

Luminex Corporation (LMNX)

\$24.26 (As of 02/06/20)

Price Target (6-12 Months): **\$26.00**

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:D

Value: C

Growth: D

Momentum: C

Summary

Luminex continues to gain from its flagship ARIES and VERIGENE platforms that currently have a strong customer base. System sales, Consumable Sales and Service revenues also improved significantly. The acquisition of the flow cytometry asset of MilliporeSigma seems strategic. In the third quarter, ARIES MRSA Assay received FDA 510(k) nod. Luminex submitted VERIGENE II Gastrointestinal Flex Assay to the FDA and anticipates the submission of VERIGENE II Respiratory Flex Assay by 2019-end. On the flip side, Luminex has underperformed the industry in a year's time. The company exited the third quarter on a weak note. The company's assay revenues declined in the reported quarter. Contraction in gross margin adds to woes. The lowered revenue guidance for 2019 is indicative of this dull trend to continue through the rest of the year.

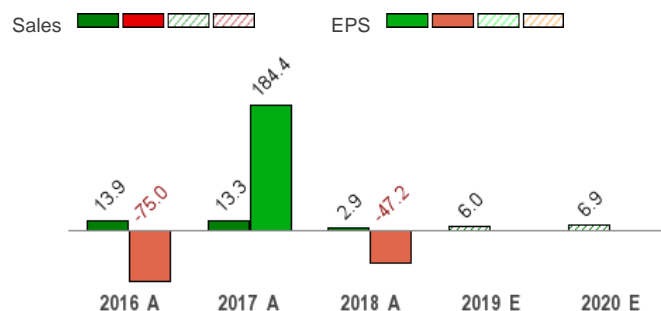
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.82 - \$17.35
20 Day Average Volume (sh)	255,663
Market Cap	\$1.1 B
YTD Price Change	4.8%
Beta	0.83
Dividend / Div Yld	\$0.36 / 1.5%
Industry	Medical - Instruments
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-71.4%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-11.1%
Expected Report Date	02/10/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	242.6
PEG F1	16.2
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	89 E	91 E	84 E	94 E	358 E
2019	82 A	83 A	79 A	90 E	335 E
2018	83 A	80 A	72 A	81 A	316 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.02 E	\$0.03 E	\$0.00 E	\$0.17 E	\$0.10 E
2019	-\$0.07 A	-\$0.10 A	-\$0.12 A	\$0.00 E	-\$0.29 E
2018	\$0.25 A	\$0.15 A	\$0.05 A	\$0.04 A	\$0.48 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 02/06/2020. The reports text is as of 02/07/2020.

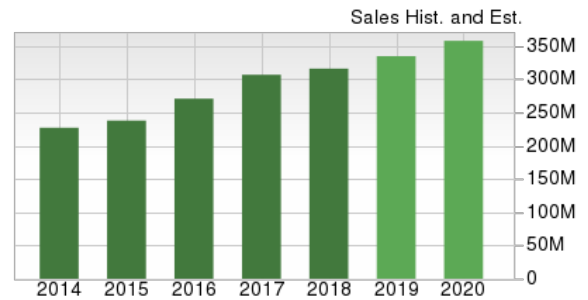
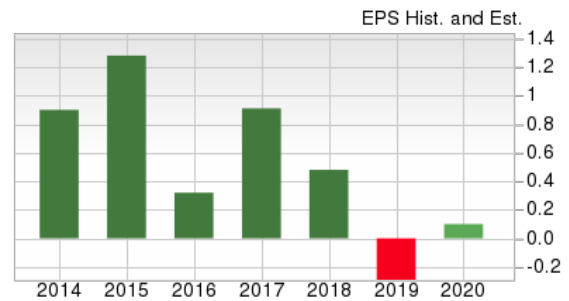
Overview

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.

•2018 at a Glance

Luminex's 2018 revenues grossed \$315.8 million, up 3% year over year.

For 2018, System sales were \$40 million (12.7% of net revenues), Consumables were \$50.1 million (15.9%), Royalty Revenues were \$49.4 million (15.6%), Assay Revenues were \$156.7 million (49.6%), Service Revenues were \$12.2 million (3.9%) and Other revenues were \$7.4 million (2.3%).



Reasons To Buy:

- ▲ **Molecular Diagnostics Platform Solid:** In the third quarter, Luminex placed 31 sample-to-answer molecular systems under contract. Revenues in the product line grew 27% year over year in the quarter. Per management, the utilization rate per customer for VERIGENE products increased 16% in the quarter.

It is important to note here that the company anticipates around 100 less FLEXMAP 3D systems for 2019.

- ▲ **Product Portfolio Strong:** Luminex has a broad product portfolio that comprises of its advanced xMAP, xTAG and Multi Code technology. Recently, the company announced plans to introduce a next-generation xMAP platform. Management plans to commercialize the platform in the second half of 2019.

The company's large installed instrument base consists of the Luminex 100 (LX100), Luminex 200 (LX200), FlexMap 3D systems and the MAGPIX technology.

In recent times, management confirmed that the updated xMAP system SENSIPLEX will be ready for a commercial launch by early 2020. Additionally, management confirmed that Luminex will commence 2019 with a solid R&D pipeline. The company also continues R&D work on its Blood and Culture portfolio that will have gram-positive, gram-negative and fungal component. Luminex continues to work on its SENSIPLEX system and expects it to be available for customer testing over the next two quarters with a market launch before mid-year 2020.

- ▲ **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.

Management at Luminex confirmed the submission of VERIGENE 2 GI panel to the FDA and also expects the submission of VERIGENE 2 respiratory tract panel by 2019-end.

Luminex's molecular portfolio integrated the next gen VERIGENE 2 system, which is about to initiate clinical trial. VERIGENE 2 is a higher-plex instrument that can run complex assays of more than 50 pathogens in less than two hours. Each VERIGENE 2 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 2 Plus component, which increases the power and flexibility of the VERIGENE 2 instrument, would be incorporated into the VERIGENE 2 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.

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.

- ▲ **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 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

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.

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.

Reasons To Sell:

- ▼ **Share Price Movement:** In the past year, shares of Luminex have lost 1.5%, against the industry's rally of 12.4%. Meanwhile the S&P 500 Index has risen 22.1% 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.
- ▼ **Headwinds:** In the third quarter, Luminex's assay revenues declined 13% year over year. Per management, a \$6.9-million decline in LabCorp revenues impacted assay revenues in the quarter. Additionally, the company's new flow cytometry revenue stream contributed \$8.7 million in the third quarter, significantly below expectations.

Reflective of these, Luminex lowered the 2019 revenue guidance. The company now expects revenues within \$334 and \$337 million, down from the previously guided range of \$337-\$343 million. This lowered guidance is indicative of this dull trend to continue through the rest of the year.

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

Last Earnings Report

Luminex Loss Wider Than Estimates in Q3, Assay Revenues Down

Luminex reported third-quarter 2019 loss of 12 cents per share, significantly wider than the Zacks Consensus Estimate of 3 cents per share. Notably, the company reported earnings of 4 cents per share in the year-ago quarter.

Revenues in Detail

Revenues came in at \$78.7 million, missing the Zacks Consensus Estimate by 3.9%. However, the top line improved 8.6% on a year-over-year basis.

Total sample-to-answer franchise revenues grew 27% from the prior-year quarter.

Segmental Analysis

System Sales

Revenues at this segment totaled \$15.2 million, surging 52% from the year-ago quarter.

Consumable Sales

This segment accounted for \$13.4 million of revenues, up 14.9% year over year.

Royalty Revenues

Royalty revenues totaled \$12.9 million, up 7.5% on a year-over-year basis.

Assay Revenues

This segment reported revenues worth \$29.5 million, down 12.7% on a year-over-year basis.

Service Revenues

Revenues in the segment amounted to \$5.3 million, up 77.4% from the year-ago quarter.

Other

Other revenues came in at \$2.3 million, up 16.2% from a year ago.

Business Details

Per management, this Texas-based company placed 31 sample-to-answer molecular systems under contract during the third quarter. Active sample-to-answer customers totaled 650 in the quarter under review.

Financial Update

As of Sep 30, 2019, cash and cash equivalents totaled \$66.1 million, down 4.4% sequentially.

Cash flow from operating activities for the three months ended Sep 30, 2019, came in at \$9.4 million, down 37.7% from the year-ago quarter.

Margins

Gross profit in the reported quarter was \$41.8 million, down 5.5% year over year. Gross margin was 53.2%, contracting 790 bps.

Research and development expenses totaled \$13.3 million, up 10.6% year over year. Selling, general and administrative expenses in the third quarter were \$31.4 million, up 19.4% year over year. Total operating expenses amounted to \$47.6 million, up 17.4% from the year-ago reported figure.

The company incurred operating loss of \$5.7 million, against the year-ago quarter's operating income of \$3.8 million.

Guidance

The company revised 2019 revenue outlook, which is now estimated to range between \$334 and \$337 million (down from the previously guided range of \$337-\$343 million).

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-2.96%
EPS Surprise	-71.43%
Quarterly EPS	-0.12
Annual EPS (TTM)	-0.25

Valuation

Luminex's shares are up 4.8% in the year-to-date period but down 1.5% in the trailing 12-month period. Year to date, the Zacks sub-industry and Zacks Medical sector are up 2.1% and 2.9%, respectively. Stocks in the Zacks sub-industry are up 12.4% while the Zacks Medical Market is up 5.3% in the past year.

The S&P 500 index is up 3.4% in the year-to-date period and 22.1% in the past year.

The stock is currently trading at 3X Forward 12-months sales, which compares to 3.6X for the Zacks sub-industry, 2.9X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.8X and as low as 0.02X, with a 5-year median of 3.1X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 3.2X 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	3.03	3.64	2.89	3.54
	5-Year High	4.84	3.64	3.82	3.54
	5-Year Low	0.02	2.17	2.44	2.54
	5-Year Median	3.05	2.52	2.95	3.00
P/B TTM	Current	2.38	4.18	4.64	4.54
	5-Year High	3.32	4.26	5.03	4.54
	5-Year Low	1.71	2.54	3.43	2.85
	5-Year Median	2.21	3.32	4.30	3.62
P/CF	Current	85.63	22.93	15.74	23.36
	5-Year High	85.63	25.70	19.43	23.36
	5-Year Low	11.99	15.19	12.46	11.78
	5-Year Median	17.44	20.28	15.03	16.27

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	LMNX Neutral	X Industry	S&P 500	BDX Neutral	ILMN Neutral	TMO Neutral
VGM Score	D	-	-	A	D	C
Market Cap	1.09 B	100.44 M	24.40 B	68.22 B	44.28 B	133.13 B
# of Analysts	2	2	13	12	9	9
Dividend Yield	1.48%	0.00%	1.75%	1.25%	0.00%	0.23%
Value Score	C	-	-	C	D	C
Cash/Price	0.06	0.10	0.04	0.01	0.08	0.02
EV/EBITDA	20.11	-0.55	14.17	20.79	36.47	21.05
PEG Ratio	16.13	2.72	2.05	1.81	2.85	1.76
Price/Book (P/B)	2.38	4.49	3.31	3.22	9.60	4.49
Price/Cash Flow (P/CF)	23.97	23.53	13.63	12.14	42.13	18.36
P/E (F1)	242.00	30.91	19.08	20.15	43.92	24.40
Price/Sales (P/S)	3.36	3.88	2.67	3.93	12.49	5.21
Earnings Yield	0.41%	-0.56%	5.24%	4.96%	2.28%	4.10%
Debt/Equity	0.04	0.10	0.71	0.80	0.40	0.58
Cash Flow (\$/share)	1.01	-0.06	6.89	20.77	7.15	18.08
Growth Score	D	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	-16.65%	13.63%	10.80%	13.51%	19.06%	13.63%
Proj. EPS Growth (F1/F0)	134.48%	21.12%	7.23%	7.17%	4.40%	10.19%
Curr. Cash Flow Growth	-27.39%	9.71%	9.51%	14.64%	-1.76%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	6.29%	8.78%	8.55%	24.86%	13.51%	10.08%
Current Ratio	3.52	2.68	1.20	0.96	6.69	1.91
Debt/Capital	3.84%	17.42%	42.90%	44.43%	28.47%	36.53%
Net Margin	-2.93%	-15.15%	11.76%	4.96%	28.27%	14.47%
Return on Equity	-2.38%	-17.74%	16.98%	15.50%	22.34%	17.24%
Sales/Assets	0.60	0.60	0.54	0.33	0.49	0.45
Proj. Sales Growth (F1/F0)	6.88%	11.14%	4.15%	4.27%	9.74%	5.40%
Momentum Score	C	-	-	A	F	F
Daily Price Chg	1.21%	0.00%	-0.11%	-11.80%	0.29%	-0.15%
1 Week Price Chg	0.78%	-1.48%	-2.60%	-1.10%	-9.23%	-6.14%
4 Week Price Chg	4.98%	0.00%	1.51%	-7.78%	-9.97%	0.73%
12 Week Price Chg	22.43%	4.90%	5.63%	1.39%	0.93%	10.36%
52 Week Price Chg	1.80%	-9.80%	17.01%	4.43%	8.94%	36.68%
20 Day Average Volume	255,663	135,309	1,961,054	1,646,674	1,267,405	1,486,702
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.26%	0.00%	-0.01%
(F1) EPS Est 4 week change	-11.11%	0.00%	-0.00%	-4.26%	-2.78%	0.15%
(F1) EPS Est 12 week change	471.43%	0.00%	-0.16%	-4.32%	-2.99%	-0.03%
(Q1) EPS Est Mthly Chg	-25.00%	0.00%	0.00%	0.04%	-22.26%	-4.27%

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	D
Momentum Score	C
VGM Score	D

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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