

## Luminex Corporation (LMNX)

**\$24.76** (As of 03/02/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

### Summary

Luminex exited the fourth quarter on a strong note. The company continues to gain from its flagship ARIES and VERIGENE platforms that currently have a strong customer base. Revenues at System sales, Service and Other revenues also improved significantly. The acquisition of the flow cytometry asset of MilliporeSigma continues to positively impact the company's performance. During the fourth quarter, the company submitted VERIGENE II Gastrointestinal Flex Assay to the FDA and anticipates submitting VERIGENE II Respiratory Flex Assay to the FDA in first-quarter 2020. Reflective of these, Luminex has outperformed the industry in a year's time. On the flip side, the company's assay revenues declined in the reported quarter. Contraction in gross margin adds to woes.

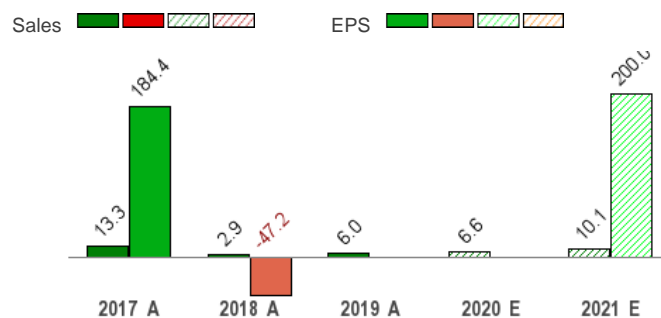
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$26.91 - \$17.35
20 Day Average Volume (sh)	398,544
Market Cap	\$1.2 B
YTD Price Change	13.8%
Beta	0.74
Dividend / Div Yld	\$0.36 / 1.4%
Industry	<a href="#">Medical - Instruments</a>
Zacks Industry Rank	Top 32% (82 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-71.4%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	7.5%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	225.1
PEG F1	15.0
P/S TTM	3.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	93 E	94 E	97 E	105 E	393 E
2020	83 E	87 E	88 E	99 E	357 E
2019	82 A	83 A	79 A	91 A	335 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.07 E	\$0.07 E	\$0.05 E	\$0.13 E	\$0.33 E
2020	-\$0.01 E	\$0.02 E	-\$0.00 E	\$0.11 E	\$0.11 E
2019	-\$0.07 A	-\$0.10 A	-\$0.12 A	\$0.07 A	-\$0.21 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 03/02/2020. The reports text is as of 03/03/2020.

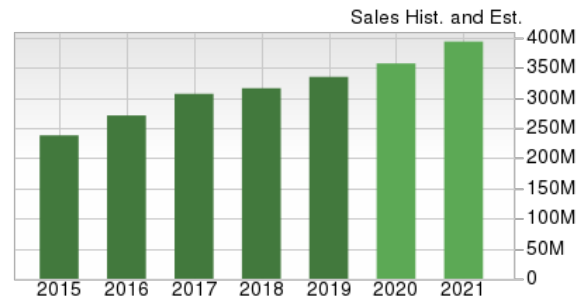
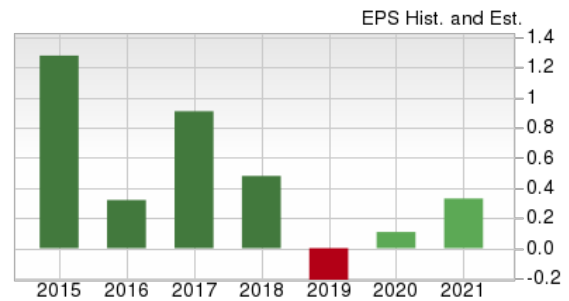
## Overview

Luminex Corp, founded in 1995 and based in Austin, TX, develops, manufactures and markets proprietary biological testing technologies with applications throughout the life sciences and diagnostics industry. The company's open-architecture multiplexing xMAP (Multi-Analyte Profiling) technology is sold worldwide and is used by leading research laboratories as well as major pharmaceutical, diagnostic and biotechnology companies for conducting biological tests.

### •2019 at a Glance

Luminex's 2019 revenues grossed \$334.6 million, up 5.9% year over year.

For 2019, System sales were \$76.3 million (21% of net revenues), Consumables were \$48.5 million (14.5%), Royalty Revenues were \$53.6 million (16%), Assay Revenues were \$132 million (39.5%), Service Revenues were \$22.4 million (6.7%) and Other revenues were \$7.8 million (2.3%).



## Reasons To Buy:

▲ **Share Price Movement:** In the past year, shares of Luminex have gained 5.5%, against the industry's decline of 3.4%. Meanwhile, the S&P 500 Index has rallied 4.9% in the same timeframe. Intense competition, contraction in gross margin and weak performance by the assay unit continue to weigh on the stock's overall performance.

▲ **Molecular Diagnostics Platform Solid:** In the fourth quarter, Luminex's total sample-to-answer franchise revenues improved 15% from the prior-year quarter. Per management, the utilization rate per customer for VERIGENE products increased 12% in the quarter. As the company advances into 2020, sample-to-answer revenues is expected to rise around 25% from the previous year on the back of the launch of VERIGENE II product (anticipated in mid-2020).

▲ **Product Portfolio Strong:** Luminex has a broad product portfolio that comprises of its advanced xMAP, xTAG and Multi Code technology. Per management, 2020 will be a transformative year for the company owing to three new product launches supporting a return-to-accelerated growth.

The first new product is VERIGENE II system that will provide a fully automated solution, comprising room temperature storage with significantly reduced footprint, thereby achieving equivalent throughput to the current VERIGENE system.

The second new product is the next-generation xMAP system, formerly known as SENSIPLEX, which will be launched under the official name xMAP INTELLIFLEX. It is expected to be rolled out in mid-2020. The new system offers modern enhancement for what is widely acknowledged today to be the gold standard platform for multiplexing.

Lastly, Luminex's Flow Cytometry group will launch the Guava easyCyte next generation system. The main objective of this system is to reinforce the company's position as a leader in the benchtop flow cytometry space. Given the software enhancements made to this system, the company is optimistic regarding generating a steady revenue stream from the newly acquired Flow Cytometry.

The company also continues R&D work on its Blood and Culture portfolio that will have gram-positive, gram-negative and fungal component.

▲ **VERIGENE Platform Drives Growth:** Luminex' flagship VERIGENE System enables clinicians to identify the pathogens for some of the most complex, costly, and deadly infectious diseases.

During the fourth-quarter 2019 earnings call, the company announced that the VERIGENE II system and the GI flex assay are being currently reviewed by the FDA. Luminex plans to submit respiratory assay by mid-February and then commercially launch the system and both assays soon after the clearances.

Luminex's molecular portfolio integrated the next gen VERIGENE II system, which initiated clinical trial in June 2018. VERIGENE II is a higher-plex instrument that can run complex assays of more than 50 pathogens in less than two hours. Each VERIGENE II instrument can have up to six units in a system, allowing for up to six independent assays to be performed at once. The new VERIGENE II Plus component, which increases the power and flexibility of the VERIGENE II instrument, would be incorporated into the VERIGENE II system, allowing for faster turnaround times, and real time chemistry option.

▲ **The Aries Platform:** Luminex is making noteworthy progress with another major product– the ARIES system, which represents a major revenue opportunity for the company. Luminex is focused on fortifying its market leadership in infectious disease with sample to answer platform, the ARIES system. Notably, with respect to this product line, average annual utilization was up 7% from the prior year.

Per management, Luminex is the only company that provides solutions for both targeted and syndromic testing in a lab. Luminex received an approval from the U.S. FDA for the ARIES Group B Strep assay. Luminex received its fourth and fifth FDA clearances on the Aries assay platform in the recent past for ARIES Bordetella and ARIES C. Difficile assays. Luminex also gained CE-IVD marking for Norovirus and C. Difficile. In fact, the company is about to complete its clinical study for Group A Strep, which would be soon given for review to the U.S. FDA.

In our opinion, approval for Luminex's products in international markets will further strengthen its pipeline, which should help the company gain significant top-line growth over the long haul.

▲ **Plethora of Regulatory Approvals:** In the third quarter, Luminex's ARIES, MRSA Assay received FDA clearance, marking the company's eighth assay clearance globally.

In fact, on the international front, Japan's Central Social Insurance Medical Council had approved the recommendation by the Japanese Ministry of Health, Labor and Welfare ("MHLW") to provide reimbursement for two VERIGENE assays: The Gram-Positive Blood Culture (BC-GP) test and the Gram-Negative Blood Culture (BC-GN) test. Notably, Japan is the company's second largest market for molecular diagnostics.

Earlier, Luminex announced the receipt of FDA clearance for the ARIES Group A Strep Assay, which is a moderate complexity, sample to answer test for the direct detection of Streptococcus pyogenes from throat swab specimens using the ARIES System. Per management, this is the sixth assay that has been cleared by the FDA for use on the company's ARIES Systems in the last two years.

During the fourth quarter, the company submitted VERIGENE II Gastrointestinal Flex Assay to the FDA. Further, the company intends to submit VERIGENE II Respiratory Flex Assay to the FDA in first-quarter 2020 and then commercially launch the system and both assays soon after approval.

▲ **Strategic Collaborations:** Luminex has entered collaborative agreements with several companies, which should help expand the use of its products/technology. In recent past, Luminex acquired Nanosphere Inc. which is likely to enable Luminex to utilize Nanosphere's high-end protein testing technology and expand its customer base, especially in hospital-based laboratories and academic research institutions. The

Luminex is making significant progress with its ARIES system, plethora of regulatory approvals, and accretive acquisitions which we believe will drive market share expansion in the long run.

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resultant diversified product portfolio will help Luminex combat industry challenges and drive penetration in the molecular microbiology and diagnostic markets.

An agreement with EDP Biotech Corporation buoys optimism, wherein EDP will have the rights to develop, market and sell its blood-based colorectal cancer diagnostic assay, ColoPlex, utilizing Luminex's xMAP technology.

Luminex had also announced earlier the signing of a new supply and distribution agreement with Bio-Techne Corp. through 2020. The partnership deal involves immunoassay development and commercialization of Bio-Techne biological content using the Luminex testing platform.

▲ **Promising Market Trends:** Luminex is a leading player in the molecular diagnostics space. The company offers more than 15,000 products encompassing 16 different categories. The categories include Recombinant Proteins, GMP Proteins, Antibodies, ELISAs, Luminex Assays and High-Performance Assays, Stem Cell Products, Cell Culture, Small Molecules & Peptides and more. In the global scenario, a report by Grand View Research reveals that the molecular diagnostics market is estimated to witness a CAGR of 9.1% to reach \$19.8 billion by 2026. Such market trends can also prove accretive for Luminex.

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## Reasons To Sell:

- ▼ **Headwinds:** In the fourth quarter, Luminex's assay revenues declined 1.6% year over year. Per management, the decline was primarily due to the reduction in LabCorp revenues, which impacted assay revenues in the quarter.

Additionally, consumable revenues decreased 25.2% year over year to \$11.7 million. The timing of purchases from the company's partners can be attributed to this decline.

Reimbursement risk and fluctuations in consumables revenues are major headwinds faced by the company in the near term.

- ▼ **Challenging Reimbursement Landscape:** Luminex may be impacted by future changes to the reimbursement landscape. As per the new molecular diagnostic code system established by the Centers for Medicare and Medicaid Services (CMS) in recent past, the Protecting Access to Medicare Act (PAMA) will require clinical laboratories to report to CMS the volume of each laboratory test and the price paid by private payors. This has led to a drop in Luminex's lab customer traffic.

A number of Luminex' lab customers have experienced several headwinds and delays, all of which are resulting in lower than anticipated testing volumes for the customers and resultantly decreased assay revenues for the ARP segment. Additionally, budget sequestration in the U.S. adds to the reimbursement risk for the company.

- ▼ **Cutthroat Competition in Life-sciences Industry:** Luminex operates in the highly competitive life sciences industry. The industry is characterized by rapid and continuous technological innovation. Currently, it is facing significant competitive headwinds in the respiratory market.

- ▼ **Reduced Spending by Partner Companies:** Luminex is highly dependent on its partners for revenue generation. The company's customers include clinical diagnostic, pharmaceutical, biotechnological, chemical and industrial companies. Reduced spending on research and diagnostics by these companies is adversely impacting the demand for the company's products. In general, spending on research and drug discovery remains weak given the soft macroeconomic conditions. Moreover, the company's consumable sales have been fluctuating considerably over the last 3 years mainly due to periodic changes in volume of the company's largest bulk purchasing partners. These fluctuations are expected to remain as the ordering patterns and inventory levels of Luminex's largest bulk purchasing partners continue to be variable. This lower level of purchasing is expected to continue over the next several years.
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## Last Earnings Report

### Luminex Earnings and Revenues Beat Estimates in Q4

Luminex Corporation reported fourth-quarter 2019 adjusted earnings of 7 cents per share, beating the Zacks Consensus Estimate of break-even. Notably, the company reported a loss of 5 cents per share in the year-ago quarter.

#### Revenues in Detail

Revenues came in at \$90.5 million, beating the Zacks Consensus Estimate by 0.6%. Moreover, the top line improved 11.5% on a year-over-year basis.

Total sample-to-answer franchise revenues grew 15% from the prior-year quarter.

#### 2019 at a Glance

In 2019, the company reported revenues worth \$334.6 million, which improved 5.9% from the previous year.

The company reported full-year 2019 loss of 9 cents per share, narrower than the Zacks Consensus Estimate loss of 29 cents per share. The company reported earnings of 41 cents per share in 2018.

#### Segmental Analysis

##### System Sales

Revenues at this segment totaled \$20.8 million, skyrocketed 103.5% from the year-ago quarter.

##### Consumable Sales

This segment accounted for \$11.7 million of revenues, down 25.2% year over year.

##### Royalty Revenues

Royalty revenues totaled \$13.6 million, up 0.4% on a year-over-year basis.

##### Assay Revenues

This segment reported revenues worth \$36.4 million, down 1.6% on a year-over-year basis.

##### Service Revenues

Revenues in the segment amounted to \$5.7 million, up 75.2% from the year-ago quarter.

##### Other

Other revenues came in at \$2.4 million, up 54.6% from the prior-year quarter.

#### Financial Update

As of Dec 31, 2019, cash and cash equivalents totaled \$59.2 million, down 22.6% from the prior-year quarter.

Cumulative cash flow from operating activities for the three months ended Dec 31, 2019, came in at \$5.3 million, up 23.7% from the year-ago quarter.

#### Margins

Gross profit in the reported quarter was \$49.9 million, up 3.2% year over year. Gross margin was 55.1%, contracting 450 (basis points) bps.

Research and development expenses totaled \$12.9 million, down 1.8% year over year. Selling, general and administrative expenses in the fourth quarter were \$31.1 million, down 2.9% year over year. Total operating expenses amounted to \$46.9 million, down 1% from the year-ago reported figure.

The company reported operating income of \$5.7 million, which increased significantly from the year-ago quarter's operating income of \$0.9 million. Operating margin of 6.2% expanded 500 bps from the year-ago quarter.

#### 2020 Guidance

Luminex projects first-quarter 2020 revenue to range between \$82 million and \$84 million.

The company reiterated full-year 2020 revenue outlook of \$352-\$362 million. The mid-point of this guidance is 7% higher than that of the previous year. The Zacks Consensus Estimate is pegged at \$357.5 million.

Notably, the full-year outlook includes around 2-3% headwind associated with the exit of certain remaining sales to LabCorp.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	0.33%
EPS Surprise	-71.43%
Quarterly EPS	0.07
Annual EPS (TTM)	-0.22

## Valuation

Luminex's shares are up 13.8% in the year-to-date period and up 5.5% in the trailing 12-month period. Year to date, the Zacks sub-industry and Zacks Medical sector are down 5.9% and 8.2%, respectively. Stocks in the Zacks sub-industry are down 3.4% while the Zacks Medical Market is down 8.3% in the past year.

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

The stock is currently trading at 3.28X Forward 12-months sales, which compares to 3.38X for the Zacks sub-industry, 2.57X for the Zacks sector and 3.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.84X and as low as 0.02X, with a 5-year median of 3.05X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$28 price target reflects 3.5X forward 12-months sales.

The table below shows summary valuation data for LMNX.

Valuation Multiples - LMNX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.28	3.38	2.57	3.12
	5-Year High	4.84	3.58	3.84	3.43
	5-Year Low	0.02	2.16	2.45	2.54
	5-Year Median	3.05	2.53	2.97	3.01
P/B TTM	Current	2.56	4.03	4.21	3.96
	5-Year High	3.32	4.57	5.05	4.54
	5-Year Low	1.71	2.54	3.44	2.85
	5-Year Median	2.22	3.33	4.32	3.62
P/CF	Current	86.66	20.52	14.17	15.2
	5-Year High	86.66	25.64	19.48	22.67
	5-Year Low	11.99	15.19	12.53	11.78
	5-Year Median	17.7	20.27	15.11	16.38

As of 03/2/2020

## Industry Analysis Zacks Industry Rank: Top 32% (82 out of 255)



## Top Peers

Abbott Laboratories (ABT)	Neutral
Illumina, Inc. (ILMN)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
Quidel Corporation (QDEL)	Neutral
QIAGEN N.V. (QGEN)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Becton, Dickinson and Company (BDX)	Underperform
Bio-Rad Laboratories, Inc. (BIO)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	LMNX Neutral	X Industry	S&P 500	BDX Underperform	ILMN Neutral	TMO Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Market Cap	1.19 B	103.48 M	22.14 B	66.52 B	40.91 B	121.63 B
# of Analysts	4	2	13	12	9	9
Dividend Yield	1.37%	0.00%	1.98%	1.29%	0.00%	0.25%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>C</b>
Cash/Price	0.05	0.10	0.05	0.01	0.09	0.02
EV/EBITDA	60.37	-0.53	12.79	20.37	28.01	19.41
PEG Ratio	16.18	2.84	1.92	1.93	2.63	1.60
Price/Book (P/B)	2.55	4.08	3.00	3.14	8.87	4.12
Price/Cash Flow (P/CF)	61.68	22.22	11.97	11.81	33.81	16.86
P/E (F1)	242.64	32.08	17.43	20.50	40.57	22.41
Price/Sales (P/S)	3.56	3.48	2.48	3.83	11.54	4.76
Earnings Yield	0.42%	-0.51%	5.74%	4.88%	2.47%	4.46%
Debt/Equity	0.04	0.09	0.70	0.80	0.40	0.58
Cash Flow (\$/share)	0.43	-0.06	6.94	20.77	8.23	18.08
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	-18.78%	13.63%	10.85%	12.78%	19.06%	13.63%
Proj. EPS Growth (F1/F0)	151.19%	17.87%	6.48%	2.46%	4.40%	10.19%
Curr. Cash Flow Growth	-57.32%	5.04%	6.03%	14.64%	13.10%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	-15.21%	10.08%	8.52%	24.86%	16.75%	10.08%
Current Ratio	3.49	2.59	1.23	0.96	6.69	1.92
Debt/Capital	3.56%	15.59%	42.57%	44.43%	28.47%	36.53%
Net Margin	-1.18%	-15.80%	11.57%	4.96%	28.27%	14.47%
Return on Equity	-2.03%	-23.59%	16.66%	15.50%	22.34%	17.24%
Sales/Assets	0.62	0.59	0.54	0.33	0.49	0.45
Proj. Sales Growth (F1/F0)	6.64%	10.51%	4.07%	2.06%	9.74%	5.40%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Daily Price Chg	6.46%	1.14%	3.82%	3.15%	4.75%	4.87%
1 Week Price Chg	6.40%	-9.55%	-12.06%	-7.59%	-10.23%	-13.18%
4 Week Price Chg	13.28%	-4.76%	-6.43%	-12.17%	-5.16%	-4.20%
12 Week Price Chg	25.67%	-0.56%	-5.15%	-4.88%	-14.79%	-3.62%
52 Week Price Chg	5.48%	-20.45%	4.77%	-2.98%	-9.56%	17.54%
20 Day Average Volume	398,544	143,141	2,363,047	2,450,334	1,496,186	1,858,983
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.50%	0.00%	-0.04%	-4.76%	0.00%	-0.07%
(F1) EPS Est 12 week change	514.29%	0.00%	-0.33%	-4.76%	-3.09%	0.17%
(Q1) EPS Est Mthly Chg	-150.00%	0.00%	-0.38%	-14.82%	0.00%	-0.34%



## 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	B
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.

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