

CONMED Corporation (CNMD)

\$101.68 (As of 01/31/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

CONMED exited the fourth quarter on a solid note, with earnings and revenues beating the respective estimates. The company outperformed the industry in a year's time. Its core unit — General Surgery — continues to drive the top line. Solid international sales growth in recent times remains a positive. Management is also confident of the company's broad product portfolio. Strong 2020 guidance instills optimism in the stock. It remains focused toward launching new products. CONMED exited the year by raising investment in its sales organization during the fourth quarter as planned, further strengthening the company's foundation for sustainable near- and long-term revenue and profitability growth. However, the company operates in a highly competitive environment, especially with respect to the General Surgery business.

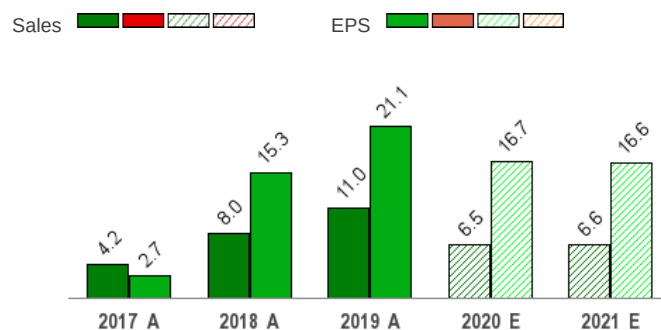
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.81 - \$68.59
20 Day Average Volume (sh)	338,471
Market Cap	\$2.9 B
YTD Price Change	-9.1%
Beta	0.51
Dividend / Div Yld	\$0.80 / 0.8%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	38.4
P/E F1	33.0
PEG F1	2.5
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	252 E	269 E	258 E	309 E	1,084 E
2020	237 E	253 E	242 E	290 E	1,017 E
2019	218 A	238 A	234 A	265 A	955 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.81 E	\$0.89 E	\$1.18 E	\$3.59 E
2020	\$0.61 E	\$0.69 E	\$0.76 E	\$1.03 E	\$3.08 E
2019	\$0.57 A	\$0.56 A	\$0.62 A	\$0.90 A	\$2.64 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

Headquartered in Utica, N.Y., CONMED Corporation (CNMD) is a major medical products manufacturer specializing in surgical instruments and devices for minimally invasive procedures and monitoring. CONMED has roughly 3,600 employees and several manufacturing facilities.

A significant portion of the company's revenues are derived from products designed for the orthopedic surgery markets of arthroscopy and powered surgical instruments. The company also sells products for general and other surgical specialties such as electrosurgery systems for all types of surgery, and endosurgery instruments for minimally invasive laparoscopic surgery. Patient Care products, including ECG electrodes for heart monitoring and pulse oximetry for blood oxygenation monitoring, are provided for various clinical settings.

The company operates in two revenue segments.

- Orthopedic Surgery
- General Surgery

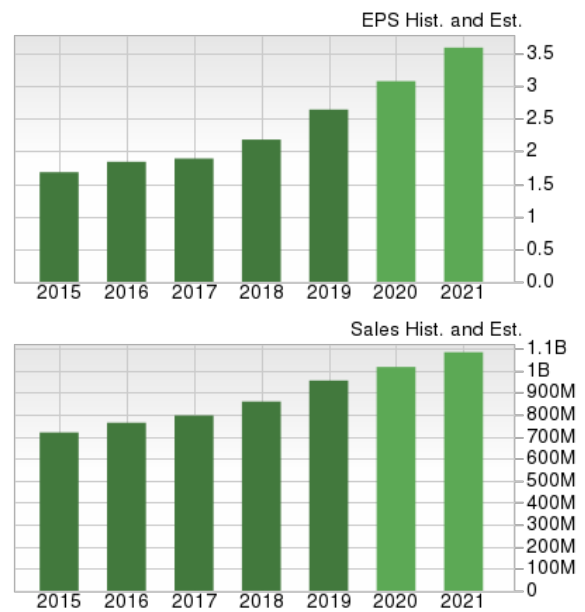
The orthopedic surgery product line includes CONMED's sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments and service fees related to the promotion and marketing of sports medicine allograft tissue.

General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments.

2019 Results at a Glance

CONMED reported full-year adjusted earnings per share of \$2.64, which improved 2.1% from 2018. On a full-year basis, CONMED reported revenues worth \$955.1 million, which climbed 11.1% from the previous year.

Orthopedic Surgery sales totaled \$463.3 million (49% of net revenues) while General Surgery sales grossed \$491.8 million (51%).



Reasons To Buy:

▲ **Share Price Performance:** CONMED's broad product spectrum is a major positive. Apart from this, the company's acquisition of Buffalo Filter (closed during the first quarter), solid organic R&D pipeline and new product innovations buoy optimism. Management at CONMED is also optimistic about near and long-term opportunities in smoke evacuation market backed by Buffalo Filter's unique product portfolio. Driven by these positives, CONMED outperformed its industry in a year's time. Notably, its shares have surged 44.7%, against the industry's decline of 5%. The current level is also higher than the S&P 500's rally of 17.4%.

Strong prospects in the General Surgery segment buoy optimism. CONMED's broad product spectrum of surgical products is a significant positive.

▲ **Strong 2020 Guidance:** CONMED expects 2019 organic constant currency sales growth to range between 7% and 7.5%. On the basis of current exchange rates, the negative impact to 2020 sales from forex is now anticipated between 120 bps and 150 bps.

CONMED projects adjusted diluted net earnings per share in the range of \$3.08 to \$3.13, indicating growth of about 17-19% over 2019. Notably, the Zacks Consensus Estimate is pegged at \$3.04, lower than the guided range.

▲ **General Surgery – A Consistent Performer:** General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. CONMED's unique products and solutions within the General Surgery segment has been providing a competitive edge in the MedTech space. Of the most unique products under General Surgery, the Anchor Tissue Retrieval bag deserves a mention. This is one of the major platforms in CONMED's specimen bag portfolio.

In the fourth quarter, revenues in the segment totaled \$141.1 million, up 19.9% year over year. Domestically, General Surgery improved 23.1% year over year and international sales advanced 14%. Per management, growth was driven by strong performances of the product portfolio.

▲ **Continued R&D Focus:** CONMED's steady focus on innovation instills investor confidence. By the end of fourth quarter of 2018, management at CONMED announced that solid organic R&D pipeline and new product innovations will provide CONMED a competitive edge. Additionally, the company's surging R&D expenses reflects focus on innovation. R&D expenses for the fourth quarter were \$11 million or 4.6% of total sales, an improvement of around 17% over the prior-year quarter.

Looking forward, management at CONMED confirmed that it will continue to increase investments in R&D, which is likely to lie in between 4.5% and 5% of net sales in 2020.

▲ **Broad Product Spectrum:** CONMED offers a broad line of surgical products. CONMED's product portfolio consists of several new devices in the Orthopedic, Laparoscopic, Robotic, Open Surgery, Gastroenterology, Pulmonary and Cardiology sections. Innovative products like Hi-Fi Tape and Hi-Fi suture interface represents a critical component of repair security in rotator cuff repair space.

In the recent past, CONMED introduced the MicroFree platform in Orthopedics, the TruShot, the Y-Knot Pro and the CRYSTALVIEW Pump. Of the most unique products under General Surgery, the Anchor Tissue Retrieval bag deserves a mention. This is one of the major platforms in CONMED's specimen bag portfolio. With increased product offerings, the company can accelerate its dwindling top-line growth. Products like the IM8000 surgical visualization system and the Edge Ablation system will drive top-line growth going forward.

Furthermore, CONMED's AssistArm technology delivers unique limb positioning techniques. Other products including 3 sports medicine products, 3 endomechanical offerings, an electrosurgical console and a new 2D Arthroscopy video system is worth a mention.

▲ **Solid Recurring Revenue Base:** Approximately 80% of CONMED's revenues are recurring, derived from the sale of disposable single-use products. Hospitals and clinics are expanding the use of single-use, disposable products, which reduce overheads from sterilizing surgical instruments and products following surgery.

Utilizing one-time disposable products also lowers the risk of patient infection and reduces the cost of post-operative care, which is no longer covered by Medicare. The remaining 20% of revenues comes from sales of capital equipment (such as powered drills and saws for surgery, electrosurgical generators, video-imaging cameras, fluid control systems, and surgical hand-pieces), which in turn creates demand for complementary single-use items.

▲ **Solid Market Trends:** CONMED is benefiting from the increasing trend of using minimally invasive techniques as a large percentage of the company's products are designed for these procedures. The use of minimally invasive surgery lowers costs by reducing patient trauma, recovery time and the length of hospitalization. This will act to CONMED's advantage and drive top-line in the long run. A research report by Allied Market Research suggests that the global minimally invasive surgical instruments market is estimated to reach a worth of \$52.98 billion by 2023 at a CAGR of 8.7% from 2017 to 2023. We believe solid market trends like these would fortify CONMED's foothold in the niche space.

Furthermore, in order to reduce inefficiencies and to contain costs arising out of using multiple suppliers, health care providers are reducing the number of vendors. To enter into contracts with fewer vendors, providers need manufacturers who can offer a broader array of products at lower prices. CONMED benefits from this trend as it can provide multiple products under the same roof.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** CONMED currently trades at a P/E (F12M) ratio of 32.56 compared with 18.51 and 17.57 for the S&P 500 Index and industry, respectively.
- ▼ **Reimbursement-related Risks:** CONMED is subject to reimbursement-related risks in the domestic market. Lower healthcare spending in the global market is also adversely affecting CONMED's top line.

CONMED operates in a highly competitive environment that includes cutthroat competition from the major MedTech players, globally.

Almost 50% of CONMED's sales take place in overseas markets. Sales in major European countries have been affected by governmental spending cuts, which led to soft procedure growth and capital spending. The surgical video visualization product line, consisting primarily of capital equipment, has been affected by the budgetary constraints of the hospitals in Europe as well as other nations.

- ▼ **Forex Woes:** Foreign exchange movements are unfavorably impacting the company's results. The company derives a significant portion of its revenues from international operations. We note that U.S. manufacturers such as CONMED are being hurt by a strengthening U.S. dollar, which has benefited from more upbeat U.S. economic prospects compared to the rest of the world.

The strong U.S. dollar will continue to impede sales growth as reflected in the cautious guidance provided by management for full-year 2020. For 2020, the negative impact to sales from forex is now anticipated between 120 bps and 150 bps.

- ▼ **Cutthroat Competition in MedTech:** CONMED operates in a highly competitive environment that includes competition from companies like Johnson & Johnson, Medtronic, Smith & Nephew, Stryker Corporation, and others. These organizations may have greater resources and larger research and development budgets compared with CONMED. Furthermore, CONMED lags the larger orthopedic companies in product bundling arrangements, which gives the companies a competitive edge.
 - ▼ **Pricing Pressure:** The orthopedic industry faces severe pricing pressure due to the advent of group purchasing organizations (GPOs) and CONMED is no exception. GPOs act as agents that negotiate vendor contracts on behalf of their members. The current economic scenario has bolstered the bargaining power of the GPOs, thereby putting pressure on the company's top line.
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Last Earnings Report

CONMED Earnings and Revenues Beat Estimates in Q4

CONMED Corporation reported fourth-quarter 2019 adjusted earnings per share of 90 cents, which beat the Zacks Consensus Estimate of 89 cents by 1.1%. Further, the figure improved 23.3% from the year-ago quarter.

The New York-based medical products manufacturer reported revenues of \$264.9 million, up 9.2% on a year-over-year basis and 9.3% at constant currency (cc). Notably, the figure surpassed the Zacks Consensus Estimate by 0.01%.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.01%
EPS Surprise	1.12%
Quarterly EPS	0.90
Annual EPS (TTM)	2.65

2019 at a Glance

In 2019, the company reported revenues worth \$955.1 million, which improved 11.1% from the previous year.

Adjusted EPS for the year was \$2.64, which improved 21.1% from 2018.

Segment Details

Orthopedic Surgery

Revenues in the segment totaled \$123.8 million, down 0.8% from the year-ago quarter.

Both domestically and on international basis Orthopedics revenue fell 0.8% from their respective prior-year quarter's levels.

General Surgery

Revenues in the segment totaled \$141.1 million, up 19.9% year over year.

Domestically, General Surgery sales improved 23.1% year over year and international sales advanced 14%.

Sales by Geography

In the reported quarter, sales in the United States amounted to \$142.5 million, up 13.8% year over year. International sales improved 4.4% to \$122.4 million.

Margins

Gross profit in the quarter totaled \$141.9 million, up 7% year over year. Per management, adjusted gross margin was 54.1%, contracting 60 bps.

Operating income came in at \$27.9 million, up 7.9% year over year. Operating margin was 10.5%, down 20 bps year over year.

Financial Condition

Cash flow from operations for the year was \$95.1 million compared with \$74.7 million in 2018. Long-term debt at the end of the year was \$753.6 million, down 3.5% sequentially.

2020 Guidance

CONMED expects 2019 organic constant currency sales growth between 7% and 7.5%. On the basis of current exchange rates, the negative impact to 2020 sales from forex is now anticipated between 120 bps and 150 bps.

CONMED projects adjusted diluted net earnings per share in the range of \$3.08 to \$3.13, indicating growth of about 17-19% over 2019. Notably, the Zacks Consensus Estimate is pegged at \$3.04, lower than the guided range.

Valuation

CONMED's shares are down 9.1% in the year-to-date period but up 44.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 1.8% while that in the Zacks Medical are down 2.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 5% and 0.4%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 17.4% in the past year.

The stock is currently trading at 32.56X Forward 12-months earnings, which compares to 17.57X for the Zacks sub-industry, 20.68X for the Zacks sector and 18.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.42X and as low as 18.72X, with a 5-year median of 26.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$107 price target reflects 3.12X forward 12-months earnings.

The table below shows summary valuation data for CNMD.

Valuation Multiples - CNMD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.56	17.57	20.68	18.51
	5-Year High	42.42	19.99	21.22	19.34
	5-Year Low	18.72	13.7	15.85	15.18
	5-Year Median	26.5	16.63	18.91	17.46
P/S F12M	Current	2.82	0.36	2.76	3.43
	5-Year High	3.32	0.36	3.82	3.43
	5-Year Low	1.3	0.23	2.43	2.54
	5-Year Median	1.91	0.28	2.94	3
P/B TTM	Current	4.12	4.5	4.42	4.41
	5-Year High	4.72	4.93	5.02	4.41
	5-Year Low	1.71	2.53	3.43	2.85
	5-Year Median	2.5	3.46	4.29	3.62

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



Top Peers

Abbott Laboratories (ABT)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Medtronic PLC (MDT)	Neutral
NuVasive, Inc. (NUVA)	Neutral
RTI Surgical, Inc. (RTIX)	Neutral
Smith & Nephew SNATS, Inc. (SNN)	Neutral
Stryker Corporation (SYK)	Neutral

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	CNMD Neutral	X Industry	S&P 500	BSX Neutral	MDT Neutral	SYK Neutral
VGM Score	A	-	-	B	B	B
Market Cap	2.89 B	1.42 B	23.55 B	58.36 B	154.73 B	78.82 B
# of Analysts	5	5	13	11	13	16
Dividend Yield	0.79%	0.00%	1.81%	0.00%	1.87%	1.09%
Value Score	C	-	-	C	C	C
Cash/Price	0.01	0.06	0.04	0.00	0.07	0.03
EV/EBITDA	27.32	11.30	13.97	26.11	18.18	28.26
PEG Ratio	2.48	2.01	1.97	2.04	2.80	2.33
Price/Book (P/B)	4.12	3.84	3.21	6.02	3.05	6.15
Price/Cash Flow (P/CF)	22.95	12.47	13.36	19.38	15.88	20.12
P/E (F1)	33.01	21.90	18.42	23.34	20.61	23.17
Price/Sales (P/S)	3.02	1.55	2.60	5.62	5.01	5.30
Earnings Yield	3.03%	3.69%	5.43%	4.28%	4.85%	4.32%
Debt/Equity	1.11	0.32	0.72	0.99	0.49	0.80
Cash Flow (\$/share)	4.43	1.80	6.92	2.16	7.27	10.47
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	7.08%	8.77%	10.68%	15.02%	6.06%	12.08%
Proj. EPS Growth (F1/F0)	16.52%	10.76%	7.59%	14.50%	7.30%	10.11%
Curr. Cash Flow Growth	11.43%	9.29%	10.81%	14.92%	6.26%	11.85%
Hist. Cash Flow Growth (3-5 yrs)	4.80%	12.65%	8.78%	6.75%	15.58%	12.74%
Current Ratio	2.48	1.70	1.22	1.14	2.77	2.58
Debt/Capital	52.69%	26.85%	42.99%	49.72%	32.80%	44.41%
Net Margin	3.00%	4.08%	11.69%	10.49%	15.11%	13.99%
Return on Equity	11.18%	15.73%	17.33%	23.10%	14.52%	25.75%
Sales/Assets	0.54	1.02	0.55	0.43	0.34	0.55
Proj. Sales Growth (F1/F0)	6.53%	5.42%	4.12%	12.29%	3.17%	7.21%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	-2.83%	-1.66%	-1.98%	-3.55%	-2.29%	-1.46%
1 Week Price Chg	-2.27%	0.00%	-1.09%	-2.42%	0.19%	0.97%
4 Week Price Chg	-8.59%	0.21%	-2.11%	-7.63%	0.77%	0.12%
12 Week Price Chg	-7.12%	2.81%	2.15%	2.82%	8.09%	4.94%
52 Week Price Chg	44.53%	2.63%	14.15%	9.75%	30.60%	18.66%
20 Day Average Volume	338,471	296,100	1,808,632	7,960,571	3,948,136	1,565,040
(F1) EPS Est 1 week change	2.19%	0.00%	0.00%	0.00%	0.00%	0.78%
(F1) EPS Est 4 week change	1.66%	0.00%	0.00%	0.10%	0.00%	0.78%
(F1) EPS Est 12 week change	1.61%	0.16%	-0.09%	0.34%	0.69%	0.82%
(Q1) EPS Est Mthly Chg	1.09%	0.00%	0.00%	0.00%	-0.03%	1.49%

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	C
Growth Score	A
Momentum Score	A
VGM Score	A

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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