

## Envista

## Model Update

Reiterate Rating: BUY | PO: 29.00 USD | Price: 24.06 USD

## Adjusting estimates to reflect recent commentary

Following recent market updates and company commentary, we are making some adjustments to our model. For FY23, we are reducing our profitability outlook to meet at the lower-end of the 18-19% adj. EBITDA margin guidance. We are reducing our 4Q'23 revenue outlook from \$646.0MM to \$640.8MM and adj. EBITDA from \$117.1MM to \$106.9MM. We are also reducing our FY24-FY26 outlook to reflect a more tempered view on growth. We reduce our FY24 revenue estimate from \$2,718.0MM to \$2,635.9MM to reflect lower revenues across both segments. We also reduce our FY24 Adj. EBITDA estimate from \$536.1MM to \$494.7MM, reflecting the decremental leverage from lower revenue. We continue to view Envista as well positioned, possessing a portfolio with options to drive growth toward MSDs as the market moves past macro/distributor challenges. We maintain our Buy rating and reduce our PO to \$29 (from \$32) on ~11.5x CY24 EV/EBITDA (unchanged).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.80	1.94	1.61	1.70	1.90
GAAP EPS	1.76	1.62	1.29	1.36	1.56
EPS Change (YoY)	150.0%	7.8%	-17.0%	5.6%	11.8%
Consensus EPS (Bloomberg)			1.60	1.68	1.87
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	13.4x	12.4x	14.9x	14.2x	12.7x
GAAP P/E	13.7x	14.9x	18.7x	17.7x	15.4x
EV / EBITDA*	10.1x	9.6x	10.6x	10.0x	9.2x
Free Cash Flow Yield*	8.2%	2.6%	8.3%	8.4%	9.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

19 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	32.00	29.00
2023E EPS	1.65	1.61
2024E EPS	1.90	1.70
2025E EPS	2.20	1.90
2023E EBITDA (m)	480.8	470.6
2024E EBITDA (m)	536.1	494.7
2025E EBITDA (m)	599.8	538.1

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## Stock Data

Price	24.06 USD
Price Objective	29.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-9
52-Week Range	20.00 USD - 43.29 USD
Mrkt Val (mn) / Shares Out (mn)	4,124 USD / 171.4
Free Float	99.5%
Average Daily Value (mn)	60.97 USD
BofA Ticker / Exchange	NVST / NYS
Bloomberg / Reuters	NVST US / NVST.N
ROE (2023E)	6.6%
Net Dbt to Eqty (Dec-2022A)	18.4%
ESGMeter <sup>TM</sup>	High

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".

MSD: Mid-single digit

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# iQprofile<sup>SM</sup> Envista

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.8%	6.4%	5.9%	5.9%	6.3%
Return on Equity	8.2%	8.4%	6.6%	6.6%	7.0%
Operating Margin	18.3%	18.8%	17.0%	17.3%	18.1%
Free Cash Flow	337	107	343	347	392

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	0.5x	1.4x	1.4x	1.3x
Asset Replacement Ratio	0.4x	0.5x	0.5x	0.5x	0.5x
Tax Rate	24.9%	23.1%	22.7%	22.0%	22.0%
Net Debt-to-Equity Ratio	6.0%	18.4%	13.0%	9.2%	5.8%
Interest Cover	13.1x	12.6x	6.5x	6.5x	7.7x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,509	2,569	2,562	2,636	2,757
% Change	30.1%	2.4%	-0.3%	2.9%	4.6%
Gross Profit	1,456	1,498	1,473	1,509	1,585
% Change	38.0%	2.9%	-1.7%	2.5%	5.1%
EBITDA	494	517	471	495	538
% Change	95.1%	4.7%	-9.1%	5.1%	8.8%
Net Interest & Other Income	(33)	(35)	(66)	(68)	(63)
<b>Net Income (Adjusted)</b>	<b>320</b>	<b>345</b>	<b>285</b>	<b>304</b>	<b>340</b>
<b>% Change</b>	<b>172.7%</b>	<b>7.8%</b>	<b>-17.6%</b>	<b>6.6%</b>	<b>12.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	341	243	212	227	263
Depreciation & Amortization	124	138	135	131	132
Change in Working Capital	(173)	(243)	26	19	22
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	101	45	34	34	36
Capital Expenditure	(55)	(76)	(64)	(63)	(61)
<b>Free Cash Flow</b>	<b>337</b>	<b>107</b>	<b>343</b>	<b>347</b>	<b>392</b>
<b>% Change</b>	<b>42.5%</b>	<b>-68.2%</b>	<b>220.8%</b>	<b>1.2%</b>	<b>13.0%</b>
Share / Issue Repurchase	20	22	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(476)	0	119	(529)	143

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,074	607	919	537	823
Trade Receivables	332	394	378	364	360
Other Current Assets	430	424	423	418	426
Property, Plant & Equipment	264	294	320	358	403
Other Non-Current Assets	4,474	4,869	4,914	5,010	5,150
<b>Total Assets</b>	<b>6,574</b>	<b>6,587</b>	<b>6,955</b>	<b>6,688</b>	<b>7,162</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	775	727	735	742	771
Long-Term Debt	1,316	1,381	1,500	971	1,113
Other Non-Current Liabilities	425	273	267	262	264
<b>Total Liabilities</b>	<b>2,516</b>	<b>2,380</b>	<b>2,502</b>	<b>1,974</b>	<b>2,149</b>
<b>Total Equity</b>	<b>4,058</b>	<b>4,207</b>	<b>4,453</b>	<b>4,714</b>	<b>5,013</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,574</b>	<b>6,587</b>	<b>6,955</b>	<b>6,688</b>	<b>7,162</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Healthcare Technology & Distribution

## Company Description

Envista is one of the largest dental manufacturers globally, with a focus on both traditional consumables and equipment as well as market-leading positions in orthodontics and implants. The company generates a significant amount of revenue from its global reach, with about 25% of revenue from high-growth markets. NVST was recently spun-out from Danaher, where it represented the entire dental business.

## Investment Rationale

We think the ongoing launch of new products should help return to mid-single-digit organic growth (potentially higher post-divestitures), with operational efficiencies supporting ongoing margin expansion. Given these factors and appealing upside potential on the pullback, as well as implied valuation vs. distributors, we see risk/reward as appealing, and thus we rate Envista Buy.

## Stock Data

Average Daily Volume 2,533,949

## Quarterly Earnings Estimates

	2022	2023
Q1	0.47A	0.38A
Q2	0.48A	0.43A
Q3	0.47A	0.43A
Q4	0.52A	0.36E



## Price objective basis & risk

### 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.

## Analyst Certification

I, Allen Lutz, CFA, 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 - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	Omniceil 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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	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

## iQmethod<sup>SM</sup> 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 &amp; 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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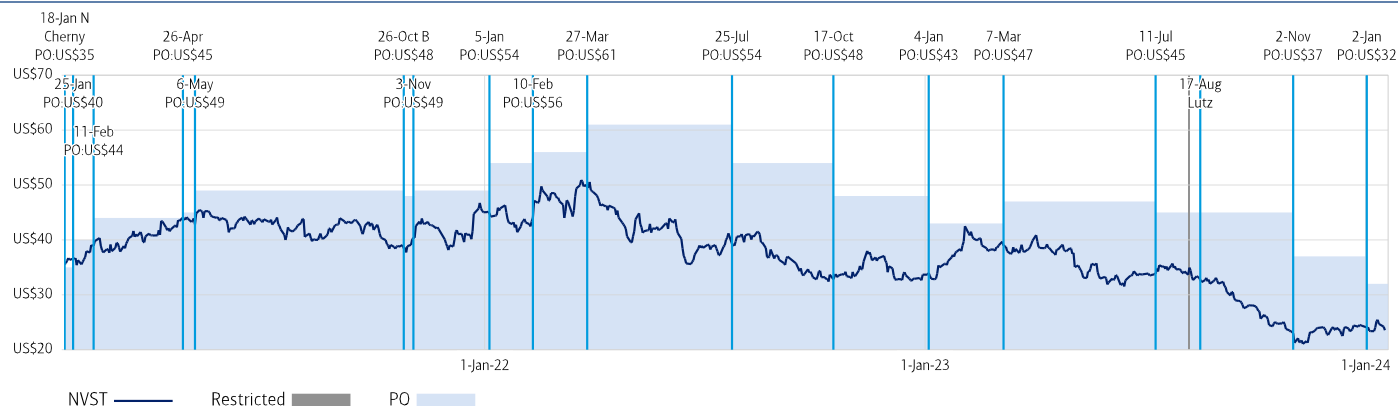
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### Envista (NVST) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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