

Hill-Rom Holdings (HRC)

\$96.05 (As of 02/28/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Hill-Rom exited the first quarter of fiscal 2020 on a mixed note with better-than-expected earnings and in-line revenues. Core revenue growth was 6% year over year, falling at the high end of its guidance range. This reflected the 7th consecutive quarter of mid-single-digits or higher growth. The company saw robust domestic growth, driven by sturdy performances in Patient Support Systems. There was strong double-digit growth in Latin America and China for the second consecutive quarter. However, internationally, sales suffered due to the unfavorable timing of large capital projects in select markets. Sales in Surgical Solutions' dropped significantly, thanks to the divestiture of surgical consumables. Over the past three months, Hill-Rom has underperformed its industry.

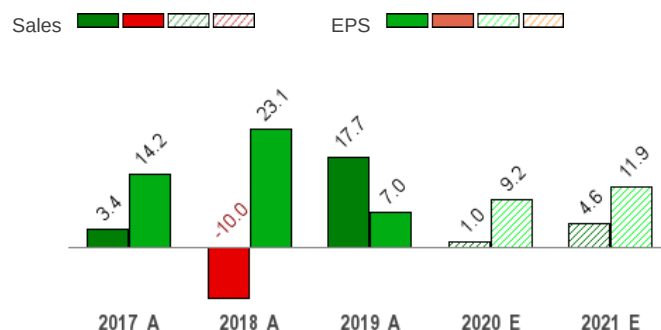
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$117.10 - \$93.88
20 Day Average Volume (sh)	456,036
Market Cap	\$6.4 B
YTD Price Change	-15.4%
Beta	0.88
Dividend / Div Yld	\$0.88 / 0.9%
Industry	Medical - Products
Zacks Industry Rank	Top 26% (66 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	18.5
P/E F1	17.3
PEG F1	1.5
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	717 E	738 E	763 E	846 E	3,070 E
2020	685 A	705 E	730 E	814 E	2,936 E
2019	684 A	714 A	727 A	783 A	2,907 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.22 E	\$1.36 E	\$1.53 E	\$2.13 E	\$6.21 E
2020	\$1.13 A	\$1.16 E	\$1.37 E	\$1.89 E	\$5.55 E
2019	\$1.02 A	\$1.14 A	\$1.23 A	\$1.69 A	\$5.08 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 02/28/2020. The reports text is as of 03/02/2020.

Overview

Headquartered in Batesville, IN, Hill-Rom Holdings, Inc. is one of the leading global medical device companies. The company partners with health care providers in more than 100 countries by focusing on patient care solutions that improve clinical and economic outcomes in five core areas: Advancing Mobility, Wound Care and Prevention, Clinical Workflow, Surgical Safety and Efficiency, and Respiratory Health.

The company recently restructured its reporting segments and currently operates its business through three segments:

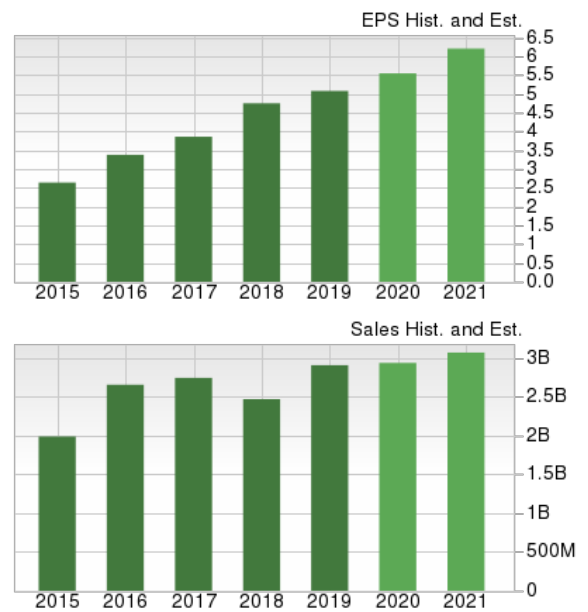
Patient Support Systems – This business (51.3% of fiscal 2019 revenues; up 5.4% at CER from fiscal 2018) globally provides specialty bed frames and surfaces and mobility solutions, as well as clinical workflow solutions which specializes in software and information technologies to improve care and deliver actionable insight to caregivers and patients.

Front Line Care – This segment (33.6%; up 2.9%) globally provides respiratory care products, and sells medical diagnostic monitoring equipment and a diversified portfolio of physical assessment tools that assess, diagnose, treat, and manage a wide variety of illnesses and diseases.

Surgical Solutions – This business (15.1%; up 2%) globally provides products that improve surgical safety and efficiency in the operating room including tables, lights, pendants, positioning devices and various other surgical products and accessories.

Hill Rom's products and services are outlined below:

Advancing Mobility: A variety of bed systems, as well as mobility solutions; **Wound Care and Prevention:** Rent and sale of non-invasive therapeutic products and surfaces; **Clinical Workflow:** Developing and marketing of a variety of communications technologies and software solutions; **Surgical Safety and Efficiency:** providing surgical tables, lights, and pendants utilized within the operating room setting; **Respiratory Health:** offering therapeutic products that provide bronchial hygiene (airway clearance) for acute care.



Reasons To Buy:

- ▲ **Long Term Vision Looks Impressive:** Hill-Rom's newly-initiated long-term growth strategies through fiscal 2022, focusing on all four strategic priorities look attractive at this moment.

In terms of the first priority, to accelerate top-line growth with innovative new products and solutions, the company expects to launch 5 to 6 new products each year through 2022. New product launches are projected to result in the contribution of approximately 200 basis points of growth annually over the 3-year plan.

Going by the second key objective of international expansion and driving penetration in emerging markets, Hill-Rom expects, over the next 3 years, emerging market growth to increase to high-single-digits in 2020 and ramp-up in double-digits thereafter. This will add approximately 100 basis points of top-line growth annually over this 3-year period.

The third priority area includes strategic M&As to strengthen portfolio. According to the company, the recent acquisitions of Voalte and Breathe created durable new source of growth over a multiyear period. The company also expects future M&As to be incremental to the 3-year plan that it has outlined.

The last key strategic priority area includes operational execution and strong financial performance. Under the 3-year growth plan, the company projects core revenue growth of approximately 5%, double-digit earnings growth and significant cash flow generation.

- ▲ **Several Strategic Acquisitions to Add Value:** Hill-Rom's merger and acquisition (M&A) pipeline continues to remain robust. The company aggressively pursues acquisitions to accelerate growth in five key clinical focus areas viz. advancing patient mobility, wound care and prevention, surgical, safety and efficiency, clinical workflow solutions and respiratory help. Worth mentioning is, Hill-Rom's recent acquisition of Voalte, a mobile health care communication player. The acquisition has already started to accelerate the company's digital and mobile communications platform capabilities and scale with a substantial installed customer base and is in process to strengthen Hill-Rom's connected solutions and digital offerings.

In the second half of fiscal 2019, the company acquired Breathe Technologies, a developer and manufacturer of a patented nasal cannula technology that enables improved patient mobility. The acquisition of this differentiated and disruptive respiratory therapy creates an opportunity to leverage Hill-Rom's vertically integrated commercial model.

Both integrations are currently on track. Hill-Rom is now in its early days of re-launching the Breathe Life2000 device, leveraging the company's vertically integrated direct commercial model with a disruptive non-invasive respiratory therapy for patients in both the acute and home settings. With Voalte, the company currently has more than 93,000 devices on its platform across the U.S. healthcare system.

- ▲ **Positive Demography — A Growth Factor:** As a result of the growing population of the elderly and obese, there are rising incidences of complex diseases and conditions such as diabetes, congestive heart failure and respiratory disease. Patients are being moved through the hospital faster and generally desire to rapidly move to lower acuity settings. This trend indicates increase in demand for more sophisticated means to deliver care for these patients, such as improved medical technologies, communication tools and information technologies. This, in turn, expands Hill-Rom's scope of growth. We believe, the company's constant efforts to meet changing demand with new differentiated products will increase its ability for further revenue growth and improve margins in the future.

- ▲ **Focus on Expansion Through Innovation:** For quite some time now, Hill-Rom has been focusing on expansion through product development, which is reflected in its rising research and development expenditure. The contribution from new products has been a significant driver of top line growth in fiscal 2019, adding approximately 300 basis points of growth in this period.

Recently, the company introduced several new products including RetinaVue 700 Imager, EarlySense and WatchCare. In the second half of fiscal 2020, the company is looking forward to a steady cadence of six key new product launches across all three business units. This includes future digital offerings focused on patient falls and deterioration, digital physical assessment tools, and a new mobile operating room table.

With several other new products in the pipeline, the company expects to register durable growth from new products in the upcoming period.

- ▲ **Progress in Digital Health Space:** Hill-Rom recently launched a smartphone application — Linq mobile. Per the company, the platform has integrated Clinical Workflows with Nurse Call and clinical surveillance with monitoring systems to enhance care team communication and efficiency. Per management, this move will pave the way for an additional market opportunity of around \$200 million. The LINQ mobile application is available in the United States and Canada.

In line with its strategy to boost position in the Digital Health space, Hill-Rom recently acquired Excel Medical, a software company with a digital platform, to improve clinical workflow, provide greater access and assimilation of real-time patient data and predictive analytics with a vendor-neutral interoperable solution. The company also partnered with Microsoft to bring together Hill-Rom's extensive clinical knowledge as well as streaming operational data from medical devices and Microsoft's cloud, including Azure IoT and Azure Machine Learning.

Hill-Rom, is witnessing a solid growth in domestic revenues, driven by sturdy performance in Patient Support Systems and Front Line Care.

Reasons To Sell:

- ▼ **Share Price Performance:** Over the past three months, Hill-Rom has underperformed its industry. The stock has lost 9.4%, compared to the industry's 8.1% loss. Hill-Rom exited the first quarter of fiscal 2020 with a mere 0.2% revenue growth on a year-over-year basis. International core revenue declined 1% despite registering 2% growth in the emerging markets. Strong double-digit growth in Latin America and China for the second consecutive quarter was offset by a 15% decline in international Patient Support Systems sales. This was due to two factors; first, an anticipated challenging comp to the prior year, and second, the timing of some large capital projects, which are now in Hill-Rom's backlog. This apart, Surgical Solutions revenue declined 20% in the reported quarter, reflecting the impact of the surgical consumables divestiture.
- ▼ **Macroeconomic Headwind May Hamper Growth:** Hill-Rom's business depends heavily on general domestic and global economic conditions, including recession or economic slowdown and disruption of domestic and international credit markets. Over the past several years, the credit and capital markets has experienced extreme volatility and disruption leading to phases of recessionary conditions and depressed levels of consumer and commercial spending. Recessionary conditions have caused customers to reduce or delay plans to purchase Hill-Rom's products and services leading to a slowdown in the company's growth rate in the market. According to the company, if worldwide economic conditions worsen, its customers may scrutinize costs resulting from pressures on operating margin due to rising supply costs, reduced investment income and philanthropic giving, increased interest expense, reimbursement pressure, reduced elective healthcare spending and uncompensated care.
- ▼ **Foreign Exchange Headwind to Continue:** Hill-Rom generates a large part of its revenues from outside the U.S. According to the company is exposed to currency fluctuation. Unfavorable currency movement continued to be a major dampener during the fiscal first quarter and the company does not expect any improvement in this scenario any time soon.
- ▼ **Tough Competitive Landscape:** The presence of a large number of players has made the medical devices market intensely competitive. Hill-Rom evaluates its competition based on its product categories, rather than business segments. In Patient Support Systems the company competes with ArjoHuntleigh (Division of Getinge AB), Universal Hospital Services, Inc. and Stryker Corporation among others. In Front Line Care, some of the major players are GE Healthcare, Philips and ResMed. In Surgical Solutions, DeRoyal, Draegar and Skytron are some of the other competitors. Additionally, the market also consists of a large number of smaller and regional manufacturers.

Issues like general domestic and global economic headwinds, unfavorable foreign exchange and competitive landscape are major downsides.

Last Earnings Report

Hill-Rom Beats on Q1 Earnings

Hill-Rom Holdings reported first-quarter fiscal 2020 adjusted earnings per share of \$1.13 excluding certain special items. The figure improved 10.8% from the year-ago quarter and also surpassed the Zacks Consensus Estimate by 4.6%. This year-over-year upside came on the back of solid core revenue growth, margin expansion, strategic investments to drive future growth and a lower tax rate.

On a reported basis, earnings were 59 cents per share, indicating a 4.8% decline from the year-ago reported figure.

Additionally, revenues in the fiscal first quarter came in at \$685 million, up 0.2% from the year-ago period (up 1% at constant exchange rate or CER). Meanwhile, the top line was on par with the Zacks Consensus Estimate. Dull revenue growth reflects the impact of the divestiture of surgical consumables in 2019.

Geographically, in the reported quarter, U.S. revenues inched up 2.8% while the metric outside the United States declined 5.5% (down 4% at constant exchange rate or CER).

Segmental Update

In the quarter under review, Patient Support Systems revenues rose 1% year over year (up 1% at CER) to \$344 million. This segment's core revenues were up 2%, representing strong U.S. core revenue growth on robust sales of the company's care communications and mobile offerings as well as its med-surg and specialty bed systems including the Centrella Smart+Bed. However, the U.S. uptick was partially offset by lower international revenues due to the timing of large capital projects in select markets.

Revenues at the Front Line Care segment improved 9% to \$255 million (up 9% at CER). According to the company, this was driven by broad-based global strength across Welch Allyn vital signs monitoring equipment, physical assessment tools, respiratory health products and the vision portfolio.

The Surgical Solutions segment's revenues declined 21% (down 20% at CER) to \$86 million, affected by the surgical revenue divestment. However, core revenues rose 9% on strong growth of surgical workflow equipment including Integrated Table Motion for the da Vinci Xi Surgical System.

Cash Position

The company exited the fiscal first quarter with cash and cash equivalents of \$204.4 million compared with \$214.1 million at the end of fiscal 2019. At the end of the fiscal first quarter, net cash provided by operating activities was \$77 million compared with \$116 million at the end of the year-ago period.

Fiscal 2020 Guidance

For fiscal 2020, Hill-Rom has raised the lower end of its adjusted earnings per share guided range to \$5.50-5.56 (earlier it was \$5.46-5.56).

The Zacks Consensus Estimate for fiscal 2020 earnings stands at \$5.53, within the company's projected band. However, the company's revenue expectation for the full fiscal is reiterated in the 1-2% range, both on reported and constant currency basis. Core revenues are envisioned to grow at 4-5% rate (earlier forecast was 5-6%). The Zacks Consensus Estimate for fiscal 2020 revenues is pegged at \$2.94 billion.

For second-quarter fiscal 2020, revenues are expected to dip 1-2% from the prior-year figure on reported and CER basis. Core revenue growth is predicted at 4%. The Zacks Consensus Estimate for quarterly revenues is pegged at \$721.9 million.

Adjusted earnings for the fiscal second quarter are estimated in the bracket of \$1.16-\$1.16 per share. The Zacks Consensus Estimate for the same stands at \$1.24, above the company's expected range.

Quarter Ending **12/2019**

Report Date	Jan 24, 2020
Sales Surprise	-0.04%
EPS Surprise	4.63%
Quarterly EPS	1.13
Annual EPS (TTM)	5.19

Recent News

On **Feb 3, 2020**, Hill-Rom announced the commercial launch of the new Welch Allyn Spot Vital Signs 4400, an easy-to-use next-generation vital signs device ideal for ambulatory and emergency department settings.

Valuation

Hill-Rom shares are down 15.4% in the year-to-date period and down 9.1% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 9.3% while the Zacks Medical sector fell 8.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.9% and sector is down 8.3%.

The S&P 500 index is down 8.3% in year-to-date period and increased 4.9% in the past year.

The stock is currently trading at 16.5X Forward 12-months earnings, which compares to 22.3X for the Zacks sub-industry, 18.9X for the Zacks sector and 16.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21X and as low as 12.6X, with a 5-year median 18.1X. Our Neutral recommendation indicates that the stock will perform in-line market. Our \$101 price target reflects 17.3x forward 12-months earnings.

The table below shows summary valuation data for HRC.

Valuation Multiples- HRC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.49	22.27	18.98	16.87
	5-Year High	21.04	25.36	21.09	19.34
	5-Year Low	12.59	17.01	15.82	15.18
	5-Year Median	18.13	19.58	18.87	17.44
P/S F12M	Current	2.15	3.59	2.57	3.12
	5-Year High	2.61	3.99	3.84	3.43
	5-Year Low	1.04	2.88	2.45	2.54
	5-Year Median	1.81	3.22	2.97	3.01
P/B TTM	Current	3.97	2.85	4.21	3.96
	5-Year High	4.84	4.30	5.05	4.54
	5-Year Low	2.29	2.21	3.44	2.85
	5-Year Median	3.89	2.78	4.32	3.62

As of 2/28/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 254)



Top Peers

Accuray Incorporated (ARAY)	Outperform
AngioDynamics, Inc. (ANGO)	Neutral
Alphatec Holdings, Inc. (ATEC)	Neutral
3M Company (MMM)	Neutral
NuVasive, Inc. (NUVA)	Neutral
Stryker Corporation (SYK)	Neutral
ABIOMED, Inc. (ABMD)	Underperform
Anika Therapeutics Inc. (ANIK)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	HRC Neutral	X Industry	S&P 500	ABMD Underperform	ARAY Outperform	MMM Neutral
VGM Score	C	-	-	C	B	C
Market Cap	6.43 B	299.70 M	21.48 B	6.77 B	268.23 M	85.82 B
# of Analysts	6	2	13	4	2	7
Dividend Yield	0.87%	0.00%	2.07%	0.00%	0.00%	3.94%
Value Score	B	-	-	D	D	C
Cash/Price	0.03	0.08	0.04	0.06	0.33	0.03
EV/EBITDA	15.99	0.25	12.57	22.86	-163.53	13.89
PEG Ratio	1.51	2.75	1.84	1.52	NA	1.65
Price/Book (P/B)	3.97	3.65	2.88	6.47	4.79	8.48
Price/Cash Flow (P/CF)	11.76	18.12	11.58	37.59	NA	12.41
P/E (F1)	17.31	25.30	16.87	31.95	118.60	15.72
Price/Sales (P/S)	2.21	4.80	2.34	8.05	0.66	2.67
Earnings Yield	5.78%	-0.27%	5.91%	3.13%	1.01%	6.36%
Debt/Equity	1.09	0.06	0.70	0.00	3.77	1.79
Cash Flow (\$/share)	8.17	-0.00	6.94	4.00	-0.01	12.02
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	18.70%	11.68%	10.85%	52.71%	NA	5.88%
Proj. EPS Growth (F1/F0)	9.19%	10.34%	6.79%	-16.18%	116.67%	4.33%
Curr. Cash Flow Growth	3.86%	5.43%	5.92%	46.32%	-94.34%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	18.02%	9.59%	8.38%	66.11%	14.18%	1.67%
Current Ratio	1.52	2.65	1.23	5.04	1.90	1.41
Debt/Capital	52.18%	14.28%	42.53%	0.00%	79.03%	64.16%
Net Margin	5.15%	-9.44%	11.57%	29.14%	-0.30%	14.22%
Return on Equity	21.87%	-6.13%	16.80%	19.53%	-23.59%	51.39%
Sales/Assets	0.63	0.61	0.54	0.75	0.92	0.78
Proj. Sales Growth (F1/F0)	1.00%	9.66%	4.07%	10.40%	-0.94%	4.44%
Momentum Score	F	-	-	C	B	B
Daily Price Chg	-3.19%	-0.56%	-1.44%	-2.41%	-0.17%	-0.61%
1 Week Price Chg	-2.93%	0.00%	-0.94%	-0.29%	-5.68%	-2.53%
4 Week Price Chg	-11.65%	-8.17%	-10.98%	-19.58%	-22.18%	-8.17%
12 Week Price Chg	-9.88%	-4.61%	-7.84%	-20.53%	4.04%	-9.20%
52 Week Price Chg	-9.43%	-9.43%	1.20%	-55.08%	-38.49%	-28.04%
20 Day Average Volume	456,036	158,641	2,169,477	818,999	534,443	3,529,936
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.11%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.09%	-3.82%	36.58%	-0.63%
(F1) EPS Est 12 week change	0.54%	0.00%	-0.24%	-4.43%	38.10%	-1.07%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.72%	-17.48%	-133.33%	-2.16%

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	B
Growth Score	C
Momentum Score	F
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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