

Bio-Rad (BIO)

\$403.63 (As of 02/17/20)

Price Target (6-12 Months): **\$424.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

Bio-Rad exited 2019 on a disappointing note, with earnings and revenues missing estimates. On a positive note, the company witnessed solid revenue growth at both operating segments. Further, strength in many of its key product lines across major geographic regions of Asia, Americas and Europe buoys optimism. The uptick in demand for the fully-integrated QX ONE system after its launch in the fourth quarter buoys optimism. On the flip side, Asia revenues suffered on poor performances of the Life Sciences segment due to the negative impacts of a cyber-attack. Escalating costs and expenses are putting pressure on the company's margins. Also, constant foreign-exchange woes and operation in a highly competitive market raise concern. Overall, in the past three months, Bio-Rad has outperformed its industry.

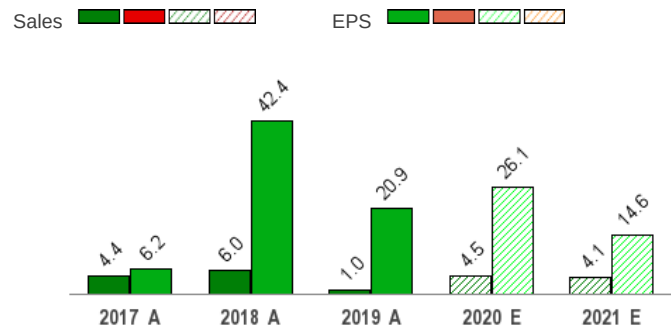
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$404.83 - \$266.95
20 Day Average Volume (sh)	135,178
Market Cap	\$12.1 B
YTD Price Change	9.1%
Beta	1.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.7%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	56.5
P/E F1	45.4
PEG F1	3.0
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,515 E
2020	583 E	594 E	580 E	661 E	2,417 E
2019	554 A	573 A	561 A	624 A	2,312 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$10.20 E
2020	\$2.03 E	\$2.52 E	\$2.03 E	\$2.32 E	\$8.90 E
2019	\$1.65 A	\$1.57 A	\$1.61 A	\$2.32 A	\$7.06 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/17/2020. The reports text is as of 02/18/2020.

Overview

Headquartered in Hercules, CA, Bio-Rad Laboratories is a manufacturer and global supplier of clinical diagnostics and life science research products in the healthcare, analytical chemistry life science research and other markets. It offers a wide portfolio of products and systems which allow the separation of complex chemical and biological materials and discovery, analysis and purification of their components.

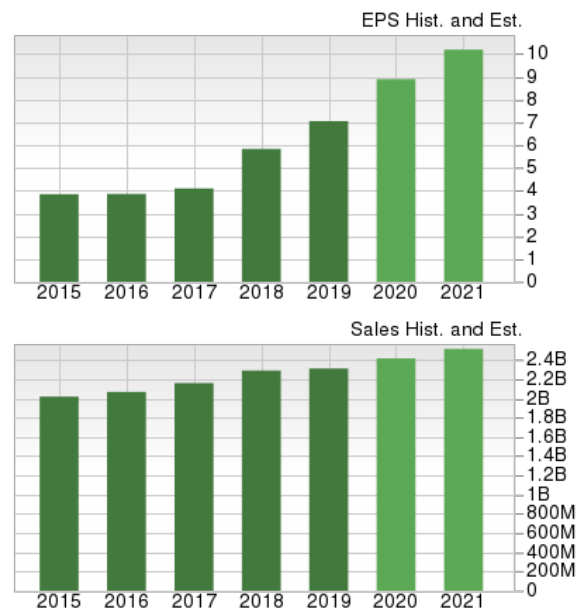
Bio-Rad has extensive and direct distribution channels in over 35 countries outside the United States through subsidiaries which focus on sales, customer service and product distribution.

The company operates through two reportable segments. Together, these segments offer over 9,000 different products and services. The details are as follows:

Life Science (38.3% of total revenues in 2019; constant exchange rate or CER growth rate was 4.6% from 2018): This segment designs, manufactures, markets and services reagents, apparatus and instruments utilized for biological research. The products manufactured are marketed in university and medical school laboratories, pharmaceutical and biotechnology companies, food testing laboratories and government and industrial research facilities. The company believes Life Science Segment represents a global market opportunity of approximately \$9 billion annually.

Clinical Diagnostics (61.1%; up 2.8%): This business markets and distributes products to reference laboratories, hospital laboratories, state newborn screening facilities, physicians' office laboratories, transfusion laboratories as well as insurance and forensic testing laboratories. It designs, manufactures, distributes and services automated test systems, informatics systems, test kits and specialized quality controls for the healthcare market. According to Bio-Rad, the Clinical Diagnostics segment presents an annual global market opportunity of roughly \$12 billion.

In February 2017, Bio-Rad acquired all the issued and outstanding stock of RainDance Technologies, Inc. for \$72.7 million, which added to Bio-Rad's Life Science segment.



Reasons To Buy:

▲ **Share Price Performance:** Over the past three months, Bio-Rad has outperformed its industry. The stock has gained 10.9% in comparison with the industry's 5.9% rise. Strong revenue growth in Life Sciences and Clinical Diagnostics segments in the fourth quarter was encouraging. Improvement in the Life Sciences segment was primarily driven by solid growth in Process Media, Droplet Digital PCR and Food Safety products, which registered 1.8% currency-neutral revenue growth. Geographically, the company's growth was led by strength in North America and Europe.

Bio-Rad continues to gain ground on solid prospects in the blood typing market. The company's strong focus on geographic expansion is also encouraging.

Clinical Diagnostics segment registered 2.8% revenue uptick at CER, driven by solid growth in Quality Controls, Diabetes, Autoimmune, and Blood Typing products across Asia and the Americas.

▲ **Focus on International Markets:** In recent times, Bio-Rad has been deriving more than 60% of its net sales globally. Europe happens to be the largest international market for the company. Even though revenue growth in Asia was slightly sluggish towards the end of the quarter due to a cyber-attack in December, each of the key product segments of the company has registered overall growth across the three major geographies of America, Europe and Asia.

▲ **Segmental Growth:** Bio-Rad witnessed constant currency sales growth across all channels in the fourth quarter. Currency-neutral revenue growth of 1.8% within the Life Sciences segment reflects robust sales in the Process Media, Droplet Digital PCR and Food Safety product lines. Geographically, despite a sales debacle in Asia due to a cyber-attack in December, the company's overall sales growth at the Life Sciences segment was led by strong performances within North America and Europe. Also, the uptick in demand for the fully-integrated QX ONE system (in its Life Science business arm), after its launch in the fourth quarter, buoys optimism.

Within Clinical Diagnostics, sales growth was 2.8% on a currency-neutral basis, primarily driven by solid growth in Quality Controls, Diabetes, Autoimmune and Blood Typing product across Asia and the Americas.

▲ **Solid Prospects in Blood Typing Market:** Bio-Rad offers a broad range of platforms, reagents, data management and connectivity solutions to cater to various blood typing demands, offering efficient and reliable results for blood grouping, phenotyping, crossmatching, antibody screening and identification, direct antiglobulin tests, and single antigen typing. The company has also been actively expanding its portfolio for the blood typing market. Performance of the company in the Blood typing market continues to be robust in the fourth quarter of 2019. Product adoption in the United States was impressive, with several recent FDA approvals, including the IH500 in April 2019. The company expects to see strong global market adoption of IH-500 and the earlier-launched IH-1000.

Going by a MarketsAndMarkets report, the blood group typing market is projected to reach a worth of \$3.12 billion by 2021, at a CAGR of 9.8% from 2016 to 2021. Taking this into account, we view the developmental steps undertaken by the company as progressive and strategically aligned.

Reasons To Sell:

▼ **Tough Competitive Pressure:** Bio-Rad operates in a highly competitive environment dominated by firms varying from large multinational corporations with significant resources to start-ups. Also, the competitive and regulatory conditions in the markets where the company operates limit Bio-Rad's ability to switch to strategies like price increases and other drivers of cost increases. Further, the extension of the public tender commitments to multiple years by the government, resulting in reduced number of annual tenders, has led to aggressive tender pricing by Bio-Rad's competitors. Thus, Bio-Rad faces pricing pressure resulting from increased competition which makes it difficult for the company to efficiently manage its operational, financial and business conditions.

Unfavorable macroeconomic conditions continue to weigh heavily on Bio-Rad's stocks. Also, competitive headwinds and currency fluctuations continue to pose a threat on the stock's value.

In the Life Science segment, Bio-Rad primarily competes with Becton Dickinson, GE Biosciences, Merck Millipore and Thermo Fisher Scientific. Again, some prominent competitors in the Clinical Diagnostics segment are Roche, Abbott Laboratories, Siemens, Danaher, Thermo Fisher, Becton Dickinson and DiaSorin.

▼ **Global ERP System Implementation Process Tough & Lengthy:** Bio-Rad has been involved in a multi-year implementation of a new global enterprise resource planning system (ERP). Through the ERP system, the company expects to effectively manage its books and record and make important business-related information available to management in a timely manner. Per the company, the successful implementation of ERP will depend on significant human and financial resource investments. Further, any shortfall in the design or implementation of ERP might have a detrimental impact on the company's abilities to process and dispatch orders, sending invoices and tracking payments, meeting contractual obligations or maintaining normal business operations. For example, Bio-Rad progressed with the third deployment of ERP in Western Europe last April. In the process, the company faced several issues like lower productivity levels, adverse impact of the timing of payment of vendor invoices, delays in product availability and shipments, all of which dented sales in the second and third quarter of 2017. Thus, Bio-Rad continues to be at risk of failing to cope with the tough and lengthy ERP implementation process.

▼ **Exposure to Foreign Currency:** Bio-Rad derives more than 50% of its revenues from the international market, which exposes it to the effects of fluctuations in foreign currency. In the past several years, the company's earnings were significantly affected by foreign exchange.

▼ **Economic Uncertainty Continues to Hamper Growth:** Bio-Rad's business largely depends on global economic conditions. Weaker global economic conditions may lead to reduced demand for the company's products, increased competition, pressure on prices, declining supply and lengthier sales cycle. Moreover, a number of countries in Western Europe are facing liquidity crunch. Bio-Rad had to experience difficulty in collecting receivables in these and certain other regions facing similar economic conditions. The company is also exposed to the risk of a slowdown in the Chinese economy along with some other emerging markets, particularly the oil-producing nations which get impacted by a drop in oil prices. Further, the company is closely monitoring the adverse possible impacts on its business following the United Kingdom's decision to exit the European Union. We are particularly cautious as growth could moderate further if the economic scenario worsens.

▼ **Reduced Reimbursement Rates:** Bio-Rad's Clinical Diagnostics business is exposed to changing reimbursement rates for clinical tests from third-party payors like Medicare and Medicaid in the United States. Payment for several diagnostic tests furnished to Medicare fee-for-service beneficiaries is dependent on the Medicare Clinical Laboratory Fee Schedule (CLFS) in the United States. Notably, CLFS is a fee schedule that is managed by the Centers for Medicare and Medicaid Services (CMS). Further, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (PPACA) and the Middle Class Tax Relief and Job Creation Act of 2012, has lowered payments for clinical laboratory services paid under the CLFS. Additionally, the Protecting Access to Medicare Act of 2014 (PAMA) rule has led to lower reimbursement rates and mode of payment for clinical laboratory services by Medicare.

▼ **Difficult Pricing Scenario:** Bio-Rad is exposed to the effects of changes in the healthcare industry in the United States and Europe. The changing trend toward managed care, healthcare reform of the delivery system in the United States, efforts to reform in Europe, along with increasing consolidations among healthcare providers have resulted in increased pricing burden.

Last Earnings Report

Bio-Rad Q4 Earnings & Revenues Fall Short of Estimates

Bio-Rad posted fourth-quarter 2019 adjusted earnings per share of \$2.32, which lagged the Zacks Consensus Estimate by 5.7%. However, the bottom line rose 11% from the prior-year quarter.

The quarter's adjustments eliminate the impacts of certain non-recurring items like asset amortization costs, restructuring charges and acquisition-related one-time benefits.

On a GAAP (reported) basis, the company registered earnings of \$18.31 per share in the quarter against a loss of \$27.73 per share a year ago.

Full-year adjusted earnings per share were \$7.06, reflecting a 21.5% rise from the year-ago period. However, the company lagged the Zacks Consensus Estimate of \$7.20.

Revenues in Detail

Bio-Rad's revenues of \$624.4 million in the quarter missed the Zacks Consensus Estimate by 1.9%. However, revenues inched up 1.2% from the year-ago quarter (up 2.3% at constant exchange rate or CER).

Yearly revenues were \$2.31 billion, reflecting a 0.9% increase from the year-ago period. However, revenues lagged the Zacks Consensus Estimate by 0.4%.

Solid demand for many of Bio-Rad's key product lines, and growth in the Americas and Europe led to the uptick in revenues.

Segmental Analysis

Sales at the **Life Sciences** segment in the fourth quarter totaled \$242 million, up 1% year over year and up 1.8% at CER. The quarter registered double-digit growth in Droplet Digital PCR and Food Safety products. The company witnessed strong demand within Process Media, Droplet Digital PCR and Food Safety product lines. Geographically, its growth was led by North America and Europe. However, sales were adversely affected by a cyber-attack in December, with the major effect witnessed in Asia. This brought down the company's total quarterly revenues.

Net sales at the **Clinical Diagnostics** segment totaled \$379 million, up 1.6% on a year-over-year basis and up 2.8% at CER. The upside was primarily driven by solid growth in Quality Controls, Diabetes, Autoimmune and Blood Typing products across Asia and the Americas.

Margins

In the quarter under review, Bio-Rad's gross profit declined 0.6% to \$330.4 million. Further, gross margin contracted 100 basis points (bps) to 52.9%.

Adjusted operating expenses were \$271.2 million in the fourth quarter, up 1.5% year over year. Adjusted operating profit totaled \$59.2 million, reflecting a 9.6% dip from the prior-year quarter. Moreover, adjusted operating margin in the fourth quarter dipped 113 bps to 9.5%.

However, the company's adjusted gross margin was 54.1%, contracting 130 bps. Additionally, adjusted operating margin was flat year over year at 14.3%.

Financial Update

Bio-Rad exited the year with cash and cash equivalents (including short-term investments) of \$1.12 billion compared with \$850.4 million at the end of 2018.

At the end of 2019, cash flow from operating activities was \$457.9 million compared with \$285.5 million at the end of 2018.

2020 Guidance

For 2020, the company expects revenue growth of 4.5-5.25% (CER). The Zacks Consensus Estimate for revenues is pegged at \$2.42 billion.

The company anticipates its Life Science and Clinical Diagnostics segments to register growth of 7-8% and 3-4% at CER, respectively.

Adjusted operating margin is estimated to be 13.8-14.3%.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-1.90%
EPS Surprise	-5.69%
Quarterly EPS	2.32
Annual EPS (TTM)	7.15

Valuation

Bio-Rad shares are up 9.1% in the year-to-date period and up 49.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 4.2% while the Zacks Medical sector rose 2.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 11.8% and sector is up 4.4%.

The S&P 500 index is up 5.2% in the year-to-date period and increased 23.3% in the past year.

The stock is currently trading at 44.5X Forward 12-months earnings, which compares to 25.4X for the Zacks sub-industry, 21.4X for the Zacks sector and 19.4X for the S&P 500 index.

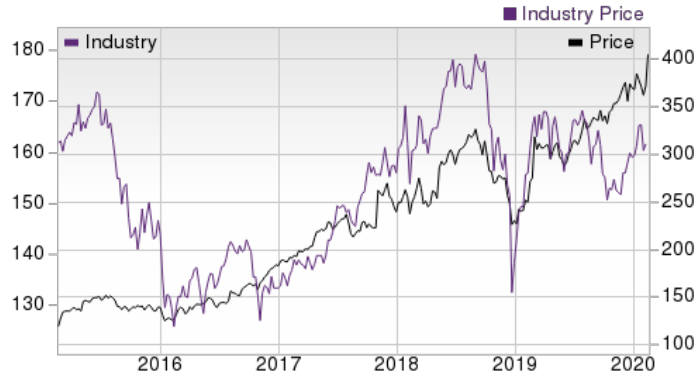
Over the past five years, the stock has traded as high as 92.8X and as low as 30.2X, with a 5-year median 41.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$424 price target reflects 46.7x forward 12-months earnings.

The table below shows summary valuation data for BIO

Valuation Multiples - BIO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	44.50	25.44	21.36	19.35
	5-Year High	92.81	25.44	21.36	19.35
	5-Year Low	30.19	17.00	15.83	15.18
	5-Year Median	41.16	19.62	18.89	17.47
P/S F12M	Current	4.97	4.10	2.84	3.58
	5-Year High	4.98	4.10	3.83	3.58
	5-Year Low	1.56	2.87	2.45	2.54
	5-Year Median	2.97	3.21	2.97	3.00
P/B TTM	Current	2.10	3.27	4.63	4.68
	5-Year High	2.84	4.30	5.04	4.68
	5-Year Low	1.35	2.21	3.44	2.85
	5-Year Median	1.88	2.77	4.31	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



Top Peers

Brucker Corporation (BRKR)	Neutral
Danaher Corporation (DHR)	Neutral
Illumina, Inc. (ILMN)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
QIAGEN N.V. (QGEN)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Becton, Dickinson and Company (BDX)	Underperform
Bio-Techne Corp (TECH)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	BIO Neutral	X Industry	S&P 500	BRKR Neutral	ILMN Neutral	TMO Neutral
VGM Score	C	-	-	C	C	B
Market Cap	12.08 B	318.30 M	24.61 B	7.78 B	43.94 B	136.01 B
# of Analysts	1	2	13	6	9	9
Dividend Yield	0.00%	0.00%	1.78%	0.32%	0.00%	0.22%
Value Score	D	-	-	D	D	C
Cash/Price	0.09	0.08	0.04	0.04	0.08	0.02
EV/EBITDA	21.86	0.18	14.06	25.98	36.18	21.46
PEG Ratio	2.96	2.85	2.09	2.20	2.83	1.80
Price/Book (P/B)	2.35	4.06	3.29	9.10	9.53	4.58
Price/Cash Flow (P/CF)	68.08	21.00	13.65	27.72	36.32	18.76
P/E (F1)	44.34	28.20	19.21	27.55	43.58	24.92
Price/Sales (P/S)	5.23	5.28	2.70	3.84	12.40	5.33
Earnings Yield	2.20%	0.32%	5.19%	3.62%	2.29%	4.01%
Debt/Equity	0.12	0.10	0.71	0.67	0.40	0.58
Cash Flow (\$/share)	5.93	-0.00	6.92	1.82	8.23	18.08
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	16.50%	11.68%	10.85%	16.52%	19.06%	13.63%
Proj. EPS Growth (F1/F0)	26.06%	11.80%	7.17%	12.82%	4.40%	10.19%
Curr. Cash Flow Growth	43.36%	4.50%	8.56%	11.27%	13.10%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	9.81%	9.59%	8.36%	8.40%	13.51%	10.08%
Current Ratio	4.72	2.77	1.23	2.23	6.69	1.91
Debt/Capital	10.94%	12.73%	42.91%	40.84%	28.47%	36.53%
Net Margin	76.08%	-12.89%	11.81%	10.20%	28.27%	14.47%
Return on Equity	4.18%	-7.35%	16.86%	28.02%	22.34%	17.24%
Sales/Assets	0.32	0.62	0.54	0.89	0.49	0.45
Proj. Sales Growth (F1/F0)	4.55%	11.88%	3.85%	5.89%	9.74%	5.40%
Momentum Score	A	-	-	D	D	C
Daily Price Chg	6.40%	0.00%	0.06%	-0.16%	2.59%	1.07%
1 Week Price Chg	2.60%	0.00%	2.47%	0.59%	1.46%	4.16%
4 Week Price Chg	6.30%	-1.83%	0.59%	-6.45%	-8.30%	0.73%
12 Week Price Chg	12.05%	10.07%	6.98%	2.04%	-4.45%	11.10%
52 Week Price Chg	54.40%	-1.80%	16.62%	36.22%	2.21%	37.80%
20 Day Average Volume	135,178	141,068	2,020,569	585,696	1,397,153	1,648,348
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	0.00%	-0.95%	0.10%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.17%	0.18%	-3.12%	0.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	0.00%	-21.11%	-4.40%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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