

Teleflex Incorporated (TFX)

\$378.70 (As of 01/10/20)

Price Target (6-12 Months): **\$398.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/05/17)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: B

Summary

In the past three months, shares of Teleflex have outperformed its industry. Teleflex's promising third-quarter results were driven by strength in all segments. Geographically, Asia, EMEA and the Americas recorded robust revenue growth at CER. The continued UroLift momentum was impressive. We look forward to the future transition of UroLift. Gross margin expansion and raised revenue guidance also buoy optimism. The company currently awaits UroLift's limited launch in Japan. Teleflex also announced a reimbursement milestone for UroLift, with the receipt of positive coverage decision from health insurers, Humana and Anthem. However, rising operating expenses and adjusted operating loss in the quarter are concerning. Tough competition and pricing pressure also weigh on the stock.

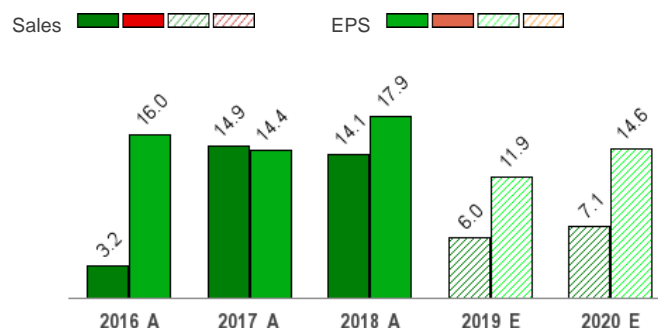
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$384.70 - \$246.52
20 Day Average Volume (sh)	160,233
Market Cap	\$17.5 B
YTD Price Change	0.6%
Beta	0.95
Dividend / Div Yld	\$1.36 / 0.4%
Industry	Medical - Instruments
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	655 E	695 E	699 E	727 E	2,778 E
2019	614 A	653 A	648 A	679 E	2,594 E
2018	587 A	610 A	610 A	642 A	2,448 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.77 E	\$3.11 E	\$3.28 E	\$3.56 E	\$12.70 E
2019	\$2.24 A	\$2.66 A	\$2.97 A	\$3.21 E	\$11.08 E
2018	\$2.15 A	\$2.47 A	\$2.52 A	\$2.77 A	\$9.90 A

*Quarterly figures may not add up to annual.

P/E TTM	35.6
P/E F1	29.8
PEG F1	2.2
P/S TTM	6.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

Overview

Teleflex is a global provider of medical technology products. The company primarily designs, develops, manufactures and supplies single-use medical devices used by hospitals and healthcare providers for common diagnostic and therapeutic procedures in critical care and surgical applications.

The company markets and sells its products to hospitals and healthcare providers worldwide through a combination of direct sales force and distributors. Teleflex has approximately 35 manufacturing sites with major manufacturing operations located in the Czech Republic, Germany, Malaysia, Mexico and the United States.

Following the acquisition of Vascular Solutions in 2017, Teleflex currently has seven reportable segments:

Vascular (22.9% of total revenues in third quarter fiscal 2019, underlying growth of 4.6% from third-quarter fiscal 2018): Vascular access business which offers products that facilitate a variety of critical care therapies and other applications.

Interventional (16.5%; up 6.9%): This segment is comprised of the North American component of the company's acquired Vascular Solutions business, as well as interventional access and cardiac care businesses.

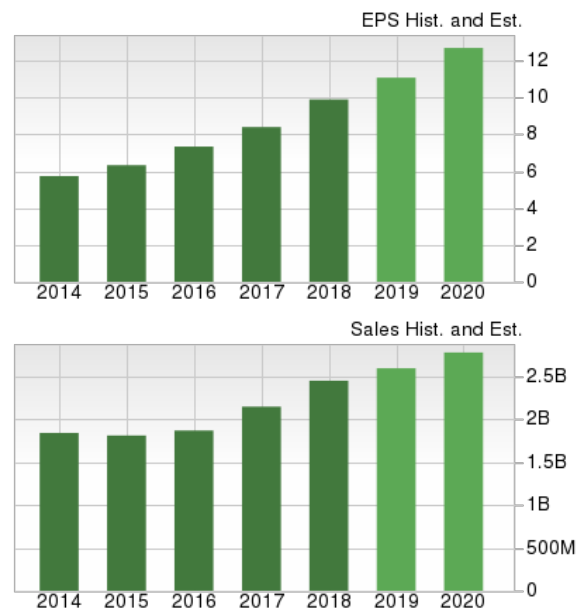
Anesthesia (13.4%; down 0.5%): This segment is comprised of North American pain management and airway management products and other products.

Surgical (14.3%; up 3%): a comprehensive range of devices for use in a variety of surgical procedures.

Interventional Urology (11.4%; up 50.2%): This segment provides medical devices primarily used in critical care, surgical applications and cardiac care and generally serves two end markets: hospitals/ healthcare providers, and home health.

Original Equipment Manufacturer and Development Services (OEM) (8.5%; up 0.9%): This segment designs, manufactures and supplies devices and instruments for other medical device manufacturers.

Other (12.9%; down 2.8%): The segment includes single-use respiratory products and also has an operating segment, encompassing the company's Latin American business.



Reasons To Buy:

▲ **Share Price Performance:** Over the past three months, shares of Teleflex have outperformed its industry. The stock gained 16.6% compared with the industry's 10.3% growth. Teleflex exited the third quarter of 2019 on a solid note with better-than-expected earnings and revenues figures. The company is particularly pleased with the quarter's strong broad-based revenue growth from product and geographic perspective. The promising performance was driven by 50.4% growth in Interventional Urology at constant exchange rate or CER, 8.2% growth in Interventional at CER, 6.1% in Vascular Access at CER and 5% in Surgical at CER. Geographically, Asia, EMEA and Americas registered strong constant currency revenue growth. A raised revenue guidance indicates that this bullish momentum will continue through the rest of the year.

The company is optimistic about the continuation of the impressive performance of UroLift. It also expects to influence more than 450 new urologists during 2019 to move over to UroLift 2, which is expected to be rolled out from the fourth quarter. This apart, in terms of MANTA, the company's vascular closure device- following its limited market release, Teleflex is receiving strong positive feedback. The company expects the full US market release of MANTA in January 2020.

▲ **NeoTract Inclusion an Upside:** NeoTract, the acquired business of Teleflex, has been performing impressively lately. This has prompted Teleflex to pay a higher level of contingent consideration than previously planned. In the third quarter, the Interventional Urology business registered 50.4% growth at CER as a result of NeoTract's continued strong momentum.

NeoTract's FDA-cleared UroLift System witnessed increased adoption in the third quarter. Notably, UroLift System is a minimally invasive technology for treating lower urinary tract symptoms due to benign prostatic hyperplasia (BPH). The company expects to train a total of 450 new urologists during 2019. As per the company, based on strong UroLift performance during the first half of the year, full-year UroLift revenue growth guidance has been increased to 40% from the earlier projection of 35% growth rate.

Last November, the company received Shonin approval for UroLift in Japan. The company is currently working on a limited launch of the system in mid-to late 2020, with revenues to escalate in 2021.

Per the company, around 2.3 million men aged 50 and above have been diagnosed with BPH in Japan. In February, Teleflex announced a major reimbursement milestone of receiving a positive coverage decision from health insurer Humana, adding approximately 9 million covered lives, bringing UroLift's total covered lives to over 270 million in the United States.

▲ **Vascular Solution Synergy Continues:** The \$976-million acquisition of Vascular Solutions (acquired in February 2017) has been accelerating growth of Teleflex' vascular and interventional access product portfolios by facilitating further expansion into the coronary and peripheral vascular market, and by generating increased cross-portfolio selling opportunities.

In the third quarter, net revenues from Vascular Access increased 6.1% at CER on strength in PICC (Peripherally Inserted Central Catheters), CVC (Central Venous Catheter) and Vidacare. Additionally, the demand from end customers was more than distributors' orders, which positively impacted the company's top line.

▲ **Business in Asia Grows Strong:** Observing strong demand for the company's wide product line in emerging economies, Teleflex is currently focusing on expansion in densely populated geographies like Asia. In the last reported quarter, this region contributed 12% to the company's overall business. During the quarter, Asia reported year-over-year growth of 5% at CER banking on strong rollout of the company's Vascular and Surgical products. From a geographical perspective, business in China grew 11.5%.

Teleflex continues to report improvement in revenues banking on balanced growth across all segments and geographies. The newly-acquired NeoTract has already started to contribute to the company's topline quite handsomely.

Reasons To Sell:

- ▼ **Escalating Expenses Put Pressure on Bottom Line:** Teleflex' selling, general and administrative expenses during the third quarter rose 6.9%. The increase in research and development expenses was 6.1%. Furthermore, the company is increasing investments in research and development in order to accelerate growth from new products between 2019 and 2021.

This apart, over the past Teleflex has implemented a number of restructuring, realignment and cost reduction initiatives, including facility consolidations, organizational realignments and reductions in workforce-the most recent one being 2018 Footprint Realignment Plan. While the company has historically realized some efficiencies from these initiatives, it may fail to realize the benefits of these or future initiatives to the expected extent. This may also put pressure on bottom line.

- ▼ **Competitive Landscape Tough:** Teleflex competes with companies, ranging from small start-up enterprises to larger and more established companies who have access to significantly greater financial resources. Furthermore, extensive product research and development and rapid technological advances characterize the market in which we compete. According to Teleflex, it competes primarily on the basis of clinical superiority and innovative features that enhance patient benefit, product reliability, performance, customer and sales support and cost-effectiveness. Its major competitors include Medtronic and Becton, Dickinson and Company.

- ▼ **Foreign Exchange Translation Impacts Sales:** Foreign exchange is a major headwind for Teleflex due to considerable percentage of its revenues coming from outside the U.S. The strengthening of Euro and some other developed market currencies has been constantly hampering the company's performance in the international markets.
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Escalating operating expenses are putting immense pressure on bottom line. Tough competition and pricing pressure also weigh on the stock.

Last Earnings Report

Teleflex Earnings and Revenues Beat Estimates in Q3

Teleflex reported earnings per share from continuing operations of \$2.97 in the third quarter of 2019, up 17.9% year over year. Further, the bottom line surpassed the Zacks Consensus Estimate by 8%.

On a GAAP basis, earnings per share were \$4.85, compared with \$1.21 in the prior-year quarter.

Net revenues from continuing operations in the third quarter rose 6.3% year over year to \$648.3 million. On a year-over-year basis, the company saw organic constant currency revenue growth of 8%. The top line surpassed the Zacks Consensus Estimate by 0.8%.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.78%
EPS Surprise	8.00%
Quarterly EPS	2.97
Annual EPS (TTM)	10.64

Revenues in Detail

In the third quarter, the **Vascular Access** segment recognized net revenues of \$148.7 million, up 6.1% year over year at CER. The company registered strong growth in PICC (Peripherally Inserted Central Catheters) and CVC-s (Central Venous Catheter).

The **Interventional Access** business registered net revenues of \$106.9 million, reflecting an 8.2% year-over-year rise at CER. The upside was backed by higher sales of complex catheters, biologics on-control and intra-aortic balloon products.

Within the **Anesthesia** segment, net revenues rose 1.5% at CER to \$87.1 million, primarily driven by sales of endotracheal tubes, atomization and laryngoscope products.

The **Surgical** segment recorded net revenues of \$92.6 million, reflecting 5% rise at CER on increased sales of ligation clips and surgical instruments.

Revenues at the **Interventional Urology** segment saw growth of 50.4% at CER to \$73.6 million.

Meanwhile, EMEA recorded revenue growth of 5.1% at CER to \$140.5 million, driven by increased sales of Vascular Access and Interventional Access products.

Asia, OEM and Americas registered net revenues of \$140.5 million, \$55.4 million and \$374.5 million, respectively (corresponding top-line growth of 5%, 1.9% and 10.7% each at CER), in the quarter under review.

Margin

Gross margin of 57.9% in the quarter under discussion expanded 176 basis points (bps) year over year on a 9.7% improvement in gross profit to \$375.7 million. Adjusted operating loss for the third quarter was \$63.8 million compared with a loss of \$66.1 million in the prior-year quarter.

Liquidity Position

The company exited the third quarter of 2019 with cash and cash equivalents of \$257.5 million compared with \$303.9 million at the end of the second quarter. Year-to-date net cash provided by operating activities from continuing operations was \$289.2 million compared with \$302.9 million a year ago.

2019 Outlook

On a GAAP basis, the company lowered its 2019 revenue guidance to 5.75-6.0% over the prior year (earlier prediction was year-over-year growth of 6-6.5%). Adverse foreign exchange translation is likely to impact the top line for 2019 by 1.5-2.25%. However, the company raised 2019 revenue guidance on a constant currency basis to 8-8.25% from 7.5-8% mentioned earlier. The Zacks Consensus Estimate for revenues is pegged at \$2.60 billion.

For 2019, the company narrowed the projection for adjusted earnings per share from continuing operations to \$11.05-\$11.10 from \$10.90-\$11.10 mentioned earlier. The Zacks Consensus Estimate for the same is pegged at \$11.03, below the company's guided range.

Recent News

On **Jan 7, 2019**, Teleflex Incorporated received the FDA's clearance for expanded indication for the use of the UroLift System to treat larger prostates (between 80cc and 100cc).

Valuation

Teleflex shares are up 13.1% in the six months period and up 51.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 6.6% and 6.3% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.2% and up 6.3%, respectively.

The S&P 500 index is up 8.9% in the year-to-date period and up 25.6% in the past year.

The stock is currently trading at 29.7X Forward 12-months earnings, which compares to 33.7X for the Zacks sub-industry, 21.5X for the Zacks sector and 18.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.1X and as low as 17.2X, with a 5-year median 23.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$398 price target reflects 31.2x forward 12-months earnings.

The table below shows summary valuation data for TFX

Valuation Multiples - TFX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.66	33.74	21.51	18.88
	5-Year High	34.14	33.92	21.51	19.34
	5-Year Low	17.19	23.22	15.88	15.17
	5-Year Median	23.16	27.40	18.95	17.44
P/S F12M	Current	6.30	3.64	2.83	3.50
	5-Year High	6.76	3.64	3.80	3.50
	5-Year Low	2.39	2.16	2.42	2.54
	5-Year Median	4.28	2.51	2.93	3.00
P/B TTM	Current	6.15	4.16	4.52	4.46
	5-Year High	6.45	4.21	5.02	4.47
	5-Year Low	2.37	2.54	3.42	2.85
	5-Year Median	4.06	3.29	4.28	3.61

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

ABIOMED, Inc. (ABMD)	Neutral
Abbott Laboratories (ABT)	Neutral
AngioDynamics, Inc. (ANGO)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Masimo Corporation (MASI)	Neutral
Medtronic PLC (MDT)	Neutral
Cardiovascular Systems, Inc. (CSII)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	TFX Neutral	X Industry	S&P 500	ABMD Neutral	ANGO Neutral	BSX Neutral
VGM Score	D	-	-	B	C	B
Market Cap	17.53 B	123.24 M	24.03 B	8.54 B	563.83 M	63.66 B
# of Analysts	8	2	13	5	2	11
Dividend Yield	0.36%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	C	-	-	C	B	C
Cash/Price	0.01	0.10	0.04	0.06	0.13	0.00
EV/EBITDA	35.97	-0.64	14.04	29.16	29.50	28.15
PEG Ratio	2.21	2.67	2.02	1.63	NA	2.23
Price/Book (P/B)	6.15	4.80	3.32	8.61	0.92	6.56
Price/Cash Flow (P/CF)	25.67	23.76	13.52	47.29	9.71	21.14
P/E (F1)	29.81	29.83	18.82	42.37	115.27	25.44
Price/Sales (P/S)	6.86	3.38	2.63	10.41	1.77	6.13
Earnings Yield	3.35%	-0.56%	5.31%	2.36%	0.87%	3.94%
Debt/Equity	0.72	0.10	0.72	0.00	0.00	0.99
Cash Flow (\$/share)	14.75	-0.06	6.94	4.00	1.54	2.16
Growth Score	C	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	15.17%	13.24%	10.56%	55.42%	7.69%	15.02%
Proj. EPS Growth (F1/F0)	14.54%	20.31%	7.49%	-20.46%	-84.34%	14.63%
Curr. Cash Flow Growth	23.33%	9.84%	14.83%	46.32%	13.17%	14.92%
Hist. Cash Flow Growth (3-5 yrs)	15.65%	8.78%	9.00%	66.11%	3.22%	6.75%
Current Ratio	2.33	2.68	1.23	5.77	2.32	1.14
Debt/Capital	41.85%	17.32%	42.99%	0.00%	0.00%	49.72%
Net Margin	17.36%	-15.15%	11.08%	26.92%	17.47%	10.49%
Return on Equity	18.81%	-17.95%	17.16%	19.89%	3.72%	23.10%
Sales/Assets	0.41	0.60	0.55	0.77	0.42	0.43
Proj. Sales Growth (F1/F0)	7.10%	10.85%	4.20%	15.17%	-22.09%	11.82%
Momentum Score	B	-	-	B	A	A
Daily Price Chg	-0.19%	0.00%	-0.33%	2.97%	-0.43%	-0.09%
1 Week Price Chg	0.71%	0.00%	-0.30%	-1.45%	3.39%	-0.53%
4 Week Price Chg	6.24%	2.13%	1.71%	5.53%	-4.31%	2.24%
12 Week Price Chg	15.44%	3.24%	6.05%	7.10%	-0.17%	19.65%
52 Week Price Chg	44.20%	-12.42%	22.39%	-43.59%	-27.99%	27.04%
20 Day Average Volume	160,233	108,090	1,580,816	787,295	402,911	5,096,092
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	8.33%	0.10%
(F1) EPS Est 4 week change	-0.03%	0.00%	0.00%	-0.04%	8.33%	0.15%
(F1) EPS Est 12 week change	-0.71%	0.00%	-0.50%	1.01%	8.33%	0.54%
(Q1) EPS Est Mthly Chg	-0.30%	0.00%	0.00%	0.00%	-50.00%	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	C
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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