

Haemonetics (HAE)

\$103.96 (As of 03/10/20)

Price Target (6-12 Months): **\$109.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: A

Summary

Growing market demand for Haemonetics' new product strongly contributed to the top line. Further, benefits from complexity reduction initiatives, operational excellence program and the share repurchase program helped the company pull off an impressive performance. Sustained underlying demand for plasma-based medicines and continued momentum in new business generation and geographical expansion contributed to results. The company is also reaping benefits from software upgrades and competitive conversions. A raised EPS view for fiscal 2020 also instills optimism. Haemonetics' registered better-than-expected results in the third quarter of fiscal 2020. However, the sluggish Blood Center business and moderating overall top-line growth raise concerns. Over the past six months, the company has consistently underperformed its industry.

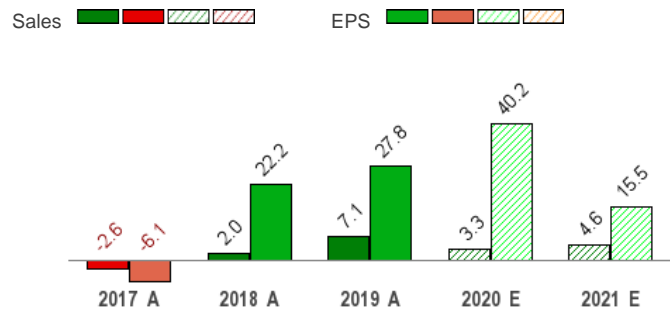
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$140.36 - \$80.24
20 Day Average Volume (sh)	504,730
Market Cap	\$5.2 B
YTD Price Change	-9.5%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.7%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	32.2
P/E F1	31.0
PEG F1	2.3
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	247 E	258 E	271 E	264 E	1,046 E
2020	238 A	253 A	259 A	249 E	1,000 E
2019	229 A	242 A	247 A	249 A	968 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.95 E	\$1.02 E	\$0.97 E	\$3.87 E
2020	\$0.81 A	\$0.87 A	\$0.94 A	\$0.75 E	\$3.35 E
2019	\$0.59 A	\$0.56 A	\$0.63 A	\$0.61 A	\$2.39 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 03/10/2020. The reports text is as of 03/11/2020.

Overview

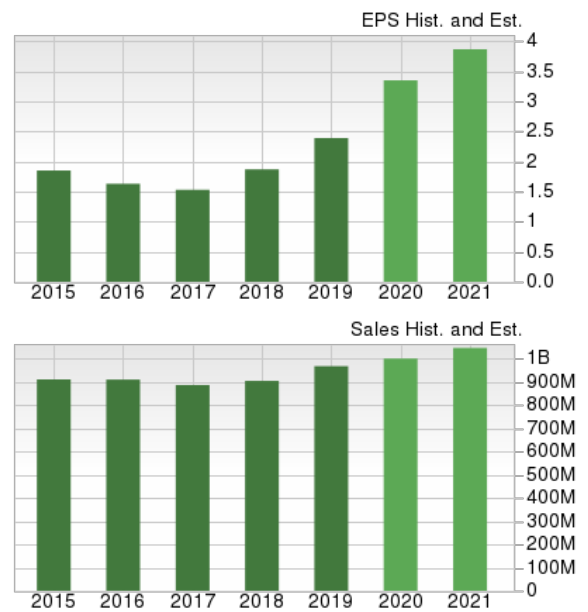
Haemonetics Corporation provides blood management solutions to customers encompassing blood and plasma collectors, hospitals and health care providers globally. The company's portfolio of integrated devices, information management, and consulting services offers blood management solutions for each facet of the blood supply chain, helping better clinical outcomes. Blood and its components (plasma, platelets, and red cells) have several vital and frequently life-saving clinical applications.

On Aug 1, 2012, Haemonetics acquired Pall Corporation's blood collection, filtration and processing product lines. Haemonetics entered into a long-term supply agreement with Pall in May 2018, under which Pall will continue to supply media to Haemonetics for use in leukoreduction filters. As a condition of the supply agreement, Haemonetics agreed to accept the HDC line and make a final payment of \$9 million to Pall for the same.

Further, in May 2013, the company acquired Hemerus Medical, a Minnesota-based company that develops innovative technologies for the collection of whole blood and processing and storage of blood components, including SOLX storage solutions.

Earlier, the company reported its operating results in 4 business franchises: Plasma, Hemostasis Management, Cell Processing and Blood Center. However, as the annual report released in May 2019, the reporting segments for the company's products have been reduced to three, namely, Plasma, Blood Center, and Hospital.

- **Plasma** (51.9% of revenues in fiscal 2019) includes plasma collection devices and disposables, plasma donor management software, anticoagulant and saline sold to plasma customers. In fiscal 2019, this segment registered 15.1% revenue growth compared with fiscal 2018.
- **Blood Center** (27.8%) includes blood collection and processing devices and disposables for red cells, platelets and whole blood as well as related donor management software. In fiscal 2019, this segment registered 5.5% revenue decline from fiscal 2018.
- **Hospital** (20.3%) includes three product lines, namely, Hemostasis Management, Cell Salvage and Transfusion Management.



Reasons To Buy:

▲ **Potential Upsides of Plasma Franchise:** Haemonetics has been witnessing strong growth in Plasma franchise for quite some time. In the global plasma market, Haemonetics holds 80% share approximately. In the fiscal third quarter, Plasma, the company's largest business segment, grew 6.9% on a 13.3% increase in North America, driven by the underlying demand for plasma-based medicines, volume gains pricing, software upgrades and competitive conversions.

The company has completed 8.3 million YES procedures till date, resulting in more than 190,000 incremental liters of plasma collected. Haemonetics is currently witnessing plasma market growth above historic rates driven by an industry striving to double collections by 2025 and the rising demand for plasma-based medicines. Per management, NexSys is the platform best positioned to support this industry growth. The company continued to benefit from the NexSys device and NexLynk donor management software (DMS) backed by increased customer adoptions. Per the company, NexLynk DMS has achieved an impressive position for itself in the industry.

The company is optimistic about the prospects of its Plasma business, confidently projecting fiscal 2020 growth of the segment to be within 13-15%.

▲ **Huge Potential of Hemostasis Management Franchise:** Under Hospital business, Hemostasis Management saw strong growth in the past few quarters. Hospital business itself witnessed a 6.4% growth, where organic revenue growth in the Hemostasis Management product line was 19.8% in the third quarter. TEG continues to be the growth driver for the company, registering 20% growth in the third quarter resulting from improved utilization, market share gains and new product launches such as the TEG 6s PlateletMapping cartridge and the U.S. trauma indication. Haemonetics also reaped benefits from pricing structure and investments made in the sales force. United States, which is the largest TEG market for the company on a global scale, witnessed robust growth. Overall, TEG delivered about 17% growth year to date backed by contributions from all major markets.

Haemonetics' acquisition of intellectual property assets relating to TEG 6s Hemostasis Analyzer System from CoraMed Technologies in January 2020 significantly boosts the segment. However, the just-reported third quarter was not impacted by this development.

The company's transfusion management portfolio registered moderate growth in the quarter backed by contributions from both BloodTrack and SafeTrace Tx. Haemonetics remains focused toward the launch of the next generation of SafeTrace Tx and continues to be hopeful about growth potential of its software solutions in the hospital information systems market.

▲ **Strong Balance Sheet:** Haemonetics exited the third quarter of fiscal 2020 with cash and cash equivalents of \$126.4 million compared with \$112 million at the end of the second quarter. Long-term debt at the end of the fiscal third quarter was \$309.7 million, marking a reduction of 1.4% from \$313.9 million at the end of second quarter.

Cumulative cash flow from operating activities was \$111.8 million at the end of the third quarter compared with \$138.6 million in the year-ago period (down 19.4%). It also reported free cash flow (before restructuring and turnaround costs) of \$95.2 million during the same period, which was up 65.5% from \$57.5 million a year ago.

Haemonetics expects to return to positive top-line growth banking on its growth drivers like Plasma, TEG, hemostasis management as well as strong cash position.

Reasons To Sell:

▼ **Share Price Movement:** Over the past six months, Haemonetics has underperformed its industry. The stock has dipped 17.4% compared with the industry's 14.2% fall. The company's sluggish Blood Center business due to the ongoing decline in whole blood utilization rates in North America and moderating overall top-line growth raise concern. The company's expectations of Blood Center revenue decline in fiscal 2020 from the year-ago period is indicative of this sluggish scenario to continue. The uncertain economic scenario and a tough competitive landscape are other concerns for the company.

▼ **Expensive Valuation:** Haemonetics' P/E (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/E (F12M basis) ratio of 27.1 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 21.8.

▼ **Persistent Decline in Blood Center Revenues:** Haemonetics has been witnessing sluggish revenue growth at its Blood Center franchise, due to several adverse factors. Blood Center revenues rose marginally (up 0.7%) year over year in the third quarter. The company continues to register decline in whole blood utilization rates in North America and moderating overall top-line growth, which are concerning. Decline in Blood Center software revenues due to previously discontinued customer contracts, and depreciation costs related to both NexSys device placements and expansion of the company's plasma production capacity are some other concerns. Even though the company witnessed an improved market share and a successful global rollout of Universal Platelet Protocol, the segmental revenue growth was partially offset by higher double dose collection rates, particularly in Japan.

The company reiterated the fiscal 2020 Blood Center revenue guidance. It expects revenues to decline 4-6%.

▼ **Economic Uncertainty a Concern:** The uncertain economic scenario continues to pose a challenge for Haemonetics. The company has been progressing with blood management solutions even though the attempt is negatively impacted by economic challenges. Moreover, a stronger dollar, causing significant currency fluctuations, has been affecting the company's outcome over the past few quarters and no respite is expected in the near term.

▼ **Competitive Landscape:** Haemonetics operates in a very competitive environment, both for manual and automated systems, which includes companies like MAK Systems, ROTEM analyzers, Medtronic, e Fresenius, MacoPharma and Terumo, among others. Slower-than-expected product adoption by customers, especially the American Red Cross, might reduce the company's revenues and profit.

The weakness in the Blood center franchise significantly affected Haemonetics' results in the reported quarter. Moreover, tough competitive environment also weighed on the stock.

Last Earnings Report

Haemonetics Q3 Earnings & Revenues Beat

Haemonetics Corporation delivered adjusted earnings per share of 94 cents in the third quarter of fiscal 2020, reflecting 49.2% year-over-year growth. The bottom line also surpassed the Zacks Consensus Estimate by 23.7%.

On a GAAP (reported) basis, net income was 58 cents per share, up 65.7% from the year-ago figure.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	2.29%
EPS Surprise	23.68%
Quarterly EPS	0.94
Annual EPS (TTM)	3.23

Total Revenues

Revenues rose 4.7% (up 8.2% on an organic basis) to \$258.9 million from the third quarter of fiscal 2019. Further, the top line surpassed the Zacks Consensus Estimate by 2.3%.

The company continued to benefit from the NexSys device and NexLynk DMS donor management software backed by increased customer adoptions.

Revenues by Product Categories

At **Plasma**, revenues of \$120.4 million (accounting for 46.5% of total revenues) increased 6.9% year over year (up 12.9% on an organic basis) in the reported quarter. Plasma revenue growth in North America was 13.3%, including 9.5% growth in disposables.

Revenues at **Blood Center** (32.2%) rose 0.7% (up 0.6% on an organic basis) to \$83.4 million.

Hospital revenues (19.4%) were up 6.4% (11.4% on an organic basis) to \$50.3 million. Under the Hospital segment, organic revenue growth in the Hemostasis Management product line was 19.8% in the third quarter of fiscal 2020.

Margins

Per the company, adjusted gross margin was 52.1%, up 480 basis points (bps) year over year due to change in the pricing structure, favorable product mix and productivity savings.

Adjusted operating income was \$61.6 million in the quarter under discussion, up 44.3% from \$42.7 million in the year-ago quarter. Meanwhile, adjusted operating margin expanded 650 bps year over year to 23.8%.

Financial Position

Haemonetics exited the third quarter of fiscal 2020 with cash and cash equivalents of \$126.4 million compared with \$112 million at the end of the second quarter. Long-term debt at the end of the fiscal third quarter was \$309.7 million, marking a reduction of 1.4% from \$313.9 million at the end of second quarter.

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Fiscal 2020 Guidance

Haemonetics reaffirmed its reported revenue guidance for fiscal 2020 within the band of 3-5%. The company reiterated yearly organic revenue growth at 6-8%. The Zacks Consensus Estimate for fiscal 2020 revenues is pegged at \$1 billion.

Coming to segmental revenues, on an organic basis, the view for Plasma revenue growth remained at 13-15%. Plasma revenue guidance includes 14-16% organic growth in North America.

Hospital revenue growth projection is maintained at 11-13%.

Blood Center revenues are once again projected to decline 4-6% from the year-earlier number.

However, the company raised its 2020 adjusted earnings per share guidance to \$3.30-\$3.40 (up from \$3.10-\$3.20 mentioned earlier). The consensus estimate for the metric is pegged at \$3.16.

Recent News

On **Jan 14, 2020**, Haemonetics announced its purchase of the underlying technology of TEG 6s Hemostasis Analyzer System from CoraMed Technologies. The closing of the deal has provided Haemonetics with the ownership of intellectual property from CoraMed on an exclusive basis in the field of hospitals and hospital laboratories. Thus, Haemonetics will now be able to pursue site of care opportunities beyond the hospital setting.

Valuation

Haemonetics shares are down 9.5% in the year-to-date period and up 18.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 11.6% and down 6.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.4% and down 6.5%, respectively.

The S&P 500 index is down 10.5% in the year-to-date period and up 2.2% in the past year.

The stock is currently trading at 27.1X Forward 12-months earnings, which compares to 21.8X for the Zacks sub-industry, 19.3X for the Zacks sector and 16.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.5X and as low as 14.6X, with a 5-year median 26.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$109 price target reflects 28.4X forward 12-months earnings.

The table below shows summary valuation data for HAE

Valuation Multiples - HAE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.08	21.79	19.33	16.58
	5-Year High	44.54	25.36	21.08	19.34
	5-Year Low	14.60	17.01	15.82	15.18
	5-Year Median	26.38	19.62	18.86	17.42
P/S F12M	Current	5.01	3.56	2.53	2.91
	5-Year High	6.77	3.98	3.84	3.44
	5-Year Low	1.48	2.88	2.46	2.54
	5-Year Median	2.49	3.22	2.96	3.00
P/B TTM	Current	9.17	2.71	4.13	3.69
	5-Year High	12.02	4.30	5.05	4.56
	5-Year Low	1.84	2.21	3.44	2.85
	5-Year Median	2.95	2.78	4.32	3.63

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

Accuray Incorporated (ARRAY)	Outperform
AngioDynamics, Inc. (ANGO)	Neutral
Alphatec Holdings, Inc. (ATEC)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Fresenius Medical Care AG & Co. KGaA (FMS)	Neutral
3M Company (MMM)	Neutral
ABIOMED, Inc. (ABMD)	Underperform
Anika Therapeutics Inc. (ANIK)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	HAE Neutral	X Industry	S&P 500	ABMD Underperform	ARRAY Outperform	MMM Neutral
VGM Score	B	-	-	C	B	D
Market Cap	5.23 B	281.02 M	20.21 B	7.42 B	213.50 M	88.16 B
# of Analysts	3	2	13	4	2	7
Dividend Yield	0.00%	0.00%	2.18%	0.00%	0.00%	3.84%
Value Score	C	-	-	D	C	C
Cash/Price	0.02	0.08	0.05	0.06	0.39	0.03
EV/EBITDA	28.05	0.59	12.36	25.21	-139.98	14.21
PEG Ratio	2.25	2.59	1.78	1.67	NA	1.71
Price/Book (P/B)	9.17	3.35	2.77	7.09	3.75	8.71
Price/Cash Flow (P/CF)	22.45	17.53	11.04	41.21	NA	12.75
P/E (F1)	30.43	24.40	16.09	35.03	94.40	16.22
Price/Sales (P/S)	5.23	4.59	2.17	8.82	0.52	2.74
Earnings Yield	3.22%	0.31%	6.20%	2.85%	1.27%	6.16%
Debt/Equity	0.54	0.10	0.70	0.00	3.77	1.79
Cash Flow (\$/share)	4.63	-0.00	7.01	4.00	-0.01	12.02
Growth Score	A	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	12.32%	11.68%	10.85%	52.71%	NA	5.88%
Proj. EPS Growth (F1/F0)	40.17%	9.54%	6.14%	-16.18%	116.67%	3.89%
Curr. Cash Flow Growth	24.78%	2.12%	6.09%	46.32%	-94.34%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	3.78%	8.05%	8.52%	66.11%	14.18%	1.67%
Current Ratio	2.27	2.72	1.24	5.04	1.90	1.41
Debt/Capital	35.03%	14.28%	42.57%	0.00%	79.03%	64.16%
Net Margin	7.98%	-12.35%	11.69%	29.14%	-0.30%	14.22%
Return on Equity	27.78%	-9.59%	16.74%	19.53%	-23.59%	51.39%
Sales/Assets	0.81	0.60	0.54	0.75	0.92	0.78
Proj. Sales Growth (F1/F0)	3.37%	6.48%	3.71%	10.40%	-0.94%	4.25%
Momentum Score	A	-	-	B	B	F
Daily Price Chg	7.03%	0.81%	4.87%	5.35%	-6.35%	6.41%
1 Week Price Chg	-4.17%	-0.07%	-0.67%	4.54%	-5.90%	2.95%
4 Week Price Chg	-12.07%	-13.60%	-15.65%	-6.31%	-34.44%	-5.63%
12 Week Price Chg	-12.61%	-9.45%	-13.60%	-7.94%	-14.80%	-9.79%
52 Week Price Chg	18.22%	-15.42%	-2.27%	-49.12%	-49.03%	-25.51%
20 Day Average Volume	504,730	176,032	2,778,843	774,688	479,486	5,137,947
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.27%
(F1) EPS Est 4 week change	0.07%	0.00%	-0.16%	0.00%	0.00%	-0.60%
(F1) EPS Est 12 week change	5.98%	-1.28%	-0.57%	-4.43%	38.10%	-1.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.49%	-4.19%	0.00%	-1.19%

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	B

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.

Disclosures

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