

CONMED Corporation (CNMD)

\$82.75 (As of 07/28/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

CONMED generated around \$6.2 million of sales from the Buffalo Filter buyout between Jan 1 and Feb 11. Management is also confident of its broad product portfolio. The company remains focused toward launching new products. Also, the company exited the first quarter on a solid note, wherein both earnings and revenues beat the Zacks Consensus Estimate. CONMED's core unit — General Surgery — continues to drive the top line. Expansion in margins is a positive. However, the company operates in a highly competitive environment, especially with respect to the General Surgery business. The company also witnessed a decline in international sales in the quarter. CONMED underperformed the industry in a year's time.

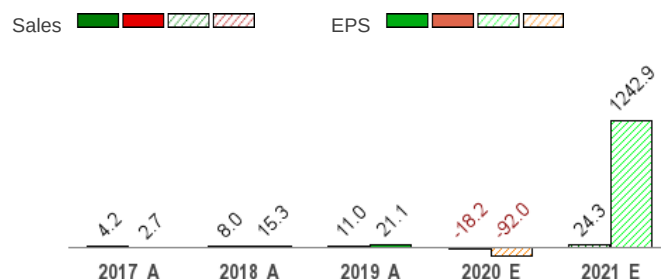
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.55 - \$37.66
20 Day Average Volume (sh)	253,231
Market Cap	\$2.4 B
YTD Price Change	-26.0%
Beta	1.21
Dividend / Div Yld	\$0.80 / 1.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.9%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	-16.5%
Expected Report Date	07/29/2020
Earnings ESP	12.3%
P/E TTM	32.0
P/E F1	394.1
PEG F1	29.6
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	239 E	247 E	244 E	278 E	971 E
2020	214 A	129 E	182 E	256 E	781 E
2019	218 A	238 A	234 A	265 A	955 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.73 E	\$0.78 E	\$0.98 E	\$2.82 E
2020	\$0.51 A	-\$1.02 E	\$-0.00 E	\$0.73 E	\$0.21 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 07/28/2020. The reports text is as of 07/29/2020.

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

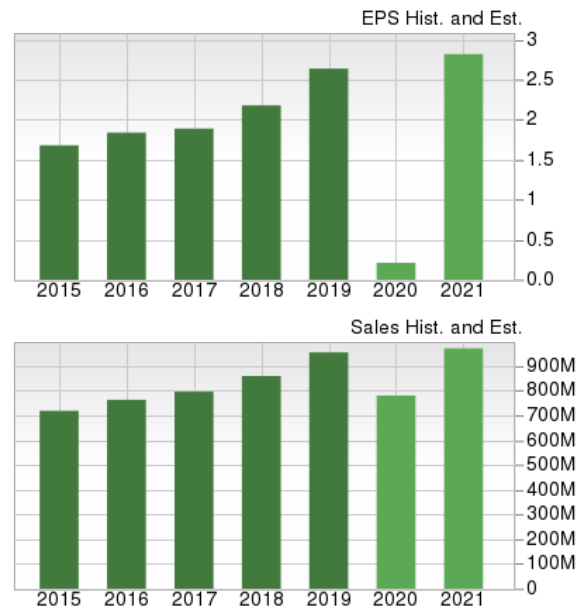
The orthopedic surgery product line includes CONMED's sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments and service fees related to the promotion and marketing of sports medicine allograft tissue.

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:

- ▲ **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 first quarter, revenues in the segment totaled \$114.7 million, up 9.2% year over year.

Per management, growth was driven by strong performances of the product portfolio. While General Surgery sales improved 14% year over year domestically, international sales declined 0.8%.

- ▲ **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 be provide CONMED a competitive edge. Additionally, the company's surging R&D expenses reflects focus on innovation. R&D expenses for the first quarter were \$11 million or 4.7% of total sales. However, the metric declined 4.3% over the prior-year quarter.

Nonetheless, per the fourth-quarter 2019 earnings call, management at CONMED confirmed that it will continue to increase investments in R&D, which is anticipated 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 council 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.

- ▲ **Balance Sheet View:** CONMED exited first-quarter 2020 with cash and cash equivalents amounting to \$24.3 million, down from \$25.9million sequentially. Meanwhile, the company's long-term debt came up to \$772.6 billion in the first quarter, compared with \$755.2million sequentially. The total debt level is much higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$13.6 million in the first quarter, remaining flat sequentially, is noticeably lower than the cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

CONMED's capital deployment policy is based on the return of shareholders' money through dividends. The company's current payout ratio stands at a 30.9%, lower than the industry average of 41.5%. But the ratio indicates sustainability of its current dividend payment. However, amid the pandemic-led economic crisis, if production and supply halt along with lockdowns continue through the next few months, the company might find its dividends to be over burdened.

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

Reasons To Sell:

- ▼ **Share Price Performance:** In the past year, CONMED's shares have lost 5.4%, compared to the industry's decline of 3%. Contraction in gross margin during the quarter and a highly competitive environment have been dampeners. Further, the ongoing economic volatility on account of the global coronavirus outbreak is hindering the stock.
- ▼ **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. Per the fourth-quarter 2019 earnings call, the negative impact to sales from forex is now anticipated between 120 bps and 150 bps for 2020.

- ▼ **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 Q1 Earnings and Revenues Surpass Estimates

CONMED Corporation reported first-quarter 2020 adjusted earnings per share of 51 cents, which beat the Zacks Consensus Estimate of 44 cents by 15.9%. However, the bottom line declined 10.5% from the year-ago quarter.

The New York-based medical products manufacturer reported revenues of \$214 million, down 2% on a year-over-year basis and 0.7% at constant currency (cc). Nonetheless, the top line surpassed the Zacks Consensus Estimate by 2.6%.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	2.61%
EPS Surprise	15.91%
Quarterly EPS	0.51
Annual EPS (TTM)	2.59

Segment Details

Orthopedic Surgery

Revenues in the segment totaled \$99.3 million, down 12.4% from the year-ago quarter.

On a domestic and on international basis Orthopedics revenues fell 18.2% and 8.7%, respectively, from the prior-year levels.

General Surgery

Revenues in the segment amounted to \$114.7 million, up 9.2% year over year.

Domestically, General Surgery sales improved 14% year over year but international sales declined 0.8%.

Sales by Geography

In the reported quarter, sales in the United States amounted to \$118.8 million, up 1.5% year over year. International sales declined 6.1% to \$95.2 million.

Margins

Gross profit in the quarter totaled \$119.1 million, down 1.9% year over year. Per management, adjusted gross margin was 55.7%, contracting 10 bps.

Operating income came in at \$13.2 million, up 13.2% year over year. Operating margin was 6.2%, up 90 bps year over year.

Financial Condition

Cash flow from operations for the three months ended Mar 31, 2020, was 3.7 million compared with (\$3.9) million at the year-end 2019.

As of Mar 31, 2020, long-term debt at the end of the year was \$772.6 million, up 2.3% sequentially.

2020 Guidance

Due to the uncertainty surrounding the extent and magnitude of the COVID-19 pandemic, management has decided to withdraw its previously announced 2020 guidance. It further added that it cannot furnish a reliable outlook at this moment.

Valuation

CONMED's shares are down 26% and 5.4% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 8.7% in the year-to-date period while that in the Zacks Medical Market are up 1.1%. Over the past year, the Zacks sub-industry and sector are up 3% and 7%, respectively.

The S&P 500 index is up 0.7% in the year-to-date period while up 8% in the past year.

The stock is currently trading at 48.3X Forward 12-months earnings, which compares to 19.9X for the Zacks sub-industry, 22.9X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 60X and as low as 12.4X, with a 5-year median of 26.6X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$87 price target reflects 50.7X 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	48.29	19.98	22.99	22.61
	5-Year High	60.01	19.98	23.17	22.61
	5-Year Low	12.41	13.63	15.89	15.25
	5-Year Median	26.57	16.47	18.98	17.52
P/S F12M	Current	2.65	0.38	2.84	3.57
	5-Year High	3.32	0.38	3.74	3.57
	5-Year Low	1.11	0.23	2.22	2.53
	5-Year Median	1.94	0.28	2.90	3.02
P/B TTM	Current	3.37	4.86	4.41	4.43
	5-Year High	4.72	4.86	5.07	4.56
	5-Year Low	1.59	2.54	2.94	2.83
	5-Year Median	2.56	3.45	4.30	3.71

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Patterson Companies, Inc. (PDCO)	Outperform	1
Abbott Laboratories (ABT)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	3
NuVasive, Inc. (NUVA)	Neutral	3
SmithNephew SNATS, Inc. (SNN)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Boston Scientific Corporation (BSX)	Underperform	3
Medtronic PLC (MDT)	Underperform	5

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	CNMD	X Industry	S&P 500	BSX	MDT	SYK
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	F	-	-	F	C	B
Market Cap	2.36 B	2.41 B	22.47 B	53.55 B	129.23 B	72.82 B
# of Analysts	5	5	14	11	14	14
Dividend Yield	0.97%	0.00%	1.84%	0.00%	2.41%	1.18%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.06	0.07	0.01	0.08	0.05
EV/EBITDA	19.68	13.68	13.04	27.47	17.97	23.41
PEG Ratio	30.87	3.56	2.97	3.91	3.65	3.38
Price/Book (P/B)	3.36	4.35	3.11	3.87	2.54	5.55
Price/Cash Flow (P/CF)	14.50	15.01	12.07	15.92	14.56	18.56
P/E (F1)	411.52	32.16	21.52	41.72	28.25	31.09
Price/Sales (P/S)	2.48	2.41	2.35	4.97	4.47	4.87
Earnings Yield	0.25%	1.97%	4.34%	2.40%	3.54%	3.22%
Debt/Equity	1.10	0.31	0.76	0.68	0.43	0.72
Cash Flow (\$/share)	5.71	1.35	7.01	2.40	6.62	10.47
Growth Score	F	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	10.88%	10.40%	10.85%	13.88%	5.13%	12.22%
Proj. EPS Growth (F1/F0)	-91.97%	-7.09%	-7.56%	-41.94%	-25.69%	-24.36%
Curr. Cash Flow Growth	29.97%	3.87%	5.47%	12.08%	-9.02%	11.85%
Hist. Cash Flow Growth (3-5 yrs)	10.33%	12.37%	8.55%	10.33%	7.68%	12.35%
Current Ratio	2.46	1.51	1.31	1.21	2.13	2.58
Debt/Capital	52.41%	27.05%	44.41%	40.33%	30.21%	41.76%
Net Margin	3.53%	0.86%	10.44%	39.75%	16.56%	14.47%
Return on Equity	10.85%	12.84%	15.10%	18.24%	12.17%	24.90%
Sales/Assets	0.54	1.07	0.54	0.39	0.32	0.53
Proj. Sales Growth (F1/F0)	-18.26%	0.00%	-1.97%	-10.81%	-5.08%	-8.20%
Momentum Score	F	-	-	C	C	C
Daily Price Chg	-2.16%	-1.57%	-0.80%	-0.21%	-0.08%	-1.55%
1 Week Price Chg	5.06%	-0.18%	0.37%	2.36%	-2.26%	2.99%
4 Week Price Chg	14.95%	1.33%	3.64%	9.00%	5.07%	7.82%
12 Week Price Chg	23.40%	15.65%	11.56%	3.97%	-1.58%	3.38%
52 Week Price Chg	-5.35%	7.98%	-3.92%	-10.71%	-7.13%	-9.05%
20 Day Average Volume	253,231	437,949	1,867,919	8,275,900	4,246,881	1,253,914
(F1) EPS Est 1 week change	15.22%	0.00%	0.00%	2.13%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.54%	0.00%	0.21%	2.13%	-2.69%	0.45%
(F1) EPS Est 12 week change	-52.68%	-11.84%	-1.29%	-8.64%	-32.58%	-0.83%
(Q1) EPS Est Mthly Chg	-120.00%	0.00%	0.09%	-1.02%	0.00%	0.20%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Momentum Score	F
VGM Score	F

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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