

Masimo Corporation(MASI)

\$172.70 (As of 03/17/20)

Price Target (6-12 Months): **\$181.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

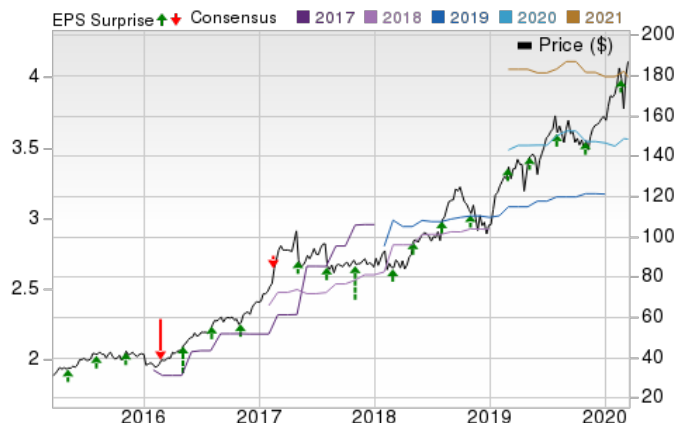
Growth: B

Momentum: C

Summary

Masimo exited the fourth quarter on a strong note. The company continues to gain from its key Product segment, which witnessed solid growth in the quarter. Notably, the company's non-invasive technology shipments surged in the quarter. In fact, management foresees a rise in shipments for the quarters ahead. A solid guidance for 2020, recent regulatory approvals and product launches buoy optimism. Expansion in gross and operating margin is heartening as well. The stock has outperformed the industry in a year's time. On the flip side, Masimo's Royalty and Other segment saw significant softness in the quarter. In fact, management expects no contribution from the unit in 2020. The company faces fierce competition from MedTech bigwigs as well. The stock is overvalued at the moment.

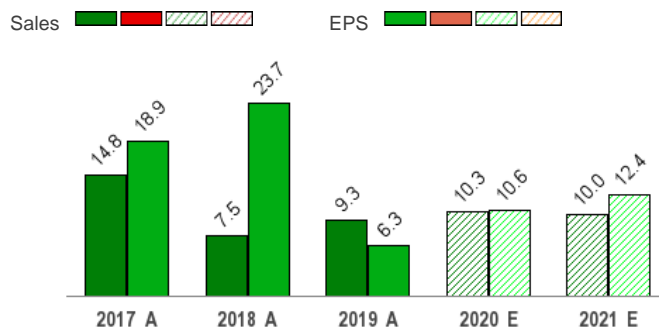
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$187.85 - \$118.93
20 Day Average Volume (sh)	606,118
Market Cap	\$9.2 B
YTD Price Change	9.3%
Beta	1.04
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 20% (50 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	1.4%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	53.6
P/E F1	48.5
PEG F1	3.0
P/S TTM	9.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	277 E	276 E	277 E	300 E	1,139 E
2020	251 E	253 E	252 E	279 E	1,035 E
2019	232 A	230 A	229 A	248 A	938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.94 E	\$0.95 E	\$0.96 E	\$1.12 E	\$4.00 E
2020	\$0.88 E	\$0.85 E	\$0.84 E	\$1.01 E	\$3.56 E
2019	\$0.79 A	\$0.76 A	\$0.76 A	\$0.91 A	\$3.22 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 03/17/2020. The reports text is as of 03/18/2020.

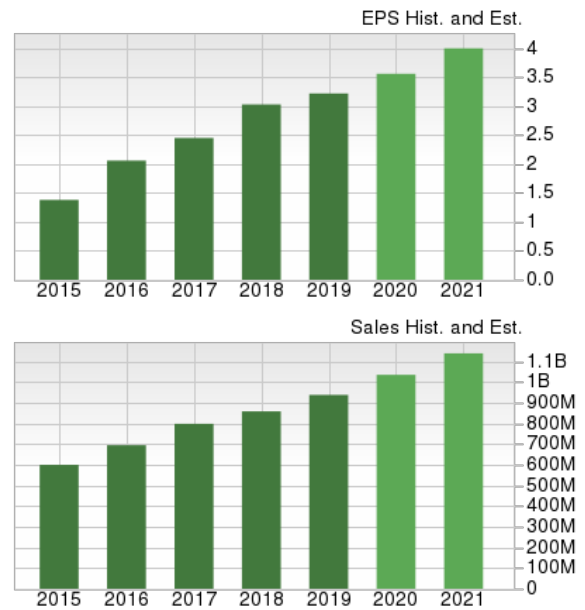
Overview

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.



2019 Results at a Glance

Masimo's full-year revenues totaled \$937.8 million, up 9.3%.

Product revenues were \$936.4 million (99.8%), while Royalty and Other revenues totaled \$1.4 million (0.2%).



Reasons To Buy:

▲ **Share Price:** Masimo's shares have outperformed the industry in a year's time. The shares have gained 29.7%, against with the industry's 21.7% rise. The current level also compares favorably with the S&P 500 Index's increase of 16.5%. Broad product spectrum, positive tidings in the regulatory front and considerable focus on innovation provide cushion to the company's stock.

▲ **View Impressive:** Masimo expects 2020 product revenues of \$1.04 billion, calling for growth of 12.3% and 11% at constant currency. Adjusted earnings per share (EPS) are expected at \$3.56. Adjusted gross margin is projected at 68%, while adjusted operating margin is estimated at 24.7%.

▲ **Positive Feedbacks:** Masimo has been riding high on a series of regulatory approvals. Notably, in March, the company received FDA clearance for the monitoring of adult and pediatric patients with Rad-97, Radical-7 and Radius-7 Pulse CO-Oximeters. Moreover, in the fourth quarter, the company announced submission of its Masimo SafetyNet for FDA clearance.

In fact, in recent times, 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. Also, 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 recent past, 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.

▲ **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.

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, 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.

▲ **Collaborations:** Masimo recently partnered with Imprivata, a digital identity company for healthcare, to integrate secure authentication to medical devices for clinical users.

In January, Masimo acquired connectivity assets from NantHealth. Per management, the acquisition provides Masimo with products that

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.

complement its portfolio apart from expanding its customer base.

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 49.08 over the past year, which compares with 13.87 and 25.38 for the S&P 500 index and the industry, respectively.
- ▼ **Segmental Softness:** In the fourth quarter of 2019, Masimo's Royalty and Other revenues totaled \$0.1 million, significantly down from the year-ago quarter's \$1.7 million.
- ▼ **Foreign Exchange Woes:** A strengthening U.S. dollar negatively impacts the overseas revenues of MedTech companies. Hence, Masimo apprehends a \$4-million impact on its 2020 product revenues, courtesy of unfavorable currency movements.
- ▼ **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 Earnings and Revenues Beat Estimates in Q4

Masimo reported fourth-quarter 2019 adjusted EPS of 91 cents, which surpassed the Zacks Consensus Estimate of 71 cents. Earnings improved 12.3% from the year-ago quarter.

The company's revenues improved 10.9% year over year to \$247.5 million and beat the Zacks Consensus Estimate of \$243 million.

Segmental Analysis

Product Revenues

Product revenues in the fourth quarter totaled \$247.4 million, up 11.8% from the year-ago quarter and 12% at constant currency (cc). Per management, shipments of non-invasive technology boards and monitors increased 1.8% to 61,400 in the quarter.

Royalty and Other Revenues

Revenues at the segment totaled \$0.1 million, significantly down from the year-ago quarter's \$1.7 million.

Margin Analysis

In the quarter under review, gross profit totaled \$166.9 million, up 12.5% year over year. Gross margin was 67.4%, up 100 basis points (bps).

Adjusted operating income in the quarter totaled \$63.6 million, up 20.9% from a year ago. Adjusted operating margin dropped 190 bps to 25.7% in the quarter.

Research and development expenses totaled \$23.4 million, up 12.7%.

SG&A expenses in the quarter grossed \$81.9 million, up 11.2%.

Guidance

Masimo expects 2020 product revenues of \$1.04 billion, calling for growth of 12.3% and 11% at cc.

Adjusted EPS is expected at \$3.56.

Adjusted gross margin is projected at 68%, while adjusted operating margin is expected at 24.7%.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	1.67%
EPS Surprise	4.60%
Quarterly EPS	0.91
Annual EPS (TTM)	3.22

Recent News

On **Mar 10**, Masimo announced a partnership with Imprivata, a digital healthcare company to integrate Imprivata Medical Device Access – a streamlined, secure authentication to medical devices for clinical users.

On **Mar 2**, Masimo announced the FDA clearance for the monitoring of adult and pediatric patients with Rad-97, Radical-7, and Radius-7 Pulse CO-Oximeters.

Valuation

Masimo's shares are up 9.3% and 30.6% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 18.6% while the Zacks Medical sector is down 16.9% in the year-to-date period. Over the past year, the Zacks sub-industry is up 18.2% and sector is down 17.8%.

The S&P 500 index is down 21.4% in the year-to-date period and 11.6% in the past year.

The stock is currently trading at 47.28X Forward 12-months earnings, which compares to 26.29X for the Zacks sub-industry, 17.13X for the Zacks sector and 14.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 51.56X and as low as 20.7X, with a 5-year median of 33.25X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$181 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	47.28	26.29	17.13	14.79
	5-Year High	51.56	51.56	21.08	18.68
	5-Year Low	20.7	20.7	17.13	14.79
	5-Year Median	33.25	33.25	19.55	17.15
P/S F12M	Current	8.72	2.93	2.33	2.71
	5-Year High	9.44	3.63	2.77	3.43
	5-Year Low	2.62	2.16	2.33	2.71
	5-Year Median	5.54	2.55	2.6	3.16
P/B TTM	Current	7.89	2.45	3.81	3.4
	5-Year High	10.05	4.2	4.86	4.55
	5-Year Low	5.25	2.36	3.59	3.21
	5-Year Median	7.17	3.29	4.47	4.05

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	MASI Neutral	X Industry	S&P 500	BDX Underperform	HON Neutral	MDT Neutral
VGM Score	C	-	-	D	B	C
Market Cap	9.21 B	68.34 M	17.72 B	67.39 B	93.92 B	107.49 B
# of Analysts	2	2	13	12	10	14
Dividend Yield	0.00%	0.00%	2.51%	1.27%	2.73%	2.69%
Value Score	D	-	-	D	C	C
Cash/Price	0.07	0.12	0.06	0.01	0.10	0.10
EV/EBITDA	33.08	-0.19	10.97	20.58	10.51	12.97
PEG Ratio	3.02	2.11	1.54	2.27	1.67	1.93
Price/Book (P/B)	7.89	2.85	2.39	3.18	5.02	2.07
Price/Cash Flow (P/CF)	44.41	17.55	9.36	11.96	13.32	11.03
P/E (F1)	48.51	25.62	13.98	20.78	15.25	14.23
Price/Sales (P/S)	9.82	2.24	1.87	3.88	2.56	3.46
Earnings Yield	2.06%	-1.39%	7.13%	4.81%	6.56%	7.03%
Debt/Equity	0.00	0.10	0.70	0.80	0.59	0.48
Cash Flow (\$/share)	3.89	-0.06	7.01	20.77	9.89	7.27
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	23.53%	13.45%	10.85%	12.78%	8.56%	6.24%
Proj. EPS Growth (F1/F0)	10.56%	17.45%	5.38%	2.41%	5.91%	7.95%
Curr. Cash Flow Growth	8.77%	7.70%	6.15%	14.64%	-1.43%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	19.44%	10.70%	8.55%	24.86%	5.69%	15.58%
Current Ratio	5.78	2.59	1.24	0.96	1.34	2.75
Debt/Capital	0.00%	15.34%	42.57%	44.43%	37.28%	32.25%
Net Margin	20.92%	-15.10%	11.57%	4.96%	16.73%	17.11%
Return on Equity	17.03%	-23.03%	16.74%	15.50%	32.21%	14.76%
Sales/Assets	0.73	0.58	0.54	0.33	0.62	0.34
Proj. Sales Growth (F1/F0)	10.37%	8.66%	3.33%	2.05%	1.33%	2.57%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	-0.86%	0.00%	5.62%	11.37%	-2.57%	3.59%
1 Week Price Chg	3.77%	-15.16%	-11.01%	-1.10%	-8.91%	-10.34%
4 Week Price Chg	-4.84%	-29.88%	-28.54%	-2.92%	-26.54%	-28.80%
12 Week Price Chg	8.35%	-27.78%	-25.74%	-8.97%	-25.25%	-29.50%
52 Week Price Chg	29.76%	-43.80%	-18.88%	0.38%	-16.18%	-13.44%
20 Day Average Volume	606,118	168,106	3,651,283	2,524,629	5,141,430	8,206,405
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.78%	0.00%
(F1) EPS Est 4 week change	1.42%	0.00%	-0.58%	-0.06%	-2.07%	0.63%
(F1) EPS Est 12 week change	0.75%	0.00%	-1.18%	-4.81%	-1.90%	0.63%
(Q1) EPS Est Mthly Chg	0.57%	0.00%	-0.77%	-3.32%	-0.27%	-1.13%

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	C
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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