

Masimo Corporation(MASI)

\$218.77 (As of 07/29/20)

Price Target (6-12 Months): **\$186.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

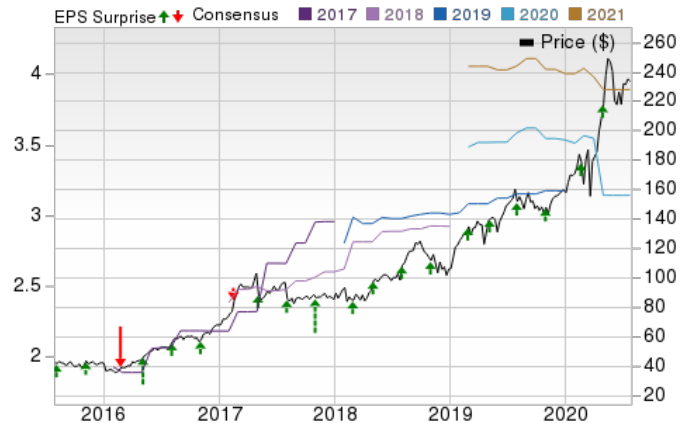
Growth: C

Momentum: B

Summary

Masimo exited the second quarter on a strong note. However, contraction of both margins is a concern. Masimo's Royalty and Other segment saw no contribution during the quarter. Further, the company faces fierce competition from MedTech bigwigs. On the bright side, the company continues to gain from its key Product segment, which witnessed solid growth in the quarter under review. The company's non-invasive technology shipments also surged in the quarter. The recent launch of the Masimo SafetyNet, designed to help fight the coronavirus pandemic, buoys optimism. The outbreak has boosted demand for the company's products among direct and OEM customers. The company recently saw a plethora of new product launches like Masimo Sleep and UniView: 60. Its shares have outperformed the industry over the past year.

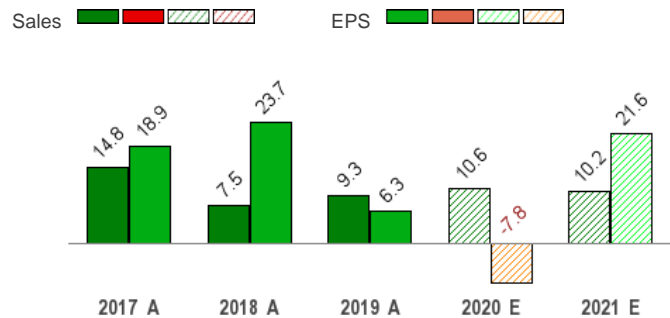
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$258.00 - \$139.36
20 Day Average Volume (sh)	467,796
Market Cap	\$12.0 B
YTD Price Change	38.4%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 34% (167 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	-5.4%
Expected Report Date	11/04/2020
Earnings ESP	-12.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	280 E	282 E	281 E	306 E	1,143 E
2020	270 A	301 A	209 E	269 E	1,037 E
2019	232 A	230 A	229 A	248 A	938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.87 E	\$0.81 E	\$1.13 E	\$3.61 E
2020	\$0.97 A	\$0.85 A	\$0.45 E	\$0.90 E	\$2.97 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.

P/E TTM	62.7
P/E F1	73.7
PEG F1	4.6
P/S TTM	11.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

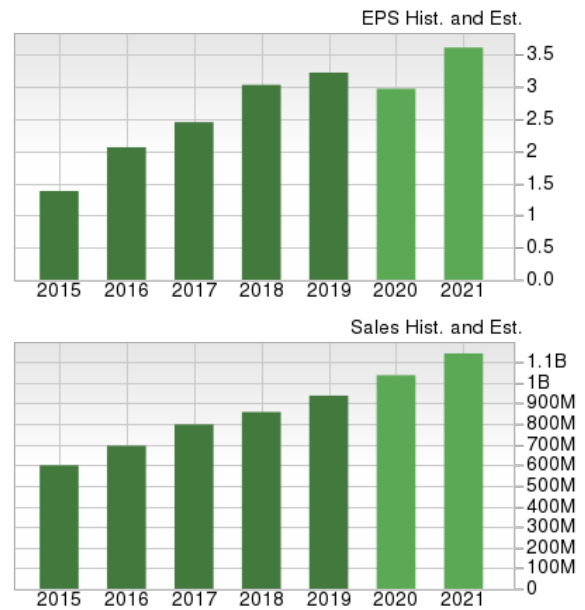
Overview

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 Sell:

- ▼ **Segmental Softness:** In the second quarter, Masimo's Royalty and Other segment saw no contribution.
- ▼ **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.

Risks

- **Share Price:** Masimo's shares have outperformed the industry over the past year. The shares have gained 38.6%, compared with the industry's 20.2% gain. A broad product spectrum, positive tidings in the regulatory front and considerable focus on innovation provide have driven the company's stock. The company continues to gain from its key Product segment, which witnessed solid growth in the quarter on a surge in non-invasive technology shipments. The recent launch of the Masimo SafetyNet, designed to help in the fight against the coronavirus pandemic, buoys optimism.
- **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 March 2020, the company obtained FDA clearance for the continuous RRP (respiration rate from the photoplethysmograph) monitoring of adult and pediatric patients with Rad-97, Radical-7 and Radius-7 Pulse CO-Oximeters. With this go-ahead, both continuous and spot-check RRP are now commercially available in the United States.

In the second quarter, the company received FDA clearance for Centroid, which is a wearable, wireless sensor designed to monitor patient position and help clinicians reduce pressure ulcers or bedsores and to alert clinicians of sudden movements.

- **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 March 2020, the company and University Hospitals collaborated to implement Masimo SafetyNet to help clinicians monitor patients remotely. This is likely to ramp up demand for its patient monitoring systems, thereby facilitating remote monitoring at patients' homes. Since the full market release in April, 120 customers have implemented Masimo SafetyNet to deal with the COVID-19 patient surge.

In July 2020, the company announced a crucial expansion to the Masimo SafetyNet platform with the launch of Radius T°, a wearable, wireless sensor that provides continuous body temperature measurements. This lends the patient monitoring solution the capability to track four key vital signs – oxygen saturation, respiration rate, pulse rate, and now, temperature.

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.

The unit sales of the company's Root Connectivity platform increased more than fivefold in the second quarter. The company also witnessed increased demand for its Patient SafetyNet in-hospital monitoring system. Patient SafetyNet together with bedside devices like Root facilitates continuous monitoring of more patients on the postsurgical floor, thereby improving patient outcomes.

- **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.

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.

With the recent Imprivata deal, Masimo will not only add to its SET Pulse Oximeter Technology but also bolster patient monitoring, which in turn will drive growth.

- **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.

In April 2020, the company extended its reach into care for respiratory patients through the acquisition of TNI Medical, a company in Germany producing high flow nasal cannula oxygen therapy. In the same month, the company announced the full market release of Masimo SafetyNet, which is an economically scalable cloud-based patient management solution, created to enable clinicians to provide care for patients in hospital settings and non-traditional settings remotely. This innovative solution is now available globally and is likely to aid clinicians and health workers in fighting the COVID-19 pandemic.

In January, Masimo acquired connectivity assets from NantHealth. Per management, the acquisition provides Masimo with products that complement its portfolio apart from expanding its customer base.

In June 2020, the company launched Masimo SafetyNet-Open, which has been designed to help businesses, governments and schools

manage employee and student health and safety better during the COVID-19 crisis. This is expected to strengthen the company's foothold in the non-invasive patient monitoring space. In the same month, the company introduced — Masimo Sleep — a new health and wellness home monitoring solution which has been developed to enable consumers to understand their quality of sleep better.

In July, the company unveiled its latest automation and connectivity solution, UniView: 60. The solution leverages the Masimo Hospital Automation platform to aggregate and showcase relevant patient information on a digital display just outside each patient's room, enabling clinicians to acquaint themselves with the most pertinent details of each case at the door a minute before they visit the patient. Further, the company announced an opioid withdrawal solution — Bridge — that utilizes neuromodulation for reducing symptoms related to opioid withdrawal. Equipped with an FDA De Novo classification, Bridge is the first evidence-based, drug-free, non-surgical device of its kind.

- **Collaborations:** In March 2020, the company inked a deal with Imprivata with respect to the integration of Imprivata Medical Device Access into Masimo's Hospital Automation solutions that feature the Root Patient Monitoring and Connectivity Platform, and Iris Gateway. On the back of this newly-launched technology, hospitals are likely to benefit from a more powerful patient monitoring and hospital automation solution created to boost clinical workflows and efficacy in a number of ways.

In April 2020, 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.

In the same month, the company announced its collaboration with Samsung Electronics America to make the Masimo SafetyNet Patient App available on select Samsung smartphones. The app will be pre-installed and configured on these phones. The collaboration is likely to enable faster and wider distribution of Masimo SafetyNet to COVID-19 patients, particularly the older patients who are less likely to own smartphones or have the ease to configure the app on their own.

In May 2020, Masimo extended its licensing agreement with Royal Philips whereby the latter will incorporate additional Masimo measurement technologies into select IntelliVue MX-series multi-parameter monitors to help clinicians evaluate cerebral oximetry and ventilation status.

- **Strong Liquidity Position:** The company exited the second quarter of 2020 with cash and cash equivalents and short-term investments amounting to \$682 million, up from \$656 million in the preceding quarter. Meanwhile, the company does not have either long-term or current debt. This is good news in terms of the company's solvency level as, at least during a year of economic downturn, the company has sufficient cash for debt repayment.
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Last Earnings Report

Masimo Earnings and Revenues Beat Estimates in Q2

Masimo Corporation reported second-quarter 2020 adjusted earnings per share of 85 cents, which surpassed the Zacks Consensus Estimate of 78 cents by 8.9%. Earnings improved 11.8% from the year-ago quarter.

Total revenues (including Royalty) improved 31.1% year over year to \$301 million and beat the Zacks Consensus Estimate of \$289.33 million by 4%.

Segmental Analysis

Product Revenues

Product revenues in the second quarter totaled \$301 million, up 31.1% from the year-ago quarter and 32% at constant currency (cc).

Per management, shipments of non-invasive technology boards and monitors surged 174% to a record 165600 in the quarter.

Margin Analysis

In the quarter under review, gross profit totaled \$191.6 million, up 24.1% year over year. Gross margin was 63.6%, down 355 basis points (bps).

Adjusted operating profit in the quarter totaled \$62.2 million, up 19.7% from a year ago. Adjusted operating margin contracted 196 bps to 20.7% in the quarter.

2020 Guidance

Given the uncertainties surrounding the COVID-19 pandemic and its impact on the company's normal business patterns, Masimo has not issued any guidance for 2020.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	4.02%
EPS Surprise	8.97%
Quarterly EPS	0.85
Annual EPS (TTM)	3.49

Recent News

Masimo Introduces Automation and Connectivity Solution: July 14, 2020

Masimo Corporation unveiled its latest automation and connectivity solution, UniView: 60. The solution leverages the Masimo Hospital Automation platform to aggregate and showcase relevant patient information on a digital display just outside each patient's room, enabling clinicians to acquaint themselves with the most pertinent details of each case at the door a minute before they visit the patient.

Masimo's New Solution to Reduce Opioid Withdrawal Symptoms: Jun 29, 2020

Masimo Corporation recently announced an opioid withdrawal solution — Bridge — that utilizes neuromodulation for reducing symptoms related to opioid withdrawal. Equipped with an FDA De Novo classification, Bridge is the first evidence-based, drug-free, non-surgical device of its kind.

Masimo's New Offering to Improve Patient Outcomes: Jun 25, 2020

Masimo Corporation announced that Centroid — a wearable, wireless patient orientation, activity, and respiration rate sensor — has been cleared by the FDA. With this FDA clearance, the company is likely to strengthen its Root Patient Monitoring and Connectivity platform.

Valuation

Masimo's shares are up 38.4% and 38.6% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 14.3% and 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 16.9% and 8.4%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 9.1% in the past year.

The stock is currently trading at 61.2X Forward 12-months earnings, which compares to 40.2X for the Zacks sub-industry, 21.7X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.5X and as low as 20.7X, with a 5-year median of 34.3X.

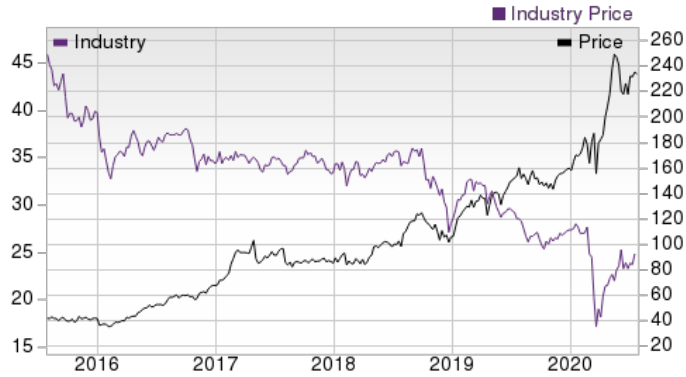
Our Underperform recommendation indicates that the stock will perform below the market. Our \$186 price target reflects 52X forward 12-months earnings.

The table below shows summary valuation data for MASI.

Valuation Multiples -MASI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	61.22	40.15	21.67	22.44
	5-Year High	73.45	41.50	23.17	22.44
	5-Year Low	20.70	23.23	15.89	15.25
	5-Year Median	34.27	28.04	18.98	17.52
P/S F12M	Current	10.78	4.31	2.83	3.54
	5-Year High	12.61	4.31	3.74	3.54
	5-Year Low	2.63	2.49	2.22	2.53
	5-Year Median	5.89	2.98	2.90	3.02
P/B TTM	Current	9.45	4.41	4.39	4.40
	5-Year High	10.81	4.67	5.07	4.56
	5-Year Low	5.62	2.69	2.94	2.83
	5-Year Median	7.37	3.83	4.30	3.71

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Baxter International Inc. (BAX)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	3
DexCom, Inc. (DXCM)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Quidel Corporation (QDEL)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Teleflex Incorporated (TFX)	Neutral	3
Medtronic PLC (MDT)	Underperform	5

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	MASI	X Industry	S&P 500	BDX	HON	MDT
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	5
VGM Score	D	-	-	C	C	C
Market Cap	12.02 B	129.74 M	22.69 B	74.95 B	108.49 B	132.41 B
# of Analysts	2	2	14	12	10	14
Dividend Yield	0.00%	0.00%	1.8%	1.14%	2.33%	2.35%
Value Score	D	-	-	B	B	D
Cash/Price	0.05	0.09	0.07	0.03	0.14	0.08
EV/EBITDA	44.11	-1.32	13.11	21.96	12.32	18.37
PEG Ratio	4.59	4.72	3.05	3.68	2.91	3.74
Price/Book (P/B)	8.94	3.63	3.15	3.58	5.91	2.60
Price/Cash Flow (P/CF)	56.26	23.16	12.28	13.31	15.63	14.92
P/E (F1)	73.66	44.62	22.27	26.70	22.39	28.94
Price/Sales (P/S)	11.48	4.22	2.46	4.30	3.14	4.58
Earnings Yield	1.36%	-3.23%	4.25%	3.74%	4.46%	3.45%
Debt/Equity	0.00	0.09	0.75	0.80	0.96	0.43
Cash Flow (\$/share)	3.89	-0.13	6.94	20.77	9.89	6.62
Growth Score	C	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	22.66%	13.32%	10.85%	11.71%	7.45%	5.13%
Proj. EPS Growth (F1/F0)	-7.76%	-5.67%	-7.70%	-11.36%	-15.39%	-25.69%
Curr. Cash Flow Growth	8.77%	5.66%	5.31%	14.64%	-1.43%	-9.02%
Hist. Cash Flow Growth (3-5 yrs)	19.44%	11.49%	8.55%	24.86%	5.69%	7.68%
Current Ratio	4.80	2.64	1.31	0.98	1.63	2.13
Debt/Capital	0.00%	13.54%	44.23%	44.51%	48.93%	30.21%
Net Margin	21.22%	-15.86%	10.45%	6.10%	16.94%	16.56%
Return on Equity	16.49%	-14.20%	14.99%	15.75%	29.93%	12.17%
Sales/Assets	0.72	0.58	0.53	0.33	0.58	0.32
Proj. Sales Growth (F1/F0)	10.57%	0.00%	-1.97%	-1.98%	-12.89%	-5.08%
Momentum Score	B	-	-	F	F	C
Daily Price Chg	-7.04%	0.42%	1.52%	1.25%	1.69%	2.46%
1 Week Price Chg	-0.63%	0.00%	0.37%	1.84%	-3.59%	-2.26%
4 Week Price Chg	-4.76%	4.89%	5.44%	14.44%	7.27%	6.93%
12 Week Price Chg	-8.87%	15.70%	15.38%	6.66%	16.19%	2.03%
52 Week Price Chg	38.59%	-6.69%	-1.61%	9.34%	-10.37%	-3.16%
20 Day Average Volume	467,796	224,064	1,846,377	1,302,561	3,013,152	4,381,457
(F1) EPS Est 1 week change	-5.41%	0.00%	0.00%	0.00%	-0.26%	0.00%
(F1) EPS Est 4 week change	-5.41%	0.00%	0.27%	-0.54%	-0.33%	-2.69%
(F1) EPS Est 12 week change	-5.41%	-6.80%	-0.85%	-3.59%	-11.63%	-32.58%
(Q1) EPS Est Mthly Chg	-11.88%	0.00%	0.13%	0.90%	-7.76%	0.00%

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	C
Momentum Score	B
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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