

Avantor, Inc.

Conservative FY24 guide celebrated, as AVTR leaves upside from mkt inflection

Reiterate Rating: BUY | PO: 27.00 USD | Price: 24.38 USD

4Q ahead; FY24 guide below expectations

4Q sales of \$1,723mn was ahead of BofAe/Street, with organic sales decline of -5.9% and Adj EPS of \$0.25. FY24 organic sales outlook of -2% to +1% and Adj EPS of \$0.96-\$1.04 was below prior expectations, esp. with 4Q beat ([find details in our first look note](#))

Markets stable/improving, but no 'inflection' yet

Much of the call was around the recovery and the stability of key end markets. Mgmt. noted that cautious customer spend & destocking continues to impact demand. At the same time, AVTR is seeing early signs of recovery as order intakes have sequentially improved from 3Q to 4Q, and leading indicators continue to 'trend favorably'. So far in 1Q, order books continue to improve modestly. But AVTR was adamant that they haven't seen an inflection in demand yet, and aren't anticipating one in the near-future.

Guide sets a low bar for '24 (and room for upside beyond)

Throughout the call, mgmt. emphasized that they were embedding no expectation for further improvement in end-market conditions in the '24 outlook, and were essentially looking for a continuation of 4Q23. Given commentary from several peers, consensus remains that markets (esp bioprocess) will improve in the next 1-2 quarters, leaving upside for AVTR's '24 targets. On top of that, mgmt. remains committed to the cost actions they announced in the December Analyst Day (\$75mn in 2024, \$300mn gross by end of 2026). Taken together, they provide a bridge to the ~20%+ EBITDA margin by 2026 target – with further upside from volume leverage and favorable mix.

Reit. Buy & Raise PO to \$27 – we like the setup from here

Despite the cautious outlook and commentary, AVTR shares rallied today (up +9%, vs S&P +50bps). We think the rationale behind the move is that 2024 is now seen as de-risked, and AVTR has multiple routes to upside (market inflection, volume leverage, cost cuts) – and we agree. We think AVTR is well-positioned in the current mkt environment, and valuation remains relatively un-demanding. Our PO moves to \$27 (\$24 prior), on 17x our FY25E Adj EBITDA (was 17x FY24E Adj EBITDA), and we reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.41	1.06	1.00	1.20	1.40
GAAP EPS	1.01	0.72	0.66	0.86	1.07
EPS Change (YoY)	0%	-24.8%	-5.7%	20.0%	16.7%
Consensus EPS (Bloomberg)			1.05	1.26	1.42
DPS	0.05	0	0	0	0
Valuation (Dec)					
P/E	15.7x	20.9x	22.1x	18.5x	15.8x
GAAP P/E	21.9x	30.8x	33.5x	25.7x	20.7x
Dividend Yield	0.2%	0%	0%	0%	0%
EV / EBITDA*	13.1x	15.7x	16.7x	14.9x	13.4x
Free Cash Flow Yield*	4.7%	4.9%	4.2%	5.1%	6.0%

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

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14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	24.00	27.00
2024E EPS	1.05	1.00
2025E EPS	1.24	1.20
2026E EPS	NA	1.40
2024E EBITDA (m)	1,262.0	1,231.0
2025E EBITDA (m)	1,393.9	1,379.7
2026E EBITDA (m)	NA	1,534.4

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Stock Data

Price	24.38 USD
Price Objective	27.00 USD
Date Established	14-Feb-2024
Investment Opinion	B-1-9
52-Week Range	16.63 USD - 25.25 USD
Mkt Val (mn) / Shares Out (mn)	16,532 USD / 678.1
Free Float	99.4%
Average Daily Value (mn)	171.85 USD
BofA Ticker / Exchange	AVTR / NYS
Bloomberg / Reuters	AVTR US / AVTR.N
ROE (2024E)	12.1%
Net Dbt to Eqty (Dec-2023A)	100.4%
ESGMeter TM	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.

iQprofileSM Avantor, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.7%	8.3%	7.8%	8.5%	8.9%
Return on Equity	21.1%	14.2%	12.1%	12.4%	12.1%
Operating Margin	19.7%	17.4%	16.2%	17.4%	18.5%
Free Cash Flow	710	734	636	767	908

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.3x	0.4x	0.3x	0.3x	0.3x
Tax Rate	19.3%	18.6%	18.1%	19.2%	19.9%
Net Debt-to-Equity Ratio	121.8%	100.4%	77.6%	53.5%	33.9%
Interest Cover	5.6x	4.3x	4.5x	5.9x	7.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,512	6,967	6,950	7,280	7,675
% Change	1.7%	-7.3%	-0.2%	4.7%	5.4%
Gross Profit	2,603	2,364	2,331	2,485	NA
% Change	4.0%	-9.2%	-1.4%	6.6%	NA
EBITDA	1,571	1,309	1,231	1,380	1,534
% Change	7.7%	-16.7%	-6.0%	12.1%	11.2%
Net Interest & Other Income	(266)	(285)	(250)	(215)	(180)
Net Income (Adjusted)	955	720	678	816	959
% Change	5.3%	-24.6%	-5.9%	20.4%	17.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	686	490	447	586	729
Depreciation & Amortization	406	413	425	430	435
Change in Working Capital	(328)	16	(30)	(51)	(61)
Deferred Taxation Charge	(69)	(172)	(100)	(100)	(100)
Other Adjustments, Net	149	135	40	42	45
Capital Expenditure	(133)	(146)	(146)	(140)	(140)
Free Cash Flow	710	734	636	767	908
% Change	-15.7%	3.4%	-13.4%	20.6%	18.3%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(32)	0	0	0	0
Change in Debt	(620)	(846)	(600)	(750)	(850)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	373	263	324	341	398
Trade Receivables	1,218	1,150	1,195	1,252	1,320
Other Current Assets	1,067	972	1,015	1,063	1,121
Property, Plant & Equipment	727	738	738	738	738
Other Non-Current Assets	10,079	9,850	9,842	10,309	10,869
Total Assets	13,464	12,973	13,114	13,703	14,445
Short-Term Debt	364	260	260	260	260
Other Current Liabilities	1,295	1,220	1,279	1,333	1,398
Long-Term Debt	5,923	5,277	4,677	3,927	3,077
Other Non-Current Liabilities	1,027	963	950	995	1,049
Total Liabilities	8,609	7,720	7,166	6,515	5,784
Total Equity	4,855	5,253	5,948	7,188	8,661
Total Equity & Liabilities	13,464	12,973	13,114	13,703	14,445

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

Company Sector

Healthcare Technology & Distribution

Company Description

Formed by the 2017 merger of Avantor Performance Materials and VWR, Avantor is a manufacturer of advanced materials and a distributor of chemicals, reagents, laboratory products, and equipment, to customers in the biopharmaceutical, healthcare, education & government, and advanced technology & applied materials industries. The company also offers a wide range of specialty procurement and other value-added laboratory services to help customers in their R&D and manufacturing operations.

Investment Rationale

Avantor is a new smid cap life sciences tools (LST) and advanced materials company serving attractive end markets. Formed by 2017 acquisition of VWR by Avantor, we believe the combined company is better positioned competitively than the standalones, and poised to deliver higher growth and profitability. We believe that Avantor can steadily grow revenues in line with or even modestly better than the LST peers, expand margins, reduce debt, and deliver a 10% EPS CAGR over the next three years.

Stock Data

Average Daily Volume 7,048,630

Quarterly Earnings Estimates

	2023	2024
Q1	0.29A	0.20E
Q2	0.28A	0.23E
Q3	0.25A	0.26E
Q4	0.25A	0.30E

Price objective basis & risk

Avantor, Inc. (AVTR)

Our \$27 PO is based on 17x our 2025 adj EBITDA estimates in-line with Life Science Tools (LST) peer average, which is appropriate given AVTR's growth rate, business mix, and long-term potential for margin expansion.

Risks to our PO are headwinds from the global COVID-19 pandemic, variability in customer R&D funding, increasing competition, supplier concentration, M&A integration, slower than expected geographic expansion, slower than expected deleveraging, and unfavorable currency swings.

Analyst Certification

I, Michael Ryskin, 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 - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

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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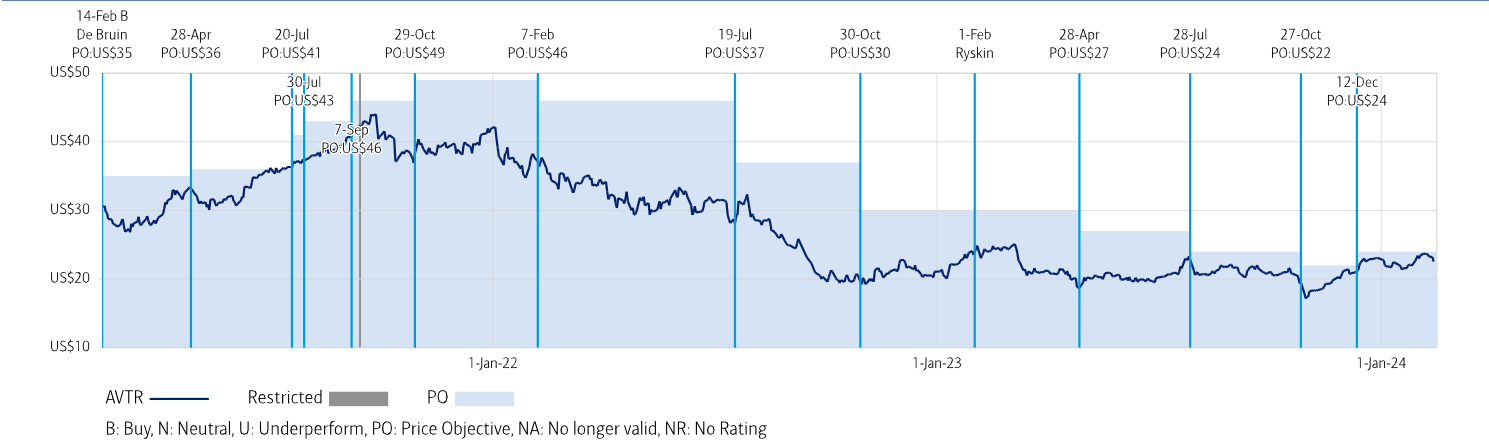
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Avantor, Inc. (AVTR) Price Chart



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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