

Integra LifeSciences (IART)

\$56.67 (As of 02/04/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
 (Since: 03/04/19)
 Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **4-Sell**
 Zacks Style Scores: **VGM:B**
 Value: C | Growth: B | Momentum: D

Summary

Integra LifeSciences registered year-over-year revenue growth in the Codman Specialty Surgical (CSS) segment. The acquisitions of Arkis Biosciences and Rebound Therapeutics in the quarter are encouraging. We are also impressed with the launch and strong early adoption of DuraGen in Japan. The company registered double-digit revenue growth within its International CSS segment during the third quarter, buoyed by product launches as well as robust performance in China and Japan. The 2019 guidance for organic revenue growth and adjusted EPS appears strong. Expansion of both the margins instills optimism. Integra LifeSciences exited the third quarter with better-than-expected numbers. The stock has outperformed its industry in the past one year. However, the drop in the Orthopedics and Tissue Technologies revenues is concerning.

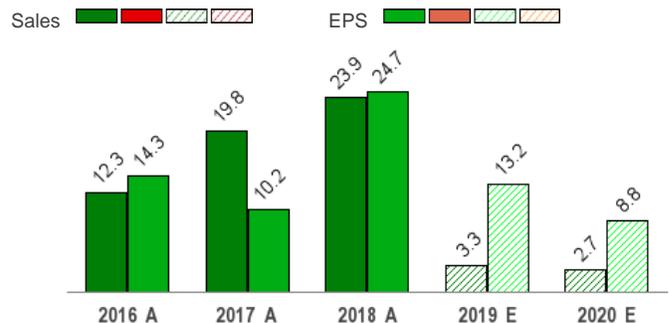
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.09 - \$46.07
20 Day Average Volume (sh)	410,738
Market Cap	\$4.9 B
YTD Price Change	-2.8%
Beta	1.14
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	02/20/2020
Earnings ESP	-1.5%
P/E TTM	20.9
P/E F1	19.0
PEG F1	1.5
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	372 E	394 E	396 E	416 E	1,561 E
2019	360 A	384 A	379 A	397 E	1,520 E
2018	357 A	366 A	366 A	383 A	1,472 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.67 E	\$0.76 E	\$0.76 E	\$0.79 E	\$2.98 E
2019	\$0.65 A	\$0.73 A	\$0.68 A	\$0.67 E	\$2.74 E
2018	\$0.58 A	\$0.60 A	\$0.59 A	\$0.65 A	\$2.42 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 02/04/2020. The reports text is as of 02/05/2020.

Overview

Headquartered in Plainsboro NJ, Integra LifeSciences is one of the world leaders in regenerative medicine. The company develops, manufactures and markets cost-effective surgical implants and medical instruments. The company now manufactures and sells products in the following two global reportable business segments: Codman Specialty Surgical and Orthopedics and Tissue Technologies.

The Codman Specialty Surgical business (65.3% of revenues in 2018), previously known as Specialty Surgical Solutions, offers global, market-leading technologies, brands and instrumentation. The acquisition of Codman Neurosurgery from Johnson & Johnson increased the global direct sales representation and international presence.

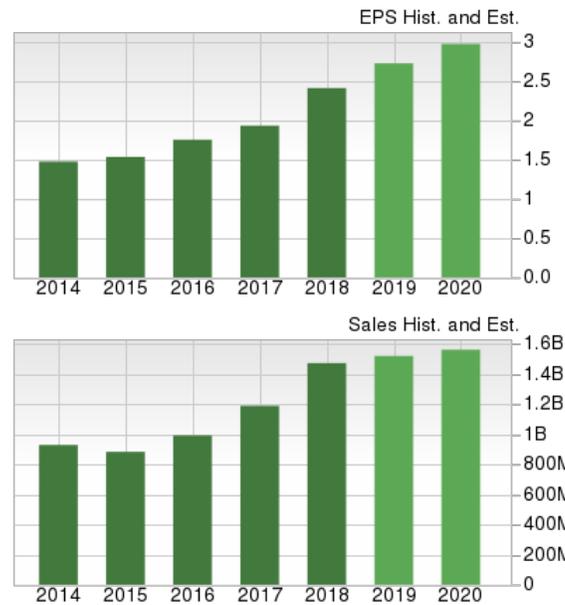
The global commercial network includes clinical specialists, a large direct global sales force and strategic partnerships and distributors that serve hospitals, integrated health networks, group purchasing organizations, clinicians, surgery centers and health care providers in North America, South America, Europe, Asia Pacific, Middle East and Africa.

In fiscal 2018, this segment registered 33.8% growth from 2017.

The Orthopedics and Tissue Technologies segment (34%) includes specialty metal implants for surgery of the upper and lower extremities, skin and wound repair products and bone grafts and nerve and tendon repair products.

The acquisition of Derma Sciences in 2017 provides the company with a relevant scale in outpatient wound care, doubling the sales force in the United States and broadening its business base with advanced products such as Medihoney, weight offloading and amniotic tissue. It also creates opportunities to further expand footprint in the plastic and reconstructive surgery segments.

In fiscal 2018 this segment registered 8.7% growth from 2017.



Reasons To Buy:

▲ **Share Price Performance:** Integra LifeSciences has outperformed the industry in the past year. The stock has climbed 16.8% compared with the industry's 8.6% rise. Integra LifeSciences exhibited a solid performance in the third quarter. The year-over-year revenue growth in the Codman Specialty Surgical segment of the company is encouraging. The launch of DuraGen in Japan during the third quarter instills optimism. We are also upbeat about the acquisition of Arkis Biosciences and Rebound Therapeutics during the third quarter. Expansion of both the margins and a raised EPS guidance for 2019 have also contributed to the share price rally.

A series of product introductions, particularly in Extremities franchise and strong overseas expansion are expected to add value going ahead.

▲ **Codman Specialty Surgical (CSS) segment Holds Potential:** At the end of the second quarter, Integra LifeSciences noted that, the operating performance for each franchise was better than the company's expectations. As per plan, Integra is now running the entire CSS business independently in the United States, Canada, Australia, New Zealand and China.

Earlier in 2019, the company began the commercial launch of its new products within CSS. These products (CereLink ICP monitor, CertasPlus family of Hydrocephalus management products and the Integra DUO, the new LED Surgical Headlight) continued gaining traction during the third quarter.

CSS revenues increased 7.3% on an organic basis during the quarter driven by the successful completion of the Codman transition services agreements, synergies within the company's global commercial organization and revenues from product launches. Internationally, revenues increased double digits driven by product launches as well as robust performance in China and Japan.

The raised CSS revenue growth outlook for 2019 also buoys optimism.

▲ **Regenerative Technologies Strong:** Integra LifeSciences' Regenerative Technologies is the largest franchise under Orthopedics and Tissue Technologies.

Organic revenue growth in the Regenerative portfolio for the third quarter of 2019 came in at low-single digits, banking on strength in advanced Wound Care business as well double-digit growth in the Surgical Reconstruction channel. In the third quarter, global revenues of the company's orthopedics business grew low-single digits in the quarter, with about 7% sales increase in the United States, along with 20% growth in the company's ankle and shoulder portfolios. In wound reconstruction and care, organic revenues grew about 3% in the third quarter, on strength in the company's outpatient Wound Care and Surgical Reconstructive portfolios. Integra LifeSciences witnessed strong demand for PriMatrix, SurgiMend and amniotic products during the third quarter.

In recent months, the company invested in regenerative manufacturing facilities to increase capacity by adding shifts, running additional lines and making capital improvements to drive efficiencies. Earlier, Integra LifeSciences introduced several new products that have expanded the company's portfolio of solutions in the United States hernia repair market and in the European breast reconstruction market. With its expectation to sustain this momentum, the company continues to project strong growth in regenerative products through 2019.

▲ **Solid growth in international business:** In spite of facing foreign exchange fluctuations across its international business, Integra LifeSciences successfully saw through certain key developments on the overseas front. International sales within Codman Specialty Surgical have been strong in recent times driven by growth in core neurosurgery business and strength in certain key markets such Europe, Canada, China, and Japan. Per Integra, the acquisition of Codman is effectively doubling the company's international business within this segment.

Integra LifeSciences is looking forward to investment opportunities in the Asian market in order to grow business much faster than the United States and also certain parts of its international businesses. In line with this, the company is preparing to launch several products in China and Japan. In the third quarter, the company launched DuraGen in Japan, where it also started witnessing solid adoption. International revenues within Orthopedic and Tissue Technologies grew mid-single digits, led by strength in the company's tissue portfolio in Europe.

▲ **Near-term objectives to add value:** Integra LifeSciences has adopted several near-term objectives to align with its 4-pillar strategy viz. 1) building an execution-focused culture 2) achieving relevant scale, 3) improving agility and innovation and 4) leading in customer excellence. These include investments in innovative product development which should result in a multi-generational pipeline for the company's key products; geographic expansion outside the U.S., given that most large medical device companies earn around half of their revenues internationally; and strategic acquisition of new products and businesses to develop the company's operations. The company recently introduced the Titan Press-Fit Reverse Shoulder for Fracture and also announced the full commercial availability of the Cadence Total Ankle. The Cadence coupled with Integra Lifesciences' Salto ankle makes the most competitive ankle arthroplasty portfolio.

Management also expects to gain market share through strategic partnerships and acquisitions. The company noted that, by sharpening focus on areas mentioned under the 4-pillar strategy through improved planning and communication, optimization of the infrastructure and strategically aligned tuck-in acquisitions, it can build scale, increase competitiveness and achieve long-term goals.

Reasons To Sell:

- ▼ **Natural calamities might hamper business process:** Many of Integra LifeSciences' manufacturing, development or research facilities are vulnerable to natural disasters or unwanted events, which depending on the extent of its severity, might force the company to cease development and manufacturing of some or all of its products. In particular, Integra's San Diego and Irvine, CA facilities are susceptible to earthquake damage, wildfire damage and power losses from electrical shortages as are other businesses in Southern California. Integra's Añasco, Puerto Rico plant, where it manufactures collagen, silicone and its private-label products, is vulnerable to hurricane, storm, earthquake and wind damage. Further, Integra LifeSciences' Plainsboro, NJ facility is prone to hurricane damage. Although the company maintains property damage and business interruption insurance coverage for these facilities, management fears insurance might not cover for all losses in the event of such dire circumstances. Also, the company may not be able to renew or obtain such insurance in the future on acceptable terms with adequate coverage or at reasonable costs.
- ▼ **Competition:** Integra LifeSciences faces significant competition in the surgical implants and medical instruments market. The company needs to be innovative on the product front in order to keep up with the competition. Moreover, consolidation trends in the industry could lead to intense pricing pressure and further competition in this niche. The primary competitors in specialty surgical solutions are the Aesculap division of B. Braun Medical, Inc., Johnson & Johnson, Medtronic, Inc., Stryker Corporation, Becton, Dickinson and Company, and C.R. Bard, Inc. In addition, the company competes with many smaller specialized companies and larger companies that do not otherwise focus on specialty surgical solutions. Other major players in orthopedics and tissue technologies includes the DePuy/Synthes business of Johnson & Johnson, Stryker Corporation, Wright Medical Group, N.V., Smith & Nephew plc, MiMedx Group, Inc., Acelity L.P. Inc., a subsidiary of Allergan PLC, and Zimmer Biomet Holdings, Inc.
- ▼ **Foreign exchange woes stay:** Integra LifeSciences generates significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business may have an impact on the demand for the company's products in foreign countries. With the recent upward trend observed in the value of the U.S. dollar, further acceleration expected by analysts in this value will cause the company's revenues to face a tough situation overseas.

Uncertain natural calamities might force Integra to stop production in one or more of its manufacturing or research facilities. The stock faces stiff competition as well as foreign exchange fluctuation.

Last Earnings Report

Integra LifeSciences' Earnings Top Estimates in Q3

Integra LifeSciences Holdings Corporation delivered adjusted earnings per share of 68 cents in the third quarter of 2019, up 15.3% from a year ago. The metric surpassed the Zacks Consensus Estimate by 4.6%.

Reported loss per share during the third quarter was 32 cents against reported earnings of 15 cents in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.66%
EPS Surprise	4.62%
Quarterly EPS	0.68
Annual EPS (TTM)	2.71

Revenue Discussion

Total revenues in the reported quarter inched up 3.6% year over year to \$379.1 million. This figure beat the Zacks Consensus Estimate by 0.7%. Excluding revenues from the current-period acquisitions, product discontinuations and the effect of currency exchange rates, organic revenues rose 4.7% year over year.

Coming to product categories, revenues from the Codman Specialty Surgical segment rose 5.8% to \$252.9 million. The upside was driven by continued positive customer reception of several new products like CereLink, CertasPlus and Integra DUO.

Orthopedics and Tissue Technologies revenues totaled \$126.1 million in the third quarter, down 0.6% year over year owing to sales decline in the Private Label portfolio.

Margin Trend

In the reported quarter, gross profit totaled \$236.5 million. Gross margin expanded 153 basis points (bps) to 62.4% on a 6.2% rise in gross profit. Selling, general and administrative expenses contracted 0.1% to \$173.1 million in the quarter under review while research and development expenses fell 6.4% to \$19 million. Operating profit came in at \$44.4 million, up 53.2% year over year. Overall, adjusted operating margin saw a 379-bps expansion year over year to 11.7%.

Financial Position

Integra LifeSciences exited the third quarter with cash and cash equivalents of \$207.9 million, up from \$176.1 million at the end of the second quarter. Year to date, net cash flow from operating activities in the third quarter was \$142.2 million, down from \$156.9 million a year ago.

2019 Outlook

Integra LifeSciences has tightened its revenue guidance for 2019. The company expects 2019 revenues in the range of \$1.517-\$1.522 billion versus the earlier range of \$1.515 -\$1.525 billion. Organic revenue growth projection has been reaffirmed at roughly 5%. The Zacks Consensus Estimate for 2019 revenues is pegged at \$1.52 billion, near the high end of the guided range.

The company has reaffirmed its adjusted earnings guidance at the band of \$2.70-2.75. The Zacks Consensus Estimate for 2019 adjusted earnings stands at \$2.74, within the company's guided range.

Valuation

Integra shares are down 2.8% in the year-to-date period and up 16.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 0.8% while the Zacks Medical sector fell 0.5% in the year-to-date period. Over the past year, the Zacks sub-industry is up 8.6% and sector is up 1%.

The S&P 500 index is up 0.9% in the year-to-date period and increased 25.3% in the past year.

The stock is currently trading at 18.8X Forward 12-months earnings, which compares to 33.6X for the Zacks sub-industry, 20.8X for the Zacks sector and 18.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.8X and as low as 15.9X, with a 5-year median 20.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 19.7x forward 12-months earnings.

The table below shows summary valuation data for IART

Valuation Multiples-IART					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.78	33.60	20.81	18.60
	5-Year High	26.78	33.92	21.25	19.34
	5-Year Low	15.95	23.22	15.84	15.18
	5-Year Median	20.65	27.43	18.90	17.46
P/S F12M	Current	3.06	3.61	2.79	3.45
	5-Year High	3.86	3.61	3.82	3.45
	5-Year Low	1.86	2.17	2.44	2.54
	5-Year Median	2.86	2.52	2.95	3.00
P/B TTM	Current	3.51	4.14	4.49	4.44
	5-Year High	5.32	4.26	5.03	4.54
	5-Year Low	2.60	2.54	3.43	2.85
	5-Year Median	3.67	3.32	4.29	3.62

As of 2/4/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



Top Peers

ConforMIS, Inc. (CFMS)	Neutral
DexCom, Inc. (DXCM)	Neutral
Integer Holdings Corporation (ITGR)	Neutral
LivaNova PLC (LIVN)	Neutral
Medtronic PLC (MDT)	Neutral
OPKO Health, Inc. (OPK)	Neutral
RTI Surgical, Inc. (RTIX)	Neutral
Cantel Medical Corp. (CMD)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	IART Neutral	X Industry	S&P 500	CFMS Neutral	MDT Neutral	RTIX Neutral
VGM Score	B	-	-	C	B	C
Market Cap	4.87 B	108.16 M	24.31 B	67.52 M	160.83 B	304.86 M
# of Analysts	6	2	13	3	13	1
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.80%	0.00%
Value Score	C	-	-	F	C	B
Cash/Price	0.04	0.10	0.04	0.43	0.07	NA
EV/EBITDA	25.68	-0.58	13.98	-2.56	18.84	NA
PEG Ratio	1.51	2.70	2.01	NA	2.91	NA
Price/Book (P/B)	3.51	4.36	3.29	3.39	3.17	1.43
Price/Cash Flow (P/CF)	15.06	23.21	13.58	NA	16.51	13.56
P/E (F1)	19.31	30.45	18.82	NA	21.42	413.00
Price/Sales (P/S)	3.23	3.87	2.66	0.85	5.21	1.02
Earnings Yield	5.26%	-0.57%	5.30%	-37.76%	4.67%	0.24%
Debt/Equity	1.07	0.10	0.71	1.83	0.49	NA
Cash Flow (\$/share)	3.76	-0.06	6.92	-0.51	7.27	0.30
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	13.71%	13.63%	10.80%	NA	6.06%	-18.71%
Proj. EPS Growth (F1/F0)	9.01%	21.12%	7.40%	20.29%	7.30%	NA
Curr. Cash Flow Growth	30.78%	9.71%	10.22%	-34.56%	6.26%	18.36%
Hist. Cash Flow Growth (3-5 yrs)	25.48%	8.78%	8.55%	5.23%	15.58%	27.78%
Current Ratio	2.92	2.68	1.21	3.11	2.77	NA
Debt/Capital	51.67%	17.32%	42.91%	64.60%	32.80%	NA
Net Margin	3.99%	-15.15%	11.79%	-41.36%	15.11%	-3.72%
Return on Equity	16.83%	-17.95%	17.24%	-115.71%	14.52%	1.75%
Sales/Assets	0.47	0.60	0.55	1.20	0.34	0.83
Proj. Sales Growth (F1/F0)	4.12%	11.14%	4.10%	4.57%	3.17%	NA
Momentum Score	D	-	-	D	B	F
Daily Price Chg	2.09%	0.00%	1.49%	-0.62%	1.70%	-3.28%
1 Week Price Chg	-0.31%	-1.48%	-2.60%	-2.40%	-3.20%	-4.59%
4 Week Price Chg	-0.25%	0.00%	0.51%	-36.60%	4.80%	57.63%
12 Week Price Chg	-2.93%	3.05%	4.44%	-50.12%	10.46%	105.47%
52 Week Price Chg	16.49%	-12.53%	14.65%	43.67%	36.31%	-6.77%
20 Day Average Volume	410,738	117,424	1,935,862	590,817	4,205,442	957,313
(F1) EPS Est 1 week change	-0.08%	0.00%	0.00%	-1.85%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.32%	0.00%	0.00%	-1.85%	0.00%	-88.89%
(F1) EPS Est 12 week change	-0.68%	0.00%	-0.10%	-3.77%	0.69%	-88.89%
(Q1) EPS Est Mthly Chg	-0.98%	0.00%	0.00%	NA	0.06%	NA

Zacks Style Scores

The Zacks Style Score is 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	B
Momentum Score	D
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.

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