

Haemonetics (HAE)

\$79.97 (As of 08/12/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Haemonetics exited the first quarter of fiscal 2021 with better-than-expected results. However, sluggish Plasma and Hospital businesses due to the pandemic-led business disruptions are concerning. Contraction of both margins is worrying. The company's inability to provide guidance for fiscal 2021 raises apprehensions. Over the past six months, Haemonetics has underperformed its industry. On a positive note, the company's Blood Center business was robust along with uptick in Hemostasis Management product line. Gross productivity savings from the Operational Excellence Program and cost-containment actions partially offset the contraction of gross margin, raising optimism. The acquisition of enicor GmbH (on Apr 1) augments the Haemonetics' portfolio of hemostasis analyzers within the Hospital business unit.

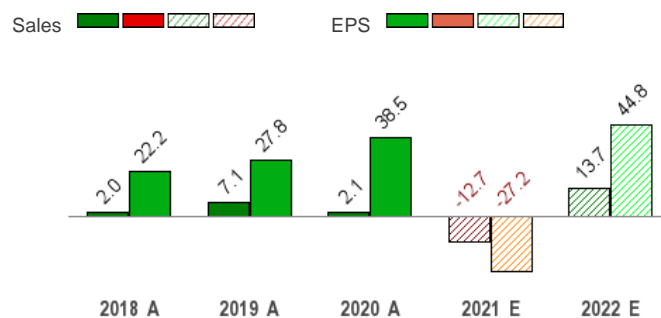
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$140.36 - \$63.41
20 Day Average Volume (sh)	644,067
Market Cap	\$4.1 B
YTD Price Change	-30.4%
Beta	0.66
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Bottom 30% (178 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.2%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-19.5%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	27.0
P/E F1	33.2
PEG F1	2.5
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	242 E	233 E	243 E	242 E	960 E
2021	196 A	205 E	226 E	230 E	857 E
2020	238 A	253 A	259 A	238 A	988 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.81 E	\$0.76 E	\$0.83 E	\$0.84 E	\$3.24 E
2021	\$0.46 A	\$0.50 E	\$0.70 E	\$0.74 E	\$2.40 E
2020	\$0.81 A	\$0.87 A	\$0.94 A	\$0.69 A	\$3.31 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 08/12/2020. The reports text is as of 08/13/2020.

Overview

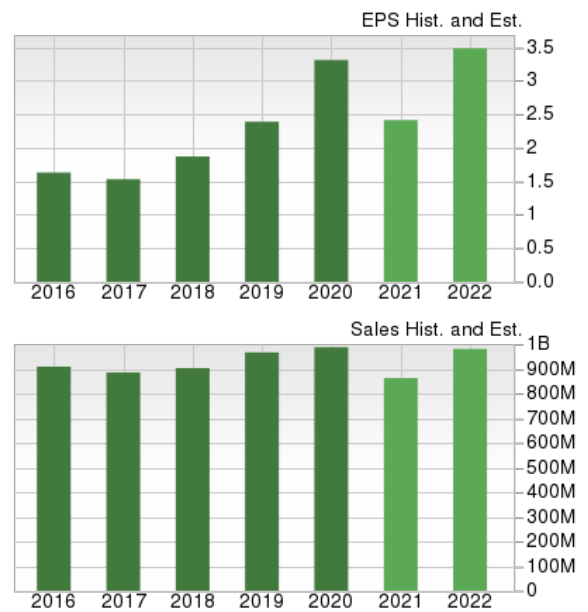
Haemonetics Corporation provides blood management solutions to customers encompassing blood and plasma collectors, hospitals and health care providers globally. The company's portfolio of integrated devices, information management, and consulting services offers blood management solutions for each facet 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** (47.3% of revenues in fiscal 2020) 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** (32.8%) 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** (19.9%) includes three product lines, namely, Hemostasis Management, Cell Salvage and Transfusion Management.



Reasons To Sell:

▼ **Share Price Movement:** Over the past six months, Haemonetics has underperformed its industry. The stock has lost 33.8% compared with the industry's 0.8% fall. The company's sluggish Plasma and Hospital businesses due to the pandemic-led business disruptions are concerning. Contraction of both margins due to lower revenues and higher operational costs associated with the pandemic is worrying. The company's inability to provide guidance for fiscal 2021 raises apprehensions.

Price and utilization rates pose further challenges for this segment apart from previously discontinued customer contracts and ongoing declines in blood utilization rates. Hospital segment saw declines in procedures due to COVID-19, restricted access for sales teams and reallocation of funds to critical ICU needs within hospitals. The uncertain economic scenario and a tough competitive landscape are other concerns for the company.

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

▼ **Coronavirus Impact Remains Major in Q1:** In the reported quarter, Plasma revenue declined 35% in the quarter, primarily due to a 38% decrease in North American collections compared with the prior year. Factors negatively influencing collection volumes throughout the quarter included coronavirus-led stay-at-home orders, limited public transportation and college campus closures.

Although, as the quarter progressed stay-at-home orders were lifted, however, depressed collection volumes have still persisted.

Within Hospital business, revenue declined 4% in the quarter primarily due to COVID-19 related procedure declines. Also, hospital resources being diverted to critical ICU needs and restricted access for sales teams impacted quarterly sales. The impact was felt mostly in China and North America with some recovery in both markets during the quarter as restrictions in China eased compared with the prior quarter and U.S. hospitals began to resume procedures.

▼ **Expensive Valuation:** Haemonetics' P/S (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/S (F12M basis) ratio of 4.5 for the past year, whereas the current P/S ratio (F12 basis) for the industry it belongs to is 3.9.

▼ **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. Unstable macroeconomic conditions due to coronavirus outbreak is another headwind trailing the company.

▼ **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.

Risks

- **Blood Center Business Gains Traction:** In the fiscal first quarter, blood center revenue was up 2% on favorable order timing as blood collectors and distributors made large stocking in response to the pandemic particularly in Europe and the Middle East. Blood is a collection based business that differs from commercial plasma because of lower dependence in the United States. Gra correlatdual recovery is visible on improved COVID-19 trends and reopenings in the EU and Asia coupled with the population's willingness to donate altruistically in times of crisis.
- **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. The company has completed 11 million YES procedures to date, resulting in more than 250,000 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. The company continued to benefit from the NexSys device and NexLynk donor management software (DMS) backed by increased customer adoptions.
- **Huge Potential of Hemostasis Management Franchise:** Under Hospital business, Hemostasis Management saw strong growth in the past few quarters. Although Hospital business witnessed a fall in segmental revenues, organic revenue growth in the Hemostasis Management product line was 2%. There were record capital sales primarily in the U.K., Italy and North America. The high-volume of capital sales was primarily due to strong selling activity that occurred in the fiscal fourth quarter as well as sales to hospitals to research coagulation in COVID-19 patients. The European business delivered double-digit growth on the strength of TEG capital sales, which helped to offset lower disposable usage due to procedure volume declines in China and North America.
- **Strong Solvency and Balance Sheet Position:** Haemonetics exited the first quarter of fiscal 2021 with cash and cash equivalents of \$276 million compared with \$137 million at the end of fiscal 2020. Meanwhile, total debt came up to \$528 million for the period, compared with \$383 million in the last-reported quarter. This figure is much higher than the quarter-end cash and cash equivalent, apparently indicating weak solvency. However, if we go by the company's current-year debt level of \$231 million, it is low compared to the cash in hand. This is good news in terms of the solvency position of the company, at least during a year of economic downturn, implying that the company is holding sufficient cash for debt repayment.

The quarter's total debt-to-capital ratio of 0.33 stands at a moderately high level, indicating a leveraged balance sheet. However, it represents a sequential drop from 0.34 at the end of the fiscal fourth quarter. The times interest earned for the company stands at 8.3%, representing a sequential rise from 6.4% at the end of the fiscal fourth quarter.

Currently, the company has a remaining share repurchase authorization of \$500 million.

Last Earnings Report

Haemonetics Q1 Earnings and Revenues Beat Estimates

Haemonetics delivered adjusted earnings per share (EPS) of 46 cents in the first quarter of fiscal 2021, reflecting a 43.2% year-over-year decline. The bottom line, however, exceeded the Zacks Consensus Estimate by 12.2%.

On a GAAP basis, net income was 21 cents per share, improving from the year-ago loss per share of 17 cents.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	1.35%
EPS Surprise	12.20%
Quarterly EPS	0.46
Annual EPS (TTM)	2.96

Total Revenues

Revenues declined 18% (down 15.6% on an organic basis) to \$195.6 million in the first quarter of fiscal 2021. However, the top line surpassed the Zacks Consensus Estimate by 1.4%.

The plunge in revenues was primarily due to the negative impact of the pandemic.

Quarterly Revenues by Product Categories

At Plasma, revenues of \$68.2 million (accounting for 34.9% of total revenues) decreased 38.2% year over year (down 34.8% on an organic basis) in the reported quarter. Plasma revenue decline in North America was 35.8%, including 33.9% fall in disposables.

Revenues at Blood Center (39.8%) rose 2.6% (up 1.7% on an organic basis) to \$77.8 million.

Hospital revenues (22.9%) were down 6% (down 3.9% on an organic basis) to \$44.8 million. Under the Hospital segment, organic revenue growth in the Hemostasis Management product line was 2.2% in the first quarter of fiscal 2020 driven by increased equipment sales.

Service revenues (2.4%) were up 4.6% (up 4.5% on an organic basis) to \$4.7 million.

Margins

Per the company, adjusted gross margin was 47.2%, down 400 basis points (bps) year over year on lower revenue and higher operational costs related to COVID-19. However, this was partially offset by gross productivity savings from the Operational Excellence Program and cost-containment actions.

Adjusted operating expenses as provided by the company in the first quarter of fiscal 2021 were \$63.7 million, down 10.9% from \$71.5 million in the year-ago quarter. The reduction in operating expenses resulted from productivity savings and cost-containment actions taken to offset the negative effects related to COVID-19 which were partially offset by continued investments.

Adjusted operating income was \$28.5 million in the quarter under discussion, down 44.5% from \$51.4 million in the year-ago quarter. Meanwhile, adjusted operating margin contracted 680 bps year over year to 14.6%.

Financial Position

Haemonetics exited the first quarter of fiscal 2021 with cash and cash equivalents of \$275.7 million compared with \$137.3 million at the end of fiscal 2020. Long-term debt at the end of the first quarter of fiscal 2021 was \$296.9 million, marking a reduction of 2.8% from \$305.5 million at the end of fiscal 2020.

At the end of the first quarter of fiscal 2021, net cash flow from operating activities was \$11.8 million compared with \$2.6 million in the year-ago period (up 349.5%).

Capital expenses incurred by the company was \$7.3 million, down from the year-ago \$7.9 million. It also reported free cash flow (before restructuring and turnaround costs) of \$10.9 million during the same period, which recorded an increase of 106.7% from \$5.3 million a year ago.

2021 Guidance

The company is currently unable to ascertain the scope and duration of the pandemic as well as quantify the actual impact and timing of the associated economic recovery. It is currently in the process of assessing the potential scenarios for the economic impact of COVID-19 and the related effect on healthcare in the coming period. The company intends to issue its full-year guidance later in the fiscal year.

Recent News

To Present Study Outcome: Aug 7, 2020

Haemonetics will present results of its IMPACT (IMproving PlasmA CollecTion) study at the 2020 AABB Annual Meeting in a Plenary Oral Abstract Session on Oct 4.

Sells Off Asset in France: Jul 23, 2020

Haemonetics has entered into a definitive agreement to sell its wholly-owned subsidiary Inlog Holdings France SAS to Abénex, a France-based private equity firm. Inlog Holdings France SAS, through its subsidiary In Log SAS, develops and sells blood bank and hospital software solutions used predominantly in France and in several other countries outside of the U.S.

Sells Off Asset in Puerto Rico: Jun 3, 2020

Haemonetics announced entering into a definitive agreement to sell its Fajardo, Puerto Rico, manufacturing operations to GVS, S.p.A, a provider of advanced filtration solutions for critical applications.

Sells Off Asset: May 28, 2020

Haemonetics announced entering into a definitive agreement to sell certain blood donor management software solution assets within its Blood Center business unit to the GPI Group.

Valuation

Haemonetics shares are down 30.4% in the year-to-date period and down 40.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 4% and up 1.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.4% and up 11%, respectively.

The S&P 500 index is down 4.8% in the year-to-date period and up 19.1% in the past year.

The stock is currently trading at 28.5X Forward 12-months earnings, which compares to 29.2X for the Zacks sub-industry, 22.2X for the Zacks sector and 22.9X 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 28.5X. Our Underperform recommendation indicates that the stock will perform below the market. Our \$75 price target reflects 26.7X 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 F 12M	Current	28.47	29.17	22.24	22.92
	5-Year High	44.54	31.01	23.17	22.92
	5-Year Low	14.6	17.09	15.89	15.25
	5-Year Median	28.47	20.27	18.97	17.58
P/S F 12M	Current	4.47	3.86	2.84	3.7
	5-Year High	6.77	3.92	3.41	3.7
	5-Year Low	1.48	2.9	2.22	2.53
	5-Year Median	3.94	3.29	2.89	3.05
P/B TTM	Current	6.61	2.98	4.42	4.71
	5-Year High	12.02	3.48	5.07	4.761
	5-Year Low	1.84	2.2	2.94	2.83
	5-Year Median	4.42	2.81	4.3	3.74

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fresenius Medical Care AGCo. KGaA (FMS)	Outperform	2
ABIOMED, Inc. (ABMD)	Neutral	3
Anika Therapeutics Inc. (ANIK)	Neutral	2
Accuray Incorporated (ARRAY)	Neutral	3
Alphatec Holdings, Inc. (ATEC)	Neutral	3
3M Company (MMM)	Neutral	3
AngioDynamics, Inc. (ANGO)	Underperform	4
Boston Scientific Corporation (BSX)	Underperform	3

Industry Comparison Industry: Medical - Products				Industry Peers		
	HAE	X Industry	S&P 500	ABMD	ARRAY	MMM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	D	D	B
Market Cap	4.05 B	330.02 M	23.75 B	13.62 B	247.11 M	94.62 B
# of Analysts	4	2	14	4	1	7
Dividend Yield	0.00%	0.00%	1.68%	0.00%	0.00%	3.58%
Value Score	D	-	-	D	D	B
Cash/Price	0.07	0.10	0.07	0.03	0.39	0.05
EV/EBITDA	19.08	-0.11	13.35	47.58	-160.03	15.06
PEG Ratio	2.54	4.13	2.98	3.40	NA	2.10
Price/Book (P/B)	6.61	3.22	3.20	12.36	4.12	8.67
Price/Cash Flow (P/CF)	14.28	17.48	12.97	57.33	NA	13.66
P/E (F1)	34.27	37.57	22.17	69.74	NA	19.96
Price/Sales (P/S)	4.29	5.20	2.54	17.07	0.61	3.02
Earnings Yield	3.01%	-0.89%	4.31%	1.44%	-1.83%	5.01%
Debt/Equity	0.49	0.12	0.77	0.00	3.62	1.82
Cash Flow (\$/share)	5.60	-0.00	6.94	5.27	-0.01	12.02
Growth Score	D	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	17.53%	12.10%	10.41%	50.30%	NA	4.06%
Proj. EPS Growth (F1/F0)	-27.11%	8.74%	-6.32%	-8.54%	-200.00%	-9.58%
Curr. Cash Flow Growth	19.21%	4.10%	5.22%	31.85%	-94.34%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	9.09%	7.71%	8.55%	51.31%	14.18%	1.67%
Current Ratio	1.86	2.97	1.33	5.61	1.95	1.94
Debt/Capital	32.79%	14.04%	44.59%	0.00%	78.34%	64.56%
Net Margin	10.10%	-25.53%	10.13%	19.88%	0.64%	16.38%
Return on Equity	25.98%	-8.55%	14.59%	16.17%	-14.83%	46.86%
Sales/Assets	0.74	0.51	0.51	0.67	0.87	0.70
Proj. Sales Growth (F1/F0)	-12.65%	0.00%	-1.40%	-0.94%	2.75%	-1.43%
Momentum Score	F	-	-	A	D	C
Daily Price Chg	0.11%	0.00%	0.67%	2.53%	1.49%	0.54%
1 Week Price Chg	-8.99%	0.00%	2.30%	3.63%	17.04%	5.22%
4 Week Price Chg	-14.19%	-0.38%	4.87%	9.29%	24.09%	3.09%
12 Week Price Chg	-24.85%	5.19%	13.54%	53.97%	41.45%	9.74%
52 Week Price Chg	-40.68%	3.57%	6.06%	59.02%	-18.51%	3.43%
20 Day Average Volume	644,067	290,802	2,006,991	350,755	507,146	2,834,203
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	17.62%	0.00%	0.00%
(F1) EPS Est 4 week change	-19.52%	0.00%	1.95%	17.62%	0.00%	4.05%
(F1) EPS Est 12 week change	-21.22%	0.78%	2.72%	15.92%	0.00%	3.90%
(Q1) EPS Est Mthly Chg	-30.69%	0.00%	0.84%	33.08%	0.00%	4.90%

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	D
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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