

Align Technology

4Q23 results come in ahead, and FY24 guided to +MSD, but visibility still limited

Reiterate Rating: UNDERPERFORM | PO: 215.00 USD | Price: 267.32 USD

4Q sales 2% ahead, adj. EPS 11% ahead of consensus

Align Technology's (ALGN) 4Q results came in ahead, with sales of \$957mn vs. BofAe \$935mn. Shipments of ~593k were slightly ahead of BofAe/Street 591k, as international growth was better than expected. Adj OpM was 17.9% vs BofAe 16.9% (with FX having a favorable impact of 60 bps), leading to Adj EPS of \$2.42 ahead of BofAe \$2.14.

2024 topline guide of MSD roughly in-line with Street

For FY24, Mgmt. initiated a revenue guide of MSD (mid-single digit) growth yoy, relatively in-line with prior BofAe/Street 5.5%/4.2%. The guide assumes both Clear Aligners and Systems & Services revenues each grow MSD. ASPs (average selling price) is expected to be up slightly (price increases and favorable FX, partially offset by a higher mix of lower-ASP non-comprehensive cases), as are volumes. On profitability, Mgmt. expects Adj. OpM to slightly improve yoy. For 1Q24, Mgmt. sees \$960-980mn of sales and Adj. OpM also up slightly yoy, with continued ramp over the course of the year driven by volume leverage. Despite initiating the outlook, and citing increased stability in markets, mgmt. still acknowledged that visibility remains somewhat limited. Our sales move higher by \$5mn in 2024 / EPS moves higher by 35c to reflect the 2024 guide.

Return to stability, and ALGN on 'offense' w. new products

At the end of the day, it's that stability in global macro / consumer sentiment that's underpinning ALGN's more constructive view on '24. At the same time, there are several new products / growth initiatives that are kicking into gear. Concurrent w/ 4Q release, ALGN announced a new iTero scanner (Lumina), which will begin shipping later in 1Q24 and could galvanize a broad upgrade cycle. Cubicure (direct-printing) is progressing, and mgmt. is excited about potential to direct-3D-print clear aligners in a few years. Palatal Expansion and the DPS (doctor subscription program) are also contributing to growth.

Raise PO to \$215 but still see too much uncertainty in '24

While the 4Q result and initial 2024 guide was better than some had expected, our model remains largely un-changed and we continue to see persisting macro overhangs. We don't believe there's enough evidence that ALGN can return to the high level of growth and profitability from prior years, due to both the macro environment and the evolving competitive landscape. Our PO moves to \$215 (was \$180; now based on 23x 2024 P/E vs. 20x prior reflecting improved growth in '24), but we reiterate our Underperform rating given challenging outlook.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.76	8.60	9.50	10.75	12.25
GAAP EPS	4.61	5.81	6.57	7.45	8.53
EPS Change (YoY)	-30.9%	10.8%	10.5%	13.2%	14.0%
Consensus EPS (Bloomberg)			9.09	10.48	12.81
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	34.4x	31.1x	28.1x	24.9x	21.8x
GAAP P/E	58.0x	46.0x	40.7x	35.9x	31.3x
EV / EBITDA*	26.1x	25.6x	23.1x	20.8x	18.7x
Free Cash Flow Yield*	1.3%	2.9%	2.6%	3.1%	3.6%

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

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 31 January 2024 11:27PM EST

31 January 2024

Equity

Key Changes (US\$)

	Previous	Current
Price Obj.	180.00	215.00
2024E Rev (m)	4,050.0	4,055.0
2025E Rev (m)	4,430.0	4,400.0
2026E Rev (m)	4,840.0	4,800.0
2024E EPS	9.15	9.50
2025E EPS	10.40	10.75
2026E EPS	11.85	12.25

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Stock Data

Price	267.32 USD
Price Objective	215.00 USD
Date Established	31-Jan-2024
Investment Opinion	C-3-9
52-Week Range	176.34 USD - 413.20 USD
Mkt Val (mn) / Shares Out (mn)	20,613 USD / 77.1
Free Float	93.3%
Average Daily Value (mn)	262.44 USD
BofA Ticker / Exchange	ALGN / NAS
Bloomberg / Reuters	ALGN US / ALGN.OQ
ROE (2024E)	19.4%
Net Dbt to Eqty (Dec-2023A)	-25.8%
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, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

ASP: average selling price

LRP: long-range plan

MSD: mid-single digits

iQprofileSM Align Technology

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.6%	11.1%	12.2%	13.3%	14.6%
Return on Equity	16.8%	18.2%	19.4%	21.3%	23.2%
Operating Margin	17.2%	16.7%	17.5%	17.9%	18.4%
Free Cash Flow	277	593	542	635	742

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.0x	1.0x	1.0x
Asset Replacement Ratio	2.3x	1.4x	1.1x	1.0x	0.9x
Tax Rate	39.6%	30.6%	30.6%	30.6%	30.6%
Net Debt-to-Equity Ratio	-26.2%	-25.8%	-26.4%	-28.5%	-32.5%
Interest Cover	14.8x	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,735	3,862	4,055	4,400	4,800
% Change	-5.5%	3.4%	5.0%	8.5%	9.1%
Gross Profit	2,634	2,707	2,850	3,100	3,390
% Change	-10.3%	2.8%	5.3%	8.8%	9.4%
EBITDA	768	784	867	963	1,075
% Change	-29.2%	2.1%	10.6%	11.1%	11.6%
Net Interest & Other Income	(44)	(2)	(2)	(2)	(2)
Net Income (Adjusted)	608	659	708	785	877
% Change	-31.9%	8.3%	7.5%	10.9%	11.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	362	445	490	545	610
Depreciation & Amortization	126	141	159	177	194
Change in Working Capital	(84)	(86)	(88)	(89)	(91)
Deferred Taxation Charge	(39)	0	0	0	0
Other Adjustments, Net	205	286	163	179	197
Capital Expenditure	(292)	(193)	(183)	(176)	(168)
Free Cash Flow	277	593	542	635	742
% Change	-64.1%	114.0%	-8.5%	17.2%	16.8%
Share / Issue Repurchase	(409)	(324)	(324)	(324)	(324)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	942	937	964	1,062	1,247
Trade Receivables	860	903	822	832	842
Other Current Assets	623	606	609	641	677
Property, Plant & Equipment	1,232	1,409	1,591	1,768	1,936
Other Non-Current Assets	2,292	2,228	2,228	2,228	2,228
Total Assets	5,948	6,084	6,216	6,531	6,930
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,926	2,067	2,164	2,397	2,668
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	421	387	398	411	425
Total Liabilities	2,347	2,453	2,563	2,809	3,093
Total Equity	3,601	3,630	3,653	3,723	3,837
Total Equity & Liabilities	5,948	6,084	6,216	6,531	6,930

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

Company Sector

Medical Supplies

Company Description

Align is the dominant company in the 'clear aligner' orthodontic market, where its Invisalign brand competes with traditional metal braces (also known as 'wires and brackets'). Align revenues come primarily from a family of clear aligner products (cases) used to treat malocclusion (crooked teeth and other dental cosmetic and medical issues), as well as some digital scanners, services, and non-case products, such as retainers and other ancillary offerings.

Investment Rationale

Align, in our view, has the potential to be one of the best growth stories in Healthcare as the company's Invisalign franchise can continue to take market share from traditional braces (brackets and wires). However, given the current softer environment and subsequent concerns on macroeconomic conditions and overall dental market, as well as apparently less visibility into the business and heightened risk of competition, we have an Underperform rating.

Stock Data

Average Daily Volume 816,349

Quarterly Earnings Estimates

	2023	2024
Q1	1.82A	1.98E
Q2	2.22A	2.38E
Q3	2.14A	2.50E
Q4	2.42A	2.65E

Price objective basis & risk

Align Technology (ALGN)

Our \$215 PO is based on 23x 2024e P/E, below the company's historic valuation multiple (typically 30x-50x). We believe this is appropriate as recent execution and results have thrown the growth trajectory and timing of recovery into question, and we think the company needs to re-rate lower as competition is ramping, the macro is uncertain, and rates are shifting market-wide valuation frameworks.

Downside risks to our price objective are continued slowdown in dental procedures due to the Coronavirus outbreak or the subsequent protracted economic downturn, competition from existing and new clear aligner manufacturers, slower macroeconomic conditions, multiple contraction due to fund flows or a de-risking move, and continued uncertainty around events in China.

Upside risks are meaningful share gains from traditional wire & bracket treatments, improved commercial performance, new product launches, benefits from increased sales & marketing, and stronger macroeconomic/consumer sentiment.

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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Align Technology	ALGN	ALGN US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	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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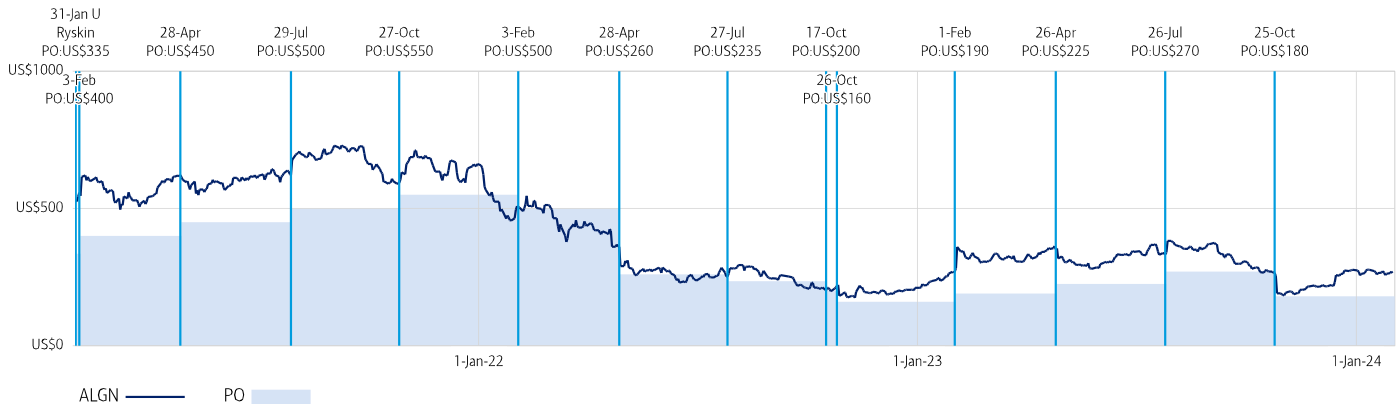
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Align Technology (ALGN) Price Chart



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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^{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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