 24.23 USD - 35.74 USD |
| Mkt Val (mn) / Shares Out (mn) | 5,930 USD / 177.7 |
| Free Float | 99.1% |
| Average Daily Value (mn) | 38.80 USD |
| BofA Ticker / Exchange | OPCH / NAS |
| Bloomberg / Reuters | OPCH US / OPCH.OQ |
| ROE (2024E) | 12.9% |
| Net Dbt to Eqty (Dec-2023A) | 57.9% |
| ESGMeter™ | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Option Care Health

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 7.6% | 9.2% | 8.7% | 8.8% | 9.1% |
| Return on Equity | 11.8% | 19.0% | 12.9% | 12.5% | 12.2% |
| Operating Margin | 6.4% | 7.3% | 6.9% | 7.2% | 7.6% |
| Free Cash Flow | 232 | 329 | 267 | 290 | 315 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 1.8x | 1.4x | 1.6x | 1.5x | 1.4x |
| Asset Replacement Ratio | 0.5x | 0.7x | 0.7x | 0.8x | 0.8x |
| Tax Rate | 26.8% | 25.5% | 27.0% | 27.0% | 27.0% |
| Net Debt-to-Equity Ratio | 62.1% | 57.9% | 33.4% | 13.7% | -2.2% |
| Interest Cover | 4.7x | 6.2x | 5.7x | 5.8x | 5.8x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|-------------|--------------|---------------|--------------|--------------|
| Sales | 3,945 | 4,302 | 4,699 | 5,052 | 5,431 |
| % Change | 14.7% | 9.1% | 9.2% | 7.5% | 7.5% |
| Gross Profit | 867 | 981 | 1,035 | 1,104 | 1,179 |
| % Change | 11.2% | 13.2% | 5.5% | 6.7% | 6.8% |
| EBITDA | 353 | 425 | 438 | 480 | 527 |
| % Change | 21.9% | 20.4% | 2.9% | 9.7% | 9.9% |
| Net Interest & Other Income | (46) | 43 | (51) | (56) | (64) |
| Net Income (Adjusted) | 151 | 267 | 200 | 226 | 255 |
| % Change | 7.7% | 77.3% | -25.3% | 13.3% | 12.7% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|--------------|---------------|-------------|-------------|
| Net Income from Cont Operations (GAAP) | 151 | 267 | 200 | 226 | 255 |
| Depreciation & Amortization | 65 | 62 | 62 | 61 | 60 |
| Change in Working Capital | (30) | (17) | (20) | (20) | (20) |
| Deferred Taxation Charge | 49 | 13 | 4 | 4 | 4 |
| Other Adjustments, Net | 32 | 46 | 65 | 65 | 65 |
| Capital Expenditure | (35) | (42) | (44) | (47) | (50) |
| Free Cash Flow | 232 | 329 | 267 | 290 | 315 |
| % Change | 27.0% | 41.8% | -19.0% | 8.6% | 8.7% |
| Share / Issue Repurchase | 0 | 250 | 0 | 0 | 0 |
| Cost of Dividends Paid | NA | NA | NA | NA | NA |
| Change in Debt | (6) | (35) | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 294 | 344 | 611 | 900 | 1,215 |
| Trade Receivables | 378 | 378 | 506 | 544 | 585 |
| Other Current Assets | 323 | 373 | 373 | 373 | 373 |
| Property, Plant & Equipment | 108 | 121 | 121 | 121 | 121 |
| Other Non-Current Assets | 2,010 | 2,002 | 2,002 | 2,002 | 2,002 |
| Total Assets | 3,113 | 3,217 | 3,612 | 3,940 | 4,296 |
| Short-Term Debt | 25 | 24 | 24 | 24 | 24 |
| Other Current Liabilities | 540 | 594 | 672 | 710 | 751 |
| Long-Term Debt | 1,130 | 1,142 | 1,142 | 1,142 | 1,142 |
| Other Non-Current Liabilities | 32 | 35 | 107 | 125 | 138 |
| Total Liabilities | 1,727 | 1,795 | 1,946 | 2,001 | 2,055 |
| Total Equity | 1,386 | 1,422 | 1,666 | 1,938 | 2,240 |
| Total Equity & Liabilities | 3,113 | 3,217 | 3,612 | 3,940 | 4,296 |

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

Company Sector

Medical Specialty

Company Description

Option Care is a US-based provider of infusion and nutrition services in the home and outpatient clinic settings. Care for acute and chronic conditions can be 40-70% cheaper than in a typical outpatient hospital setting. Option Care Health's nurses administer the medicines to treat a number of conditions including chronic inflammation, hemophilia, cancer, pain management, antibiotics and nutrition.

Investment Rationale

We believe Buy-rated OPCH is well positioned to benefit from long-standing structural tailwinds such as the aging population, transition of care to lower cost settings, and growth in Medicare Advantage. Its high fixed-cost structure should allow OPCH to convert its 5-7% revenue target into 10-15% organic EBITDA growth. The company's solid free cash flow to be deployed on acquisitions, which would be upside to our model.

Stock Data

Average Daily Volume 1,163,133

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.21A | 0.24E |
| Q2 | 0.63A | 0.27E |
| Q3 | 0.31A | 0.29E |
| Q4 | 0.32A | 0.31E |

2024 guide implies core growth of 12%

The procurement benefit was related to multiple codes, multiple payors. OPCH is not willing to specify for competitive reasons. We estimate the 2023 benefit at \$32-35m, compared to a typical net procurement benefit of \$5-10m. Excluding the \$32-35m procurement benefit in 2023, the guide midpoint implies EBITDA growth of +12%, in line with LT target growth. Growth should be more muted in 1H24 given two therapies (Makena and Radicava) that were still in the numbers in 1H23 but went away in 2H23.

Other elements of the guide: interest expense of \$55-60m, stock comp of \$45m (up from \$31m in 2023 on stock grants vesting), tax rate 26-28%. G&A was lower in Q4, which is a good run rate ex. stock-based compensation.

Price objective basis & risk

Option Care Health (OPCH)

Our price objective of \$43 is based on 19.1x our 2024E Adj EBITDA estimate. This multiple is at a premium to the current average multiple for its Home Care peers given the limited Medicare rate risks, lower leverage, and stronger FCF profile. The multiple is at a slight premium to OPCH's/Legacy BIOS's five-year average of 18.8x given the lower leverage and deal optionality.

Risks are worse-than-expected labor and other cost pressures, customer/ competitor concentration, drug pricing pressure, deal integration 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

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------------------|-------------|------------------|----------------------|
| BUY | | | | |
| | Acadia Healthcare | ACHC | ACHC US | Kevin Fischbeck, CFA |
| | Addus HomeCare | ADUS | ADUS US | Joanna Gajuk |
| | Agilon Health | AGL | AGL US | Adam Ron |
| | Apollo Medical | AMEH | AMEH 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 |
| | Agility Health Inc | AGTI | AGTI US | Kevin Fischbeck, CFA |
| | 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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

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

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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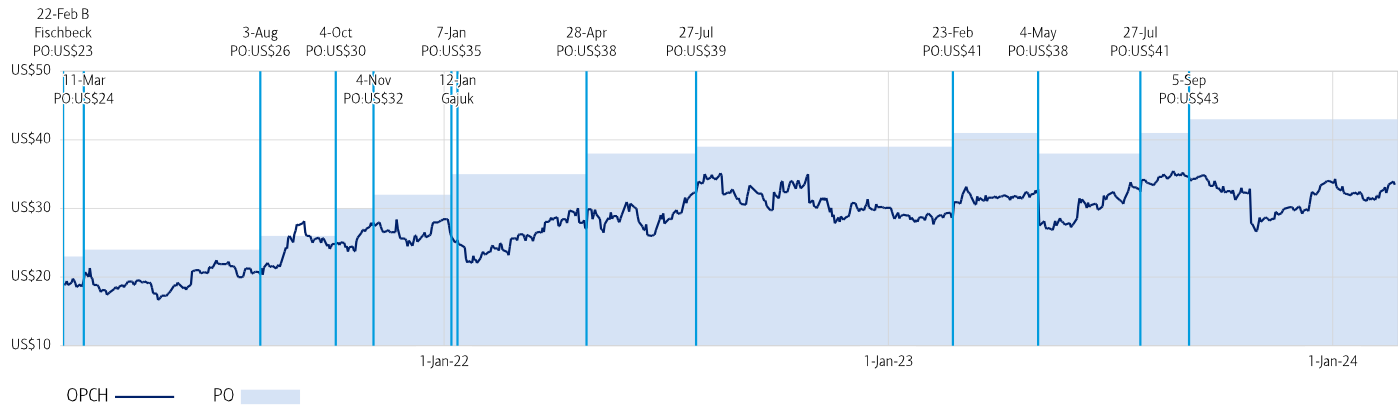
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Important Disclosures

Option Care Health (OPCH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

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

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

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

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

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

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

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