

Masimo Corporation(MASI)

\$167.22 (As of 01/15/20)

Price Target (6-12 Months): **\$176.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Masimo has outperformed the industry in a year's time. The company continues to gain from its key Product segment, which witnessed solid growth in recent times. Notably, the company's non-invasive technology shipments surged in the quarter. In fact, management foresees increased shipments in the quarters ahead. A raised guidance as well as the recent regulatory approvals and product launches buoy optimism. On the flip side, Masimo's Royalty and Other segment saw significant softness lately. In fact, management expects no meaningful contribution from the unit in 2019. Furthermore, Masimo expects foreign currency headwinds in 2019 to impact its top line. The company faces fierce competition from MedTech bigwigs as well.

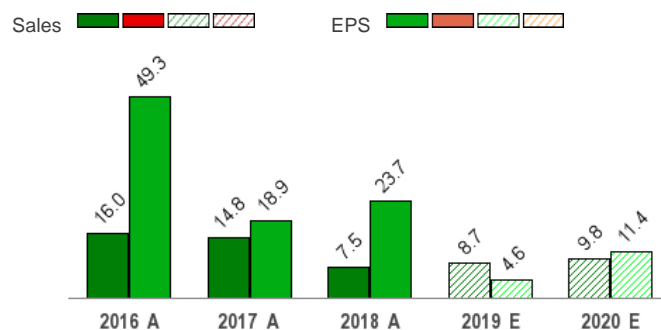
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.85 - \$116.22
20 Day Average Volume (sh)	282,122
Market Cap	\$8.9 B
YTD Price Change	5.8%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 37% (159 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	53.3
P/E F1	47.4
PEG F1	3.0
P/S TTM	9.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	254 E	252 E	250 E	269 E	1,024 E
2019	232 A	230 A	229 A	243 E	933 E
2018	213 A	212 A	211 A	223 A	858 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.89 E	\$0.86 E	\$0.83 E	\$0.99 E	\$3.53 E
2019	\$0.79 A	\$0.76 A	\$0.76 A	\$0.86 E	\$3.17 E
2018	\$0.75 A	\$0.73 A	\$0.71 A	\$0.83 A	\$3.03 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 01/15/2020. The reports text is as of 01/16/2020.

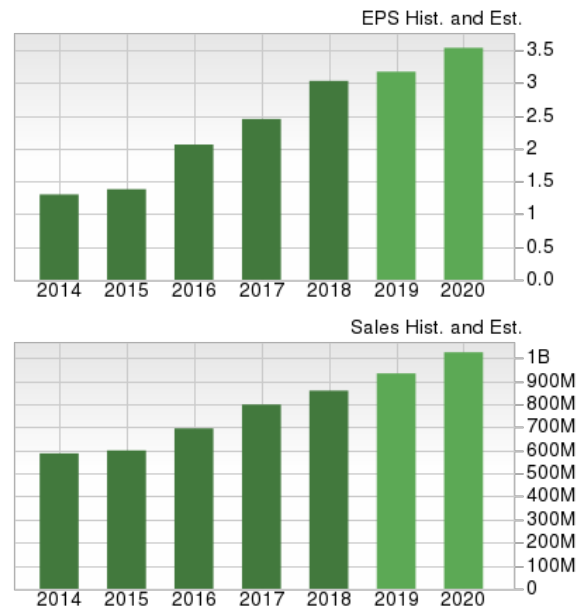
Overview

Irvine, CA-based Masimo Corporation (MASI) develops, manufactures and markets a family of non-invasive monitoring systems. The Company has two segments: Product Revenues, Royalty & Other revenues.

Within Product revenues, the company's flagship– Signal Extraction Technology (SET) Pulse Oximetry – is used to monitor blood oxygen saturation levels and protect against hypoxemia and hyperoxemia. The device also measures pulse rate. Apart from blood monitoring, the company has also ventured into non-invasive blood constituent, brain and breathe monitoring. The company's rainbow Pulse CO-Oximetry measures blood constituents that include total hemoglobin (SpHb), oxygen content (SpOC), carboxyhemoglobin (SpCO), methemoglobin (SpMet) and SET measurements of oxygen saturation (SpO2), pulse rate (PR), perfusion index (PI), and pleth variability index (PVI).

Rainbow Acoustic Monitoring measures respiration rate (RRa) non-invasively and on a continuous basis. SedLine monitors brain functioning of patients under anesthesia or sedation. The company also provides Capnography and Multigas Monitoring original equipment manufacturers (OEM) solutions.

Apart from these, the company also provides circuit boards to OEMs Carefusion, Mindray, Philips and others. OEMs generally use these circuit boards in their own multi-parameter products.



2018 at a Glance

On a full-year basis, Masimo reported revenues of \$858.3 million which rose 8.6% year over year.

For 2018, Product revenues grossed \$829.9 million (96.7% of net sales) while Royalty and Other revenues totaled \$28.4 million (3.3%).



Reasons To Buy:

▲ **Share Price:** Masimo's shares have outperformed the industry in a year's time. The shares have gained 42%, compared with the industry's 15.6% rise. The current level also compares favorably with the S&P 500 Index's increase of 23.8%. Broad product spectrum, positive tidings in the regulatory front and considerable focus on innovation provide cushion to the company's stock.

▲ **Guidance Strong:** Masimo has raised its 2019 guidance.

The company expects product revenues of \$932 million, compared with the earlier-communicated figure of \$925 million. Notably, this calls for reported growth of 12.3% and cc growth of 13.1%.

Adjusted earnings per share (EPS) is now expected at \$3.18, compared with the previously-stated \$3.15.

▲ **Streak of Recent Positive Study Results:** Masimo further announced that its SET Measure-through Motion and Low Perfusion pulse oximetry might be a useful initial screening method to identify children with Down Syndrome (DS) who are at a high risk of obstructive sleep apnea (OSA). Out of 161 children with DS, 25 were separately diagnosed with OSA having monitored overnight using Masimo Radical-7 Pulse CO-Oximeters. Notably, the screening method might replace multichannel sleep studies, which are expensive and also available at specialist centers.

Newer studies found that Masimo's ORI helps clinicians reduce the number of days ICU patients experience hyperoxemia while on mechanical ventilation.

▲ **Positive Feedbacks:** Masimo has been recently selected by the FDA as one of eight companies out of an applicant pool of more than 250 companies for the FDA innovation challenge to develop products, to prevent and treat opioid use disorder. This program is similar to the FDA breakthrough devices program in terms of encouraging innovation for the public good and ensuring that it reaches the marketplace quickly through an expedited approval process.

In fact, in May, Masimo received FDA approval for its new tetherless SET oximetry sensor and the Radius PPG. In June, the FDA cleared Masimo's O3 cerebral oximetry monitor.

In August, the company received a CE mark for neonatal use of its continuous hemoglobin monitoring technology, marking the company's first SpHb technology.

▲ **Patient-Monitoring in Focus:** Masimo offers mobile as well as standalone units, allowing a patient to be monitored from the ambulance to the emergency room to the general floor, and through to discharge. The company's new Root patient monitoring and connectivity platform integrates rainbow and SET technologies. Masimo Patient SafetyNet System is a remote monitoring (wireless) system which helps clinicians effectively monitor patient clinical data, especially on general floors of a hospital.

In non-invasive patient monitoring, the company's Patient SafetyNet, Rainbow acoustic monitoring, SedLine brain function monitoring, Capnography and gas monitoring deserve a mention. Masimo's flagship Rad-97 Pulse CO-Oximeter with integrated NomoLine capnography obtained CE mark. This will make the device available in and outside the United States.

In May, Masimo and Mdloris Medical Systems recently unveiled the CE marking of the Mdloris Analgesia Nociception Index (ANI) module for the Masimo Root Patient Monitoring and Connectivity Hub. This marks the first commercially available result of Masimo Open Connect (MOC) third-party partnership between Masimo and Mdloris. It is to be noted here that ANI on Masimo Root has not received 510(k) clearance and is not available for sale in the United States. However, it has been cleared for sale in the European Union (EU).

Recently the company announced Pathway, which is a feature for the Root Patient Monitoring and Connectivity Platform. Pathway is likely to aid clinicians in simplifying decision making associated with newborn resuscitation.

▲ **SET Pulse Oximeter Driving Growth:** Masimo's flagship Signal Extraction Technology (SET) pulse oximetry or SET pulse oximeter solution successfully eliminates the limitations of conventional pulse oximeters. Masimo's rainbow SET technology is gaining traction owing to rapid product development. The device has been clinically proven to reliably detect critical congenital heart disease (CCHD) in newborns.

In recent past, the company announced that it is continuing to realize sales growth for its SET pulse oximetry product that exceeds the market growth rate due to the proven performance of Measure-through Motion and Low Perfusion SET pulse oximetry.

In fact, the company received FDA approval for its RD SET sensors with Masimo Measure-through Motion and Low Perfusion SET pulse oximetry in recent times.

Management confirmed that, Community Health System, one of the company's significant new customers, has upgraded to SET pulse oximetry. The advantages of Masimo's Measure-through Motion and Low Perfusion technology are complemented by the highly differentiated technology embedded in its rainbow products such as SpHb, PVi, and ORI.

On Sep 9, the company announced that it developed three additional indices (delta cHb, delta HHb, and delta O2Hb) for O3 Regional Oximetry. These additions will enable clinicians to view the relative contribution of each component to a patient's overall cerebral oxygen saturation (rSO2).

▲ **Cost Effectiveness – the Key Strategy:** One of the major benefits of Masimo's non-invasive SET pulse oximetry and rainbow SET is cost effectiveness. Usage of SET pulse oximetry has been proven cost effective compared to traditional solutions. This can be largely attributed to the fact that continuous monitoring lowers ICU transfer rate, which reduces hospitalization costs.

Masimo's non-invasive SET pulse oximeter is the key growth catalysts. New product launches and growing installed base of its existing devices are going to help Masimo gain greater market traction.

As per a study conducted by consulting firm Capgemini, an average 500-bed hospital would save \$468,000 lives annually by implementing SpHb and other rainbow measurements. Meanwhile, we believe that the product's cost effectiveness will continue to drive its demand, which will boost Masimo's top-line growth going forward.

▲ **Product Launches:** In addition to addressing critical care units, Masimo is launching new products that target general floor of hospitals and consumer market. The company launched MightySat fingertip pulse oximeter designed for personal use at the Consumer Electronics Show (CES) in Las Vegas.

Earlier this year, Masimo launched products, including UniView. In addition, the company recently introduced Root with Vital Signs Check, a product that enables hospitals to automate data collection. This reflects steady progress in advancing Masimo's hospital automation solutions for customers. Masimo announced the launch of Doctella, a home-based patient engagement and remote care automation platform. Also, Masimo announced the U.S. launch of Iris Device Management System, designed to streamline management of Masimo devices used throughout a hospital system.

Given Masimo's 30th anniversary, one of the company's plans is to launch a product every month of 2019. Keeping with that objective, in March, the company received the CE Mark for the pediatric indication for its next-generation SedLine brain function monitor.

▲ **Collaborations:** Masimo has successfully expanded its collaboration with OEMs for Rainbow, with more than 50 such deals currently in place. The company's products have been selected by the likes of Inova Fair Oaks Hospital, Penn Highlands DuBois, Singapore-based Changi General Hospital and Turkey, Malatya-based Turgut Ozal Medical Centre Liver Hospital. Growing installed base of Masimo's devices among hospitals is expected to drive recurring revenues over the long term.

In recent times, Masimo won a significant new business with the Turkish Ministry of Health to include more than 1,000 monitors with Masimo technology. Also, St Luke's Hospital University Health Network in Pennsylvania announced that its regional network of 10 hospitals and 320 affiliated sites is expanding their use of a range of Masimo hospital automation technologies after impressive outcome results at a pilot site. Given the success of the pilot program in the orthopedic ward, St Luke's extended its use of Patient SafetyNet to an additional 48 beds across two additional units on their Bethlehem campus.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** Masimo is currently trading at a forward P/E (F12M basis) ratio of 47.07 over the past year, which compares with 18.97 and 34.26 for the S&P 500 index and the industry, respectively.
- ▼ **Segmental Softness:** In the third quarter of 2019, Masimo's Royalty and Other revenues totaled \$95,000, significantly down from the year-ago quarter's \$8.5 million.
- ▼ **Cutthroat Competition in Niche Space:** Masimo faces strong competition from larger players such as Covidien in the pulse oximetry market. Moreover, the company also faces significant competition from OEM distributors as well as large medical devices companies.
- ▼ **Overdependence on Third Parties:** Masimo relies on third-party providers like OEMs for a part of its business. As a result of the third-party reliance, the company's performance could be affected by the loss of its OEM partners.
- ▼ **Customer Concentration:** Masimo faces customer concentration risk. Thus, loss of any of the company's customers would adversely impact the company's top line going forward.

A sluggish hospital capital spending environment remains an overhang. Intensifying competition from peers, over-dependence on third-party providers and customer concentration risks are major concerns.

Last Earnings Report

Masimo Q3 Earnings Beat Estimates, 2019 View Impressive

Masimo reported third-quarter 2019 adjusted EPS of 76 cents, which surpassed the Zacks Consensus Estimate of 71 cents. Earnings improved from the year-ago quarter by 26.7%.

The company's revenues improved 8.8% year over year to \$229 million and edged past the Zacks Consensus Estimate of \$220.9 million.

Segmental Analysis

Product Revenues

Product revenues in the third quarter totaled \$228.9 million, up 13.3% from the year-ago quarter and 13.6% at constant currency (cc). Per management, shipments of non-invasive technology boards and monitors increased approximately 2.7% to 60,700 in the quarter.

Royalty and Other Revenues

Revenues at the segment totaled \$95,000, significantly down from the year-ago quarter's \$8.5 million.

Margin Analysis

In the quarter under review, gross profit totaled \$156.3 million, up 11% year over year. Gross margin was 68.2%, up 140 basis points (bps).

Adjusted operating income in the quarter totaled \$51.6 million, up 6.1% from a year ago. Per management, adjusted operating margin dropped 60 bps to 22.5% in the quarter.

Research and development expenses totaled \$24.3 million, up 18%.

SG&A expenses in the quarter grossed \$80.4 million, up 12.3%.

Guidance

Masimo expects product revenues of \$932 million, compared with the earlier-communicated figure of \$925 million. Notably, this calls for reported growth of 12.3% and cc growth of 13.1%.

Adjusted EPS is now expected at \$3.18 compared with the previously-stated \$3.15.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	3.69%
EPS Surprise	7.04%
Quarterly EPS	0.76
Annual EPS (TTM)	3.14

Recent News

On **Dec 19**, Masimo announced that the company has expanded partnership with Dräger, whereby Dräger will integrate additional Masimo measurement technologies into Dräger's family of multi-parameter patient monitors, to help clinicians assess brain function, oxygenation, and ventilation status.

Valuation

Masimo's shares are up 5.8% and 43.9% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 2.5% while the Zacks Medical sector is up 2.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 17.4% and sector is up 5.2%.

The S&P 500 index is up 2% in the year-to-date period and 23.8% in the past year.

The stock is currently trading at 47.07X Forward 12-months earnings, which compares to 34.26X for the Zacks sub-industry, 21.75X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 50.01X and as low as 18.11X, with a 5-year median of 32.9X.

Our Neutral recommendation indicates that the stock will perform in line with the market.

Our \$176 price target reflects 48.9X forward 12-months earnings.

The table below shows summary valuation data for MASI.

Valuation Multiples - MASI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	47.07	34.26	21.75	18.97
	5-Year High	50.01	34.26	21.75	19.34
	5-Year Low	18.11	23.22	15.88	15.17
	5-Year Median	32.9	27.4	18.95	17.44
P/S F12M	Current	8.68	3.67	2.87	3.53
	5-Year High	9.06	3.67	3.81	3.53
	5-Year Low	2.12	2.16	2.42	2.54
	5-Year Median	5.46	2.51	2.93	3
P/B TTM	Current	8.05	4.2	4.58	4.5
	5-Year High	10.05	4.21	5.02	4.5
	5-Year Low	4.35	2.54	3.42	2.85
	5-Year Median	7.07	3.3	4.28	3.61

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



Top Peers

Baxter International Inc. (BAX)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
DexCom, Inc. (DXCM)	Neutral
Honeywell International Inc. (HON)	Neutral
Medtronic PLC (MDT)	Neutral
Quidel Corporation (QDEL)	Neutral
Stryker Corporation (SYK)	Neutral
Teleflex Incorporated (TFX)	Neutral

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	MASI Neutral	X Industry	S&P 500	BDX Neutral	HON Neutral	MDT Neutral
VGM Score	D	-	-	B	D	C
Market Cap	8.92 B	118.40 M	24.22 B	75.00 B	129.14 B	157.27 B
# of Analysts	3	2	13	12	10	13
Dividend Yield	0.00%	0.00%	1.75%	1.14%	1.99%	1.84%
Value Score	D	-	-	C	C	B
Cash/Price	0.07	0.09	0.04	0.01	0.10	0.07
EV/EBITDA	35.27	-0.57	14.11	22.73	14.26	18.45
PEG Ratio	3.00	2.72	2.06	1.98	2.23	2.85
Price/Book (P/B)	8.05	4.47	3.34	3.55	7.05	3.10
Price/Cash Flow (P/CF)	46.47	23.75	13.57	13.35	18.43	16.14
P/E (F1)	48.12	30.36	18.90	22.07	20.54	20.95
Price/Sales (P/S)	9.76	3.33	2.65	4.34	3.50	5.09
Earnings Yield	2.11%	-0.67%	5.29%	4.53%	4.87%	4.77%
Debt/Equity	0.00	0.10	0.72	0.86	0.61	0.49
Cash Flow (\$/share)	3.60	-0.06	6.94	20.77	9.81	7.27
Growth Score	B	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	24.25%	13.24%	10.56%	13.51%	8.86%	6.06%
Proj. EPS Growth (F1/F0)	11.46%	20.35%	7.59%	7.58%	8.16%	7.30%
Curr. Cash Flow Growth	21.34%	9.84%	14.73%	14.64%	8.22%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	19.43%	8.78%	9.00%	24.86%	7.62%	15.58%
Current Ratio	6.23	2.68	1.24	1.18	1.32	2.77
Debt/Capital	0.00%	17.32%	42.99%	46.17%	37.76%	32.80%
Net Margin	20.83%	-15.15%	11.14%	6.84%	17.06%	15.11%
Return on Equity	17.32%	-17.95%	17.16%	15.52%	32.01%	14.52%
Sales/Assets	0.75	0.60	0.55	0.33	0.63	0.34
Proj. Sales Growth (F1/F0)	9.72%	11.70%	4.23%	4.27%	3.49%	3.17%
Momentum Score	F	-	-	B	F	F
Daily Price Chg	1.94%	0.00%	0.27%	0.49%	0.16%	0.25%
1 Week Price Chg	4.35%	0.68%	0.39%	1.81%	-0.10%	4.18%
4 Week Price Chg	5.24%	2.07%	2.17%	3.79%	3.49%	3.10%
12 Week Price Chg	17.39%	4.04%	6.65%	10.22%	6.41%	11.51%
52 Week Price Chg	43.94%	-6.02%	22.43%	19.90%	30.94%	34.88%
20 Day Average Volume	282,122	108,921	1,545,017	1,007,095	2,060,670	3,587,916
(F1) EPS Est 1 week change	-2.08%	0.00%	0.00%	0.00%	-0.10%	0.00%
(F1) EPS Est 4 week change	-2.08%	0.00%	0.00%	0.00%	-0.10%	0.00%
(F1) EPS Est 12 week change	-4.33%	0.09%	-0.41%	-2.74%	-0.33%	0.69%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.13%	-0.37%	-0.09%

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	F
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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