Healthcare Technology & Distribution

Framing the Red Sea/Panama Canal disruptions

Industry Overview

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Equity
United States
Healthcare Technology & Distribution

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The 101 on Red Sea/Panama Canal disruptions

Starting in mid-December, ships started diverting away from the Red Sea/Suez Canal after attacks by Houthi rebels began intensifying. According to BofA's Global Research team (note here), prior to the attacks, about 28% of containership volumes transited through the Suez Canal, a particularly important channel for Asia-EU and Asia-U.S. East freight. Those volumes are now down 90%. Moreover, lower water levels have disrupted vessel traffic through the Panama Canal, a channel important for Asia-U.S. East freight. As a result, shipping costs from China to Europe have increased over 300% since 12/3 while rates from China to the U.S. East and West Coasts have increased ~100%. Importantly, this looks to be the peak of disruptions according to BofA Global Shipping analysts, and shipping rates, while up q/q, are materially below peak rates witnessed in 2021. In this note, we assess the high-level risks to our coverage. Overall, we expect the impact to our coverage to be limited. However, this could marginally hinder visibility through 1H24 and result in more conservative CY24 guides.

Impact from Red Sea/Panama Canal should be limited

While most companies have exposure to Asia across the supply chain to some extent (raw materials, sourcing), companies within our coverage rely more heavily on the Asia-U.S. supply chain, which is less impacted. A handful of names in our coverage have material sales contributions from the EU with a larger EU footprint (Exhibit 2 and Exhibit 3). These companies could see some inflation risks to COGS (oil spot rates, higher freight costs) that could potentially dampen margins. They could also experience demand volatility if healthcare/dental service delivery is hindered from disruptions to sourcing general supplies required to carry out these services.

Potential to hinder EU end-markets/increase COGS

In more extreme cases, ongoing disruptions could hinder healthcare/dental service delivery in EU which could result in demand volatility. Moreover, companies that manufacture/distribute within EU could see pressure on COGS from inflation to crude oil prices that impact intra-EU freight and inflation to inbound freight costs from Asia. Within our coverage, a handful of dental names and COR/WBA have modest exposure to the EU. XRAY, HSIC, and NVST have the highest EU contribution to total sales (Exhibit 1). Meanwhile, COR and WBA have the highest EBIT dollar contribution from the EU.

U.S. more insulated from the disruptions

U.S. centric names more insulated given limited impact to Asia-US freight. However, in more extreme cases, there is potential for healthcare service delivery disruptions if required supplies imported from Asia experience a major delay. There is also potential for some COGS inflation from marginally higher global freight costs in 1H24. We expect drug distributors to remain largely insulated from the impact given the U.S. focus.

AHCO most exposed among HC Facilities names

We believe Adapt Health (AHCO) would be most exposed to a spike in shipping costs. Given US- centric ops, we see no impact as of now.

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

Ticker	Company	Price	Rating
AHCO	AdaptHealth Corp.	$7.26	C-3-9
CAH	Cardinal Health Inc	$107.06	B-2-7
COR	Cencora Inc	$220.53	B-1-7
CVS	CVS Health	$73.85	B-1-7
XRAY	Dentsply Sirona	$35.03	B-2-7
NVST	Envista	$24	B-1-9
HSIC	Henry Schein	$74.78	B-3-9
MCK	McKesson Corp	$490.02	B-1-7
OMCL	Omnicell Inc.	$32.45	C-1-9
OMI	Owens & Minor	$19.53	C-3-7
PDCO	Patterson Companies	$30.11	B-1-7
PINC	Premier, Inc.	$22.12	B-3-7
WBA	Walgreens	$22.76	B-3-7

Source: BofA Global Research
BofA GLOBAL RESEARCH

Refer to important disclosures on page 13 to 15. Analyst Certification on page 10. Price Objective Basis/Risk on page 7.
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Additional notes

Across our wider coverage, we expect the Red Sea/Panama Canal disruptions to be more muted based on what we know today. Management commentary on the subject has been almost non-existent thus far, aside from CAH management noting that they are not overly concerned. Further, details to size the exposure and potential impact to margins are limited. As such, we try to frame the potential risks to our coverage based on exposure to the disruptions below (refer to Exhibit 2 and Exhibit 3).

We see a handful of names that have a larger EU footprint and thus more exposure to the Red Sea disruptions. Based on relative exposure to the Asia-EU supply chain, we expect names in Non-pharma Medical Distribution, Dental/Animal Health, and Retail pharmacy to carry some risks to COGS inflation and potential end-market demand disruption. Meanwhile, we see drug distributors largely insulated from the risks given a primary U.S. focus. Risks to our coverage could be heightened by more acute disruptions in the Asia to U.S. freight routes.

Dental/Animal Health: HSIC, PDCO, NVST, XRAY

- Dental services in the EU could be disrupted by major delays/shortages for general supplies required to deliver services. The overall exposure within our coverage is skewed to dental services performed in the U.S., but with modest exposure to the EU.

- XRAY, HSIC and NVST have exposure to the EU end-market within dental. Consensus estimates ~39% of XRAY's FY24 rev and EBIT to be contributed from EU. However, these companies have EU based manufacturing/distribution to support the EU business, which could help limit risks mostly to raw material sourcing and intra-EU freight. Risks are primarily related to sourcing of raw material/supplies from China and potential impact to EU oil spot rates, which could impact COGS from higher freight costs. Lastly, Inflation across general supplies could pressure budgets in the dental end-market and disrupt demand for certain dental consumables/equipment.

- PDCO has modest exposure to the U.K. within the Animal Health segment (~10.5% of total FY24 sales and EBIT per consensus) with exposure to product/material sourcing from China. Further, the animal production end-market has significant reliance on China, which could pressure end-market budgets and disrupt demand for PDCO products. Lastly, U.K. freight costs could increase from higher oil spot rates and pressure COGS.

Non-Pharma Medical Distribution: OMI, HSIC, CAH, PINC

- The extreme scenario is that medical devices and related supplies imported from Asia experience a major delay and much higher costs to the point where health care services cannot be performed due to the shortage of supplies and devices. Given the impact from the Red Sea disruption is more acutely focused on China to EU freight, the impact to the U.S. should be limited.

- The medical distributors within our coverage are almost exclusively focused on the U.S. end-market with HSIC/CAH the only names having limited exposure to EU.

- All names are likely to have some degree of exposure to medical products sourced from vendors that have exposure to China – i.e., direct manufacturing, contract manufacturing, assembly, or raw material sourcing.

- OMI, HSIC, and CAH is likely to have some exposure to supplies/materials sourced from China within the private branded medical manufacturing business.

- There could be a heightened impact to this sub-sector if Asia to U.S. freight gets further impacted.

Pharma Distribution: CAH, COR, MCK, CVS, WBA

- We expect limited direct exposure to the pharma supply chain given a mostly U.S end-market focus and ability to flex freight to air. There could be an overall impact to cost trends for distributors with EU exposure.

- CAH has commented directly on the Red Sea conflict noting that a majority of products are not shipped through the impacted lane. However, the Medical segment could be negatively impacted if overall shipping spot rates become more volatile given the conflict. CAH has exposure to EU within the Medical segment (~2% of total sales) where there is supply chain exposure to China.

- COR operates a European distribution business primarily related to specialty pharmaceutical distribution which could be impacted should cost trends increase, particularly from higher oil prices impacting cost of sales/shipping within the EU. COR's international business represents ~10% of FY24 sales and ~21% of FY24 EBIT per consensus.

- WBA has not disclosed specific sourcing suppliers, but likely has some exposure to consumer goods sourced from China within the U.K Boots business. International makes up~16% of FY24 sales and ~20% of FY24 EBIT per consensus.

- MCK has divested out of Europe and CVS is U.S. focused, so we do not anticipate a material impact for these companies.

Healthcare IT: OMCL

- OMCL has some sales exposure to the EU end-market (International <10% of sales) and manufacturing exposure to Asia.

Healthcare Facilities: AHCO

- Among HC Facilities, Adapt Health (AHCO), would be most at risk from a prolonged disruption to shipping routes of medical devices (see Medtech team's report). As of now, we see no impact as AHCO does not operate in Europe. The worst-case scenario would be higher shipping costs globally. However, transportation costs are about 60% lower than during Covid, making the issue this time potentially less impactful. We estimate that every 1% increase in annual shipping costs (we assume shipping is half of Other operating costs) would be $1m or 0.2% impact to EBITDA before any offsets. A 10% increase would be a 1.6% hit to EBITDA.

Exhibit 2: EU Sales and EBIT for Dental/Vet/Med and Pharma names in our coverage

XRAY has the highest EBIT contribution from EU as a percentage of total FY24 EBIT. Meanwhile, COR and WBA have the highest EBIT $ contribution from EU.

Company	BofA Est. 2024 Sales	Consensus 2024 Sales	EU revenue as % of Total Sales	Est. $ of Sales in EU	Consensus adj. EBIT margin (segment or wider company)	EU $ EBIT	EBIT as % of Total EBIT	BofA Notes on Impact	Comments
XRAY	4,103	3,984	39.2%	1,564	15.4%	$240.7	39.2%	Limited impact given XRAY has EU based manufacturing/distribution to support EU business. Impact to sourcing materials from Asia	VA Consensus EU Sales
HSIC	13,372	13,008	24.7%	3,215	7.7%	$248.7	24.7%	Impact to dental/medical products sourced from Asia	VA Consensus for International Dental and International Medical sales
NVST	2,636	2,595	21.8%	567	17.2%	$97.5	21.8%	Limited impact given NVST has EU based manufacturing/distribution to support EU business. Impact to sourcing materials from Asia	VA Consensus Western EU Sales
WBA	143,514	144,114	16.0%	23,079	3.0%	$697.0	20.3%	Impact could be modest given consumer goods sourcing exposure to Asia	VA Consensus for International
PDCO	6,633	6,597	10.5%	693	4.2%	$29.2	10.5%	Impact to Animal Health products and raw material sourced from Asia.	VA Consensus Animal Health x 17% U.K. (per FY22 actuals)
COR	284,296	283,917	10.2%	29,023	2.5%	$714.5	20.6%	Uses mix of air and liner freight Able to flex and use air freight more readily to deliver drugs	VA Consensus International HC solution International mostly EU
OMCL	1,078	1,086	6.0%	65	6.6%	$4.3	6.0%	Impact could be moderate given contract manufacturing in China, and unlikelihood of larger capital equipment (ADCs, Robots) flexing to airfreight.	Company notes <10% of sales from International. Management has noted most International business is U.K.
MCK	305,314	305,400	4.5%	13,878	1.9%	$262.7	6.1%	Uses mix of air and liner freight Able to flex and use air freight more readily to deliver drugs	VA Consensus for International
CAH	225,538	226,546	2.0%	4,531	1.1%	$48.1	2.0%	Impact mostly to CAH branded solutions sold in EU. Unclear of manufacturing footprint for branded products.	International was 2.3% of total FY23 sales. Assuming mostly EU
OMI	10,808	10,669	0.0%	0	3.3%	$0.0	0.0%	NM - U.S. only focus	
PINC	1,342	1,331	0.0%	0	26.2%	$0.0	0.0%	NM - U.S. only focus	
CVS	366,971	363,626	0.0%	0	4.0%	$0.0	0.0%	NM - mostly U.S. focus	

Source: BofA Global Research, Visible Alpha, Company Reports, Bloomberg

Exhibit 3: Notes on supply chain exposure to China and sales exposure to EU

Dental names within our coverage have the highest EU sales and China supply chain exposure. Meanwhile, pharma looks to be insulated given limited EU exposure and ability to flex on freight (use Air)

	Company	Manufacturing and Sourcing Exposure to China	Sales exposure in EU	Related Management Commentary	Initial BofA Commentary on Impact from Red Sea Disruption
Non-Pharma Medical Distribution	OMCL	A portion of contract manufacturers and other suppliers are based in Asia, including China	Some exposure to U.K/EU. Company notes <10% OUS sales	None	Some exposure to manufacturing in China, but impact should be limited given sales are mostly to U.S.
Non-Pharma Medical Distribution	OMI	No disclosure of manufacturing facilities in China Has sourcing exposure to China for branded products Likely to have sourcing exposure to China for raw material/supplies used in manufacturing	None	None	Some exposure from branded products sourced from Asia, but impact should be limited given sales are to the U.S. end-market.
Non-Pharma Medical Distribution	PINC	Direct sourcing business has material sourcing exposure to China. Direct sourcing was ~18% of FY23 net revenue Supply chain services have exposure to vendors/sourcing from China	None	None	Some exposure from branded products sourced from Asia, but impact should be limited given sales are to the U.S. end-market.
Non-Pharma Medical Distribution	HSIC	Has some manufacturing and distribution facilities in China Has sourcing exposure to China for branded products Likely to have sourcing exposure to China for raw material/supplies used in manufacturing	EU 17% of total sales in FY22 Primarily dental exposure in EU with sales outsides of North America accounting for ~38% of dental revenue in FY22 (a sizable portion of which is in EU). Some medical sales exposure in EU ~ 2% of total medical sales in FY22	None	Some exposure to Asia manufacturing/sourcing across the medical segment, but impact should be limited given end-market is mostly U.S. Exposure to dental finished goods sourced from Asia. EU sales are largely supported by EU distribution base.
Dental/Animal Health	PDCO	Likely has sourcing exposure to China for branded products Likely to have sourcing exposure to China for raw material/supplies used in manufacturing	Animal Health has exposure in U.K. U.K makes up 10% of total sales and 17% of Animal Health sales	None	Some exposure in Animal Health segment – Risk to products sourced from Asia and sold in U.K.
Dental/Animal Health	NVST	Some facilities in Asia (unclear where and how many) Some suppliers in China	~20% of total sales in Western EU for FY22 Has manufacturing/distribution facilities in EU that support the EU business	None	Limited exposure to finished goods sourcing given EU sales are largely supported by EU manufacturing/distribution base. Exposure to Asia-EU raw material supply chain.
Dental/Animal Health	XRAY	1 out of 29 manufacturing facilities in China 3 out of 73 distribution sites in China -Some suppliers in China	~40% of total sales in EU for FY22 (Germany is ~10% of total sales) Has manufacturing/distribution facilities in EU to support EU business	None	Limited exposure to finished goods sourcing given EU sales are largely supported by EU manufacturing/distribution base. Exposure to Asia-EU raw material supply chain.
Pharma Distributi	COR	None disclosed	-Within the International Healthcare Solutions segment Alliance Healthcare distributes	None	Some exposure to EU, but impact should be limited given ability to flex to air freight more readily.

		brand-name and generic pharmaceuticals in 10 countries, primarily in Europe. -International segment represents ~10.5% of FY23 sales		Margin impact will depend on ability to pass through costs.
CAH	Not clear if CAH has manufacturing sites in China Likely to have sourcing exposure to China	Has some EU exposure in Cardinal branded Medical distribution (total international sales were 2.3% of total FY23 sales)	**Business update call 1/9/24**: As it relates to the **Red Sea, so that -- so there's a bit of a history that we all need to recall. When we had the challenges 12 to 18 months ago, the volatility was much more significant than what we're talking about now.** So while the Red Sea is something that we're keeping an eye on and it's a large percentage increase from where we were just a few months ago, **it is a very small increase compared to where we were a few years ago**. So it's much more manageable in that regard. But also, that's **just that one shipping lane.** When you think about the challenges we had a few years ago, it was a global increase in shipping rates largely from Asia to the United States, but it wasn't all shipping lanes and from all directions. **More of our product goes from Asia East to the United States versus West**. So we have less of the impact just from that nature of that. When we think about all the other countries and parts of Asia that we source from, not all of it, not even a majority of it goes through that particular lane. So for a lot of reasons, we're **not overly concerned** with that, but we'll, of course keep a very close eye on it as you would imagine, given our history with that.	Exposure within the Medical segment in EU. Management commented that a limited number of products goes through the impacted lane and is not overly concerned. Margin impact will depend on ability to pass through costs.
MCK	None disclosed	McKesson exited from the European Market	None	We expect limited impact given EU divestiture (U.S. focus).
CVS	CVS does not have a sizable business outside domestic Retail likely to have sourcing exposure to China	CVS does not have a sizable business outside domestic	None	We expect limited impact given U.S. focus
WBA	Inventories are purchased from numerous domestic and foreign suppliers. U.K. Boots is likely to have some sourcing exposure to China on consumer goods	WBA operates retail pharmacies within Europe (Boots) International represented 16% of total revenue in FY23	None	Exposure to products shipped from China to the U.K for the Boots business.

Source: BofA Global Research, Company Reports, Bloomberg

Price objective basis & risk

AdaptHealth Corp. (AHCO)

Our $6.50 PO is based on 8.3x our 2024E Adj EBITDA less capex, discount to the current multiple of home health peer (9x) as AHCO as weight-loss drugs pose a risk to its long-term organic growth profile, while Diabetes business growth decelerates.

Downside risks to our PO: 1) Organic growth is lower than expected. 2) Medicare reimbursement is worse than expected. 3) Deal integration issues arise. 4) Competitive risk from distributors and new technologies is worse than expected. 5) GLP1 headwind materializes faster.

Upside risks: 1) Organic growth is faster than expected, 2) The company executes better on cost cutting. 3) The headwinds to Diabetes business dissipate.

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).

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.

Envista (NVST)
Our PO of $29 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.

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.

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 $42 price objective for Omnicell Holdings (OMCL) is based on 14x 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.

Walgreens Boots Alliance (WBA)
Our $23 price objective is based on about 7x 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

We, Allen Lutz, CFA and Joanna Gajuk, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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
	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
	Privia Health	PRVA	PRVA 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
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti 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

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

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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: 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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