

Haemonetics (HAE)

\$116.01 (As of 01/16/20)

Price Target (6-12 Months): **\$133.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 11/08/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Over the past year, Haemonetics has outperformed its industry. Per Haemonetics, benefits from its complexity-reduction initiatives, operational excellence program and share-repurchase programs, along with higher market demand and success from early launches of products like SafeTrace Tx, helped pull off an impressive performance. The NextSys platform continued gaining traction through the second quarter. The continued momentum in new business generation and geographical expansion, which significantly contributed to the results, buoys optimism. A raised EPS view for fiscal 2020 also instills optimism. Haemonetics put up a solid performance in the second quarter of fiscal 2020. On the flip side, the company's sluggish Blood Center business and moderating overall top-line growth raise concerns.

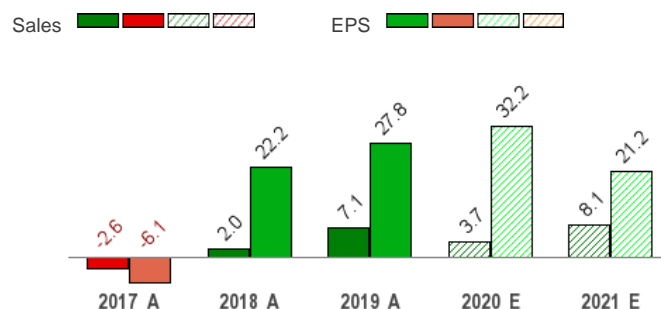
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$140.36 - \$80.24
20 Day Average Volume (sh)	337,945
Market Cap	\$5.9 B
YTD Price Change	1.0%
Beta	0.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 44% (111 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.8%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	252 E	265 E	275 E	276 E	1,085 E
2020	238 A	253 A	255 E	258 E	1,004 E
2019	229 A	242 A	247 A	249 A	968 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.99 E	\$0.98 E	\$0.97 E	\$3.83 E
2020	\$0.81 A	\$0.87 A	\$0.76 E	\$0.74 E	\$3.16 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.

P/E TTM	39.7
P/E F1	36.7
PEG F1	2.7
P/S TTM	6.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

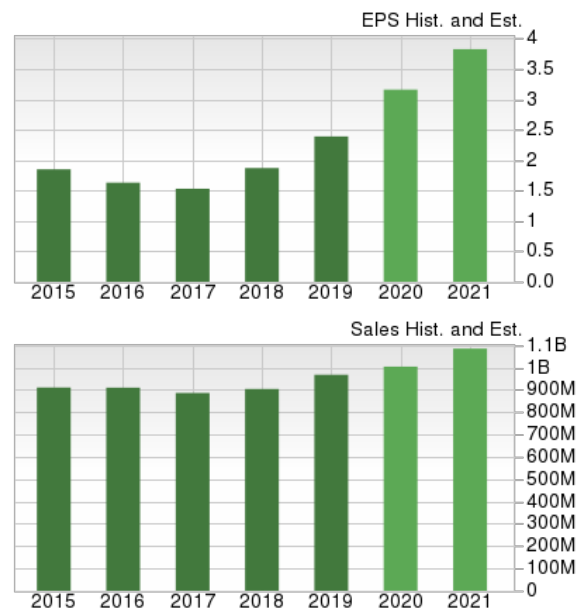
Overview

Haemonetics Corporation (HAE) 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. 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.

Since first-quarter fiscal 2017, the company has started to report its operating results in 4 business franchises: Plasma, Haemostasis Management, Cell Processing and Blood Center.

- **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 from 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.
- **Cell Processing** includes surgical blood salvage systems, specialized blood cell processing systems, disposables and blood transfusion management software.
- **Hemostasis Management** includes devices and methodologies for measuring coagulation characteristics of blood, such as the TEG Hemostasis Analyzer.



Reasons To Buy:

▲ **Share Price Movement:** Over the past year, Haemonetics has been outperforming its industry. The stock has climbed 14.9% compared to the industry's 13.5% rise. Haemonetics put up an impressive performance in the fiscal second quarter, with better-than-expected earnings and revenues. Per the company, benefits from complexity-reduction initiatives, strength in market demand and success from early launches of several products, like NexSys and SafeTrace Tx, helped the company pull off an impressive performance. Continued momentum in new business generation and geographical expansion also contributed to the results. The early stages of the U.S launch of TEG 6s also boosted the share price performance. The ongoing momentum has encouraged the company to project strong organic revenue growth for fiscal 2020.

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.

▲ **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 second quarter, Plasma, the company's largest business segment, grew 14.6% on a 14.7% increase in North America, driven by price, volume and mix. The company has completed more than 7 million YES procedures, resulting in more than 116,000 incremental leaders 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 has been progressing well with the development and launch of NexSys PCS plasmapheresis system through the fiscal second quarter.

The company has been investing in the innovation and launch of platform PCS devices, DMS (Donor Management System) software, disposables and service which are expected to boost the company's ability to safely and proficiently collect more plasma and cater to strong market demand for IgG.

Software continued to be a crucial driving factor for the company through the fiscal second quarter. The company has a leading DMS market share and continues to convert and upgrade consumers to NexLynk. Management is upbeat about software's role in enabling its customers to realize the full potential of NexSys and software strategic value for the plasma business.

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

▲ **Huge Potential of Hemostasis Management Franchise:** Under Hospital business, Hemostasis Management saw strong growth in the past few quarters. Also, TEG has become the global leader in Hemostasis Management led by solid disposable growth and amplified TEG success capital sales. Hemostasis management franchise grew nearly 16% year on year, driven by robust performance in the United States and China. Per management, the company's efforts to expand sales force to gain momentum started contributing to the top line. As a major milestone, in May 2019, Haemonetics received FDA clearance to expand the medical indication of its TEG 6s Hemostasis Analyzer System for use in adult trauma settings. Customer feedback has been highly positive in the early stages of the U.S. launch of TEG 6s, which is the only site-of-care device specifically cleared for adult trauma. In the fiscal second quarter, the company also launched a TEG 6s four-channel PlateletMapping cartridge, enabling it to provide hospitals with a singular device for both overall human spaces and platelet function analysis at the site of care.

Further, in fiscal 2020, the company completed the OrthoPAT end-of-life program. The phased launch of SafeTrace Tx has been progressing well through the fiscal second quarter. The company has also been witnessing strong early market adoption of the software, which has accelerated its rollout. Adoption of BloodTrack software, which delivers information at the bed side, is expected to continue growing globally, particularly in the United States. The U.K. management is also upbeat about the positive impact of pricing and sales force expansion across its hospital segment.

▲ **Strong Balance Sheet:** Haemonetics exited the fiscal second quarter with cash and cash equivalents of \$112 million compared with \$190.2 million at the end of fiscal 2019. Long-term debt at the end of the fiscal second quarter was \$313.9 million, marking a reduction of 1.3% from \$318.1 million at the end of fiscal 2019. The company generated operating cash flow of \$32.5 million in the fiscal second quarter compared with \$80.5 million a year ago (down 59.6%). It also reported free cash flow (before restructuring and turnaround costs) of \$30.8 million during the same period, which was up 48.2% from \$20.8 million a year ago.

Risks

- **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 31.2 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 25.1.
- **Persistent Decline in Blood Center Revenues:** Haemonetics has been witnessing sluggish revenue growth at its Blood Center franchise, thanks to several adverse factors. Blood Center revenues were down 3.8% year over year in the first quarter. However, the company has been actively involved in focusing on contracting and pricing, distribution management, reducing complexity, and making targeted selective investments like the launch of a double-dose protocol in Japan, and the universal platelet protocol in EMEA and the Asia Pacific in order to stabilize the Blood Center business.

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.
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Last Earnings Report

Haemonetics Beats on Q2 Earnings

Haemonetics Corporation delivered adjusted earnings per share of 87 cents in the second quarter of fiscal 2020, reflecting 55.4% year-over-year growth from 56 cents. The bottom line also surpassed the Zacks Consensus Estimate by 20.8%.

On a reported basis, net income was 72 cents per share, up from the year-ago figure of 56 cents (an increase of 28.6%).

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	1.12%
EPS Surprise	20.83%
Quarterly EPS	0.87
Annual EPS (TTM)	2.92

Total Revenues

Revenues rose 4.5% (up 9% on an organic basis) to \$252.6 million from the second quarter of fiscal 2019. Further, the top line surpassed the Zacks Consensus Estimate by 1%.

The company continued to rollout the NexSys PCS device and NexLink DMS donor management software.

Revenues by Product Categories

At Plasma, revenues of \$115.9 million (accounting for 45.9% of total revenues) increased 8.5% year over year (up 14.6% on an organic basis) in the reported quarter. Plasma revenue growth in North America was 14.7%, including 11% growth in disposables.

Revenues at Blood Center (32.5%) declined 0.3% (up 0.2% on an organic basis) to \$81.9 million.

Hospital revenues (19.7%) were up 3.6% (10.1% on an organic basis) to \$49.7 million. Under the Hospital segment, organic revenue growth in the Hemostasis Management product line was 16% in the second quarter of fiscal 2020.

Margins

Per the company, adjusted gross margin was 52.6%, up 440 basis points (bps) year over year due to change in the pricing structure, product mix and productivity.

Adjusted operating income was \$57.8 million in the quarter under discussion, up 48.6% from \$38.9 million in the year-ago quarter. Meanwhile, adjusted operating margin expanded 680 bps year over year to 22.9%.

Financial Position

Haemonetics exited the second quarter of fiscal 2020 with cash and cash equivalents of \$112 million compared with \$190.2 million at the end of fiscal 2019. Long-term debt at the end of the fiscal second quarter was \$313.9 million, marking a reduction of 1.3% from \$318.1 million at the end of fiscal 2019.

The company generated operating cash flow of \$32.5 million in the fiscal second quarter compared with \$80.5 million a year ago (down 59.6%). It also reported free cash flow (before restructuring and turnaround costs) of \$30.8 million during the same period, which was up 48.2% from \$20.8 million a year ago.

Fiscal 2020 Guidance

Haemonetics reaffirmed its reported revenue guidance for fiscal 2020. The company reiterated yearly organic revenue growth at 6-8%. Coming to segmental revenues, on an organic basis, the view for Plasma revenues remained at 13-15%. 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. The Zacks Consensus Estimate for fiscal 2020 revenues is pegged at \$1.01 billion.

However, the company raised its 2020 adjusted earnings per share guidance to \$3.10-\$3.20 (up from \$2.95-\$3.15 mentioned earlier). The consensus estimate of \$3.07 lies within the company's guided range.

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.

On **Dec 11, 2019**, Haemonetics announced the opening of its new global headquarters in Boston.

On **Dec 3, 2019**, Haemonetics announced the commercial availability of its SafeTrace Tx transfusion management software, a blood bank information system (BBIS), in North America.

On **Nov 20, 2019**, Haemonetics launched TEG 6s PlateletMapping ADP & AA assay cartridge globally.

Valuation

Haemonetics shares are down 5.6% in the six month period and up 14.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are up 1.6% and 7.3% in the six month period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.5% and up 4.3%, respectively.

The S&P 500 index is up 10.5% in the six month period and up 22.3% in the past year.

The stock is currently trading at 31.2X Forward 12-months earnings, which compares to 25.1X for the Zacks sub-industry, 21.7X for the Zacks sector and 18.9X 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 25.7X. Our Outperform recommendation indicates that the stock will perform above the market. Our \$133 price target reflects 35.8x 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	31.22	25.13	21.74	18.97
	5-Year High	44.54	25.30	21.74	19.34
	5-Year Low	14.60	17.01	15.88	15.17
	5-Year Median	25.65	19.53	18.95	17.44
P/S F12M	Current	5.50	3.98	2.87	3.53
	5-Year High	6.77	3.98	3.81	3.53
	5-Year Low	1.48	2.88	2.42	2.54
	5-Year Median	2.42	3.22	2.93	3.00
P/B TTM	Current	10.07	3.14	4.58	4.50
	5-Year High	12.02	4.30	5.02	4.50
	5-Year Low	1.84	2.21	3.42	2.85
	5-Year Median	2.88	2.77	4.28	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	HAE Outperform	X Industry	S&P 500	ABMD Neutral	ARRAY Neutral	MMM Neutral
VGM Score	C	-	-	A	F	C
Market Cap	5.88 B	325.19 M	24.61 B	8.19 B	305.35 M	104.09 B
# of Analysts	3	2	13	5	3	6
Dividend Yield	0.00%	0.00%	1.74%	0.00%	0.00%	3.18%
Value Score	D	-	-	C	D	C
Cash/Price	0.02	0.08	0.04	0.05	0.37	0.07
EV/EBITDA	31.52	0.33	14.24	27.92	-186.11	13.48
PEG Ratio	2.72	2.75	2.07	1.56	NA	1.98
Price/Book (P/B)	10.07	4.18	3.38	8.26	7.43	9.67
Price/Cash Flow (P/CF)	25.05	20.18	13.75	45.39	NA	13.54
P/E (F1)	36.71	26.41	19.09	40.66	NA	18.84
Price/Sales (P/S)	5.95	5.38	2.68	9.99	0.74	3.26
Earnings Yield	2.72%	0.24%	5.24%	2.46%	-4.08%	5.31%
Debt/Equity	0.54	0.10	0.72	0.00	5.22	1.68
Cash Flow (\$/share)	4.63	-0.00	6.94	4.00	-0.01	13.37
Growth Score	B	-	-	A	F	C
Hist. EPS Growth (3-5 yrs)	9.02%	10.04%	10.56%	55.42%	NA	6.54%
Proj. EPS Growth (F1/F0)	32.22%	13.60%	7.57%	-20.46%	6.67%	6.27%
Curr. Cash Flow Growth	24.78%	5.21%	14.73%	46.32%	-94.34%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	3.78%	9.81%	9.00%	66.11%	14.18%	5.24%
Current Ratio	2.37	2.78	1.24	5.77	1.94	2.30
Debt/Capital	34.97%	13.16%	42.99%	0.00%	83.93%	62.66%
Net Margin	6.90%	-15.64%	11.14%	26.92%	-4.02%	15.48%
Return on Equity	24.59%	-6.74%	17.16%	19.89%	-35.92%	54.02%
Sales/Assets	0.80	0.64	0.55	0.77	0.97	0.81
Proj. Sales Growth (F1/F0)	3.76%	11.86%	4.16%	15.17%	-1.03%	5.02%
Momentum Score	B	-	-	A	C	B
Daily Price Chg	0.29%	0.25%	0.89%	1.98%	5.54%	0.68%
1 Week Price Chg	1.20%	0.00%	0.39%	13.33%	-4.38%	1.13%
4 Week Price Chg	-0.86%	3.20%	2.65%	7.09%	22.94%	5.15%
12 Week Price Chg	-3.48%	9.36%	7.55%	0.82%	24.73%	11.81%
52 Week Price Chg	16.51%	0.00%	22.12%	-45.07%	-10.68%	-5.58%
20 Day Average Volume	337,945	131,322	1,536,375	1,033,013	442,025	2,359,001
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.37%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.29%	0.00%	0.15%
(F1) EPS Est 12 week change	3.61%	-1.59%	-0.40%	1.30%	2.33%	-2.85%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Momentum Score	B
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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