

Teleflex Incorporated (TFX)

\$297.71 (As of 03/12/20)

Price Target (6-12 Months): **\$313.00**

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

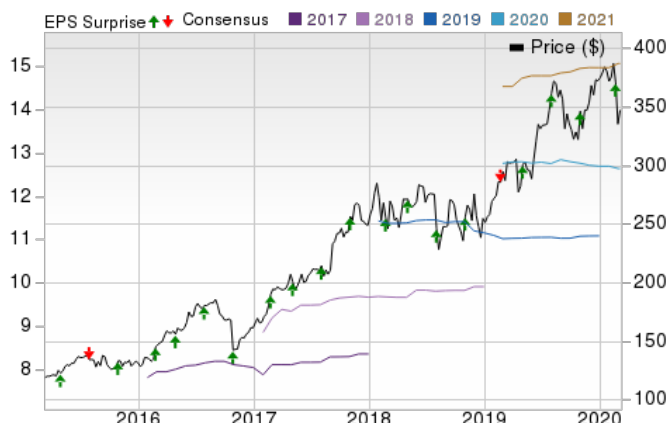
Growth: C

Momentum: D

Summary

Teleflex exited the fourth quarter with better-than-expected results. We are encouraged by the company's strong year-over-year revenue improvement on balanced growth across the majority of segments and geographies. Asia and the Americas recorded robust growth at CER, with China being the major contributor. The continued UroLift momentum in the fourth quarter is impressive. The expansion of gross margin also buoys optimism. Further, the company is progressing well with MANTA devices. Over the past six months, shares of Teleflex have outperformed its industry. However, the contraction in the adjusted operating margin, and a decline in revenues in two business segments and the EMEA region are creating headwinds. The shutdown of one of the company's third-party sterilization providers during the quarter is also concerning.

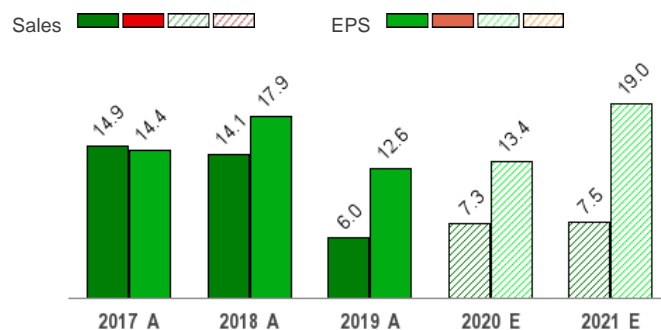
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$398.65 - \$271.56
20 Day Average Volume (sh)	292,823
Market Cap	\$13.8 B
YTD Price Change	-20.9%
Beta	0.95
Dividend / Div Yld	\$1.36 / 0.5%
Industry	Medical - Instruments
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	26.7
P/E F1	23.6
PEG F1	1.7
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	676 E	751 E	756 E	784 E	2,995 E
2020	627 E	698 E	704 E	752 E	2,785 E
2019	614 A	653 A	648 A	681 A	2,595 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.00 E	\$3.71 E	\$3.99 E	\$4.18 E	\$15.04 E
2020	\$2.48 E	\$3.15 E	\$3.33 E	\$3.69 E	\$12.64 E
2019	\$2.24 A	\$2.66 A	\$2.97 A	\$3.28 A	\$11.15 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 03/12/2020. The reports text is as of 03/13/2020.

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 Access (23.2% of total revenues in fourth-quarter fiscal 2019, 6.3% growth at constant exchange rate or CER): Vascular access business which offers products that facilitate a variety of critical care therapies and other applications.

Interventional (16.5%; up 9.8%): 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.

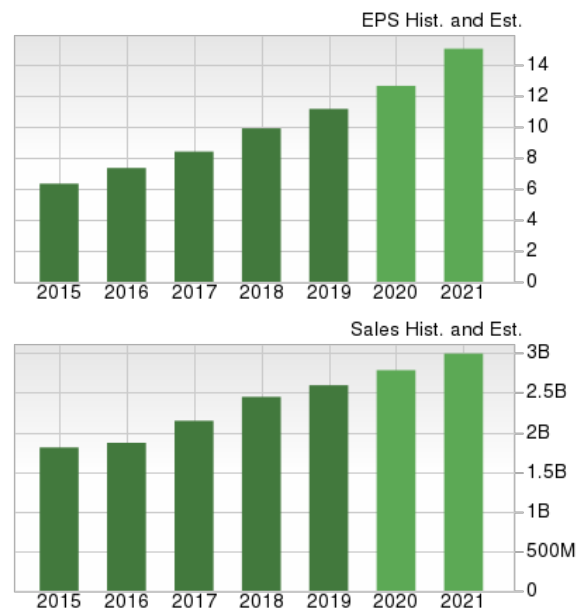
Anesthesia (13%; down 0.5%): This segment is comprised of North American pain management and airway management products and other products.

Surgical (14.3%; up 5.7%): a comprehensive range of devices for use in a variety of surgical procedures.

Interventional Urology (11.2%; up 47.8%): 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 8.2%): This segment designs, manufactures and supplies devices and instruments for other medical device manufacturers.

Other (13.4%; down 2.4%): 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 six months, shares of Teleflex have outperformed its industry. The stock has declined 9.6% compared with the industry's 12.9% fall. Teleflex exited the fourth quarter with better-than-expected results. Net revenues in the quarter rose 7.1% at CER. We are encouraged by the company's robust improvement in revenues on balanced growth across the majority of segments and geographies. Asia and the Americas recorded 2.7% and 11.7% growth, respectively, at CER, with China being the major contributor (8.5%). An expansion in gross margin and overall adjusted operating profit also buoy optimism.

The continued UroLift momentum in the fourth quarter is impressive. The expansion of gross margin also buoys optimism. The company trained more than 500 new urologists, surpassing its target of 450. It expects to start rolling out UroLift 2 in the first half of 2020. The company is on track with the full launch of the MANTA Vascular Closure Device in January, after its limited market release in the reported quarter.

- ▲ **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 fourth quarter, the Interventional Urology business registered 54.3% on a year-over-year basis and 54.4% at CER as a result of NeoTract's continued strong momentum.

NeoTract's FDA-cleared UroLift System witnessed increased adoption in the fourth quarter. Notably, UroLift System is a minimally invasive technology for treating lower urinary tract symptoms due to benign prostatic hyperplasia (BPH). The company trained more than 500 urologists, surpassing its target of 450. It also plans to start a piloted national direct-to-consumer campaign in 2020. The company believes that through the campaign, further awareness about the UroLift System can be created. This will likely help make UroLift the standard of care for the treatment of BPH. Additionally, the company expects to start rolling out UroLift 2 in the first half of 2020.

UroLift contributed 4% to the total revenue growth of the company. Given the continued momentum from UroLift, Teleflex expects year-over-year revenue growth of at least 25% for 2020.

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 fourth quarter, net revenues from Vascular Access increased 5.2% on a year-over-year basis and 6% at CER on strength in PICC (Peripherally Inserted Central Catheters) and EZ-IO.

- ▲ **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 reported quarter, this region contributed 11.8% to the company's overall business. During the quarter, Asia reported year-over-year growth of 1% (2.7% at CER) banking on strong rollout of the company's Interventional Access and Anesthesia products. From a geographical perspective, business in China grew 8.5%.

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 fourth quarter rose 10.1%. The increase in research and development expenses was 11.9%. 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 United States. 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 Q4 Earnings and Revenues Beat Estimates

Teleflex's adjusted earnings per share from continuing operations of \$3.28 for the fourth quarter of 2019 were up 18.4% year over year. The bottom line also surpassed the Zacks Consensus Estimate by 2.2%.

GAAP earnings per share for the fourth quarter were \$2.28, reflecting a rise of 21.9% from the year-ago period.

Adjusted earnings per share from continuing operations were \$11.15 for the year, reflecting a 12.6% increase from the year-ago period. Moreover, the company surpassed the Zacks Consensus Estimate by 0.6%.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	0.34%
EPS Surprise	2.18%
Quarterly EPS	3.28
Annual EPS (TTM)	11.15

Revenues in Detail

Net revenues in the fourth quarter rose 6.1% year over year to \$680.9 million and up 7.1% on a constant exchange rate or CER. The top line surpassed the Zacks Consensus Estimate by 0.3%.

Revenues for the year were \$2.59 billion, reflecting a 6% increase from the year-ago period and 8.1% at CER. The metric was in line with the Zacks Consensus Estimate.

Segmental Revenues

In the fourth quarter, the **Vascular Access** segment reported net revenues of \$154.6 million, up 3.7% year over year and 4.6% at CER. The company registered strong growth in PICC (Peripherally Inserted Central Catheters) and EZ-IO.

The **Interventional** business registered net revenues of \$112.7 million, reflecting a 5.2% rise on a year-over-year basis and 6% at CER. The upside was backed by higher sales of complex catheters, biologics, OnControl and MANTA. However, the segment's revenues were partially offset by the divestiture of the company's catheter reprocessing product line.

In the **Anesthesia** segment, net revenues dipped 2.6% to \$85.3 million on a year-over-year basis and 1.3% at CER, primarily driven by the reduction in the buying pattern of US-based distributors.

The **Surgical** segment recorded net revenues of \$95.2 million, reflecting a 2.7% rise on a year-over-year basis and 3.9% at CER on increased sales of ligation clips.

Revenues at the **Interventional Urology** segment grew 54.3% on a year-over-year basis and 54.4% at CER.

Meanwhile, **OEM** recorded revenue growth of 3.6% on a year-over-year basis and 4.3% at CER.

The **Other** product segment (consisting of the company's respiratory and urology care products) registered net revenues of \$89.4 million, a dip of 5.6% year over year and 4.2% at CER. Despite a strong flu season, the decline was primarily caused by the shutdown of a facility of one of the company's third-party sterilization providers in the quarter.

Margin

In the reported quarter, gross profit totaled \$398.3 million. Gross margin expanded 147 basis points (bps) to 58.5% on an 8.9% rise in gross profit.

Selling, general and administrative expenses expanded 10.1% to \$240.6 million in the quarter under review, while research and development expenses rose 11.9% to \$31.1 million.

Overall adjusted operating profit was \$126.5 million, up 5.9% year over year. However, adjusted operating margin saw a 4-bps contraction year over year to 18.6%.

Liquidity Position

Teleflex exited the year with cash and cash equivalents of \$301.1 million, down from \$357.2 million at the end of 2018.

Cumulative cash flow from operating activities from continuing operations was \$437.1 million at the end of 2019 compared with \$435.1 million at the end of 2018.

2020 Outlook

On a GAAP basis, the company projects revenue growth of 6.5-7.5%. At CER, revenue growth is estimated between 7.2% and 8.2%. The Zacks Consensus Estimate for revenues is pegged at \$2.78 billion.

The company anticipates 2020 adjusted earnings per share from continuing operations of \$12.50-\$12.70. The Zacks Consensus Estimate for the same is pegged at \$12.67.

Recent News

On **Mar 11, 2020**, Teleflex announced that 175,000 patients worldwide have been treated with its minimally invasive UroLift System, which is a safe and effective treatment for Benign Prostatic Hyperplasia (BPH).

On **Feb 14, 2020**, Teleflex announced a worldwide voluntary recall of the COMFORT FLO Humidification System. The recalled products provide a continuous flow of heated and humidified gas to COMFORT FLO patients in professional health care environments.

On **Jan 22, 2020**, Teleflex received the FDA clearance for the Wattson Temporary Pacing Guidewire, which is the first commercially available bipolar temporary pacing guidewire specifically designed for use during transcatheter aortic valve replacement (TAVR) and balloon aortic valvuloplasty (BAV).

On **Jan 7, 2020**, 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 down 20.9% in the year to date period and down 0.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 15.5% and 17.9% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13.9% and down 18.3%, respectively.

The S&P 500 index is down 14.9% in the year-to-date period and down 3.4% in the past year.

The stock is currently trading at 22.7X Forward 12-months earnings, which compares to 27.4X for the Zacks sub-industry, 18.5X for the Zacks sector and 15.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.1X and as low as 17.4X, with a 5-year median 23.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$313 price target reflects 23.9X 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	22.69	27.43	18.51	15.84
	5-Year High	34.14	33.84	21.08	19.34
	5-Year Low	17.36	23.20	15.82	15.18
	5-Year Median	23.29	27.43	18.74	17.42
P/S F12M	Current	4.88	3.04	2.50	2.91
	5-Year High	6.76	3.63	3.84	3.44
	5-Year Low	2.66	2.16	2.46	2.54
	5-Year Median	4.38	2.55	2.96	3.00
P/B TTM	Current	4.63	2.50	4.08	3.69
	5-Year High	6.45	4.20	5.05	4.56
	5-Year Low	2.57	2.50	3.44	2.85
	5-Year Median	4.30	3.29	4.32	3.63

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	TFX Neutral	X Industry	S&P 500	ABMD Underperform	ANGO Neutral	BSX Neutral
VGM Score	D	-	-	C	D	D
Market Cap	13.80 B	75.74 M	17.38 B	6.17 B	335.24 M	43.28 B
# of Analysts	8	2	13	4	2	11
Dividend Yield	0.46%	0.00%	2.51%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	B	D
Cash/Price	0.02	0.09	0.05	0.06	0.09	0.00
EV/EBITDA	24.21	-0.23	10.90	20.70	18.06	22.70
PEG Ratio	1.74	2.19	1.54	1.39	NA	1.75
Price/Book (P/B)	4.63	3.08	2.35	5.90	0.55	3.11
Price/Cash Flow (P/CF)	18.54	18.25	9.60	34.26	5.77	12.90
P/E (F1)	23.45	25.91	13.98	29.13	68.54	17.59
Price/Sales (P/S)	5.32	2.66	1.89	7.34	1.05	4.03
Earnings Yield	4.25%	-0.99%	7.07%	3.43%	1.46%	5.68%
Debt/Equity	0.66	0.10	0.70	0.00	0.00	0.62
Cash Flow (\$/share)	16.06	-0.06	7.01	4.00	1.54	2.40
Growth Score	C	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	15.43%	13.45%	10.85%	52.71%	6.70%	14.77%
Proj. EPS Growth (F1/F0)	13.36%	17.45%	5.99%	-16.18%	-84.34%	11.56%
Curr. Cash Flow Growth	9.60%	7.70%	6.15%	46.32%	13.17%	12.08%
Hist. Cash Flow Growth (3-5 yrs)	14.47%	10.99%	8.52%	66.11%	3.22%	10.33%
Current Ratio	2.32	2.59	1.24	5.04	2.32	0.97
Debt/Capital	39.69%	15.34%	42.57%	0.00%	0.00%	38.24%
Net Margin	17.78%	-15.10%	11.64%	29.14%	17.47%	43.78%
Return on Equity	18.97%	-23.03%	16.74%	19.53%	3.72%	21.15%
Sales/Assets	0.41	0.58	0.54	0.75	0.42	0.41
Proj. Sales Growth (F1/F0)	7.32%	8.82%	3.54%	10.40%	-22.09%	11.18%
Momentum Score	D	-	-	B	C	C
Daily Price Chg	-12.97%	-8.10%	-10.03%	-9.37%	-12.13%	-8.45%
1 Week Price Chg	3.55%	-0.29%	-0.67%	4.54%	1.57%	0.56%
4 Week Price Chg	-22.02%	-26.47%	-28.22%	-16.89%	-30.45%	-26.51%
12 Week Price Chg	-20.27%	-22.42%	-25.63%	-19.16%	-42.74%	-30.85%
52 Week Price Chg	-0.38%	-39.10%	-16.72%	-57.93%	-58.92%	-22.60%
20 Day Average Volume	292,823	152,872	3,061,271	729,148	264,879	12,290,096
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.43%	0.00%	-0.32%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.46%	0.00%	-0.65%	-4.43%	8.33%	-1.67%
(Q1) EPS Est Mthly Chg	-10.52%	0.00%	-0.62%	0.00%	0.00%	0.00%

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	D
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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