

Integra Lifesciences

2024 guide falls short; CEO transition by end of year

Reiterate Rating: UNDERPERFORM | PO: 42.00 USD | Price: 38.67 USD

Q4 rev and EPS miss Street; 2024 guide below consensus

Q4 revenue of \$397m (-1% org, +3.6% ex-Boston) missed the Street by 1%. Q4 EPS of \$0.89 slightly missed the Street (\$0.90). The 2024 revenue guide of \$1.603-1.618m (+4-5% org.) was 1% below consensus and the EPS guide of \$3.15-\$3.25 missed the Street by 7%. The guide implies a steep revenue growth ramp where Q2-Q4 growth needs to be 7-8%. Comps are easier because of the Boston facility shutdown but IART only expects ~\$10m from those products in 2H24. The Boston relaunch appears on track, but the pending retirement of the CEO adds another potential distraction in our view. We reiterate our Underperform as we see risk to IART's steep revenue growth ramp. We lower our PO to \$42 (from \$45) due to lower EPS estimate.

Guide requires steep growth ramp Q2-Q4

Q1 revenue guidance of \$360-365m (down 4-6% y/y) was 5% below the Street's \$381m. The lower revenue guide is driven by Boston shutdown and a Integra Skin supply constraint. The guide implies \$1.243-1.253bn in revenue Q2 through Q4, which would be 7-8% ex Fx growth which seems high given IART's 3.6% ex-Boston growth in Q4 and only ~\$10m of contribution from Boston products. The Q1 EPS guide of \$0.53-0.57 was 26% below the Street's \$0.74. We lower our 2024/25 revenue estimates to \$1.606/\$1.685bn (from \$1.613/\$1.692bn) and EPS to \$3.17/\$3.58 (from \$3.33/\$3.73).

CEO retiring

IART CEO, Jan De Witte, plans to retire for personal reasons once the company finds a successor which is expected by the end of 2024. Stuart Essig, IART's chairman and former CEO, will serve as executive chairman to focus on improving shareholder value and ensuring an effective transition.

Boston facility relaunch still on track for mid to late Q2

The Boston facility remains on track for a mid to late Q2 2024 relaunch. The company completed the third-party "dress rehearsal" and presumably there were no material findings. The final audit is scheduled in March. That review will be submitted to the FDA by the end of March and IART should then be ready to produce commercial product that can be distributed.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.35	3.08	3.17	3.58	3.97
GAAP EPS	2.16	0.84	1.03	1.44	1.84
EPS Change (YoY)	5.0%	-8.1%	2.9%	12.9%	10.9%
Consensus EPS (Bloomberg)			3.39	3.74	4.06
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	11.5x	12.6x	12.2x	10.8x	9.7x
GAAP P/E	17.9x	46.0x	37.5x	26.9x	21.0x
EV / EBITDA*	10.7x	11.9x	11.7x	10.6x	9.7x
Free Cash Flow Yield*	7.3%	2.0%	4.0%	4.4%	5.4%

* For full definitions of *IQmethod*SM measures, see page 4.

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	42.00
2024E Rev (m)	1,612.7	1,605.8
2025E Rev (m)	1,691.9	1,684.7
2026E Rev (m)	1,775.2	1,767.6
2024E EPS	3.33	3.17
2025E EPS	3.73	3.58
2026E EPS	4.02	3.97

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Stock Data

Price	38.67 USD
Price Objective	42.00 USD
Date Established	29-Feb-2024
Investment Opinion	B-3-9
52-Week Range	33.44 USD - 59.33 USD
Mrkt Val (mn) / Shares Out (mn)	3,025 USD / 78.2
Free Float	86.1%
Average Daily Value (mn)	20.39 USD
BofA Ticker / Exchange	IART / NAS
Bloomberg / Reuters	IART US / IART.OQ
ROE (2024E)	14.9%
Net Dbt to Eqty (Dec-2023A)	75.3%
ESGMeter TM	High

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Timestamp: 29 February 2024 12:04AM EST

iQprofileSM Integra Lifesciences

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.6%	7.7%	7.8%	8.4%	8.8%
Return on Equity	16.1%	14.5%	14.9%	15.7%	16.0%
Operating Margin	23.8%	21.4%	21.1%	22.4%	23.5%
Free Cash Flow	222	61	121	132	164

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.5x	0.7x	0.7x	0.7x
Asset Replacement Ratio	0.5x	0.7x	0.7x	0.7x	0.7x
Tax Rate	17.8%	17.1%	18.5%	18.5%	18.5%
Net Debt-to-Equity Ratio	54.7%	75.3%	63.3%	51.3%	38.7%
Interest Cover	9.9x	9.7x	9.2x	10.3x	11.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,558	1,542	1,606	1,685	1,768
% Change	1.0%	-1.0%	4.2%	4.9%	4.9%
Gross Profit	1,046	1,018	1,061	1,124	1,188
% Change	0.3%	-2.7%	4.1%	5.9%	5.7%
EBITDA	411	370	378	417	455
% Change	2.7%	-10.0%	2.0%	10.3%	9.1%
Net Interest & Other Income	(30)	(31)	(35)	(35)	(35)
Net Income (Adjusted)	281	248	247	279	310
% Change	2.9%	-11.8%	-0.1%	12.8%	11.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	181	68	81	112	143
Depreciation & Amortization	118	123	120	120	120
Change in Working Capital	(39)	(111)	(49)	(69)	(66)
Deferred Taxation Charge	(5)	3	0	0	0
Other Adjustments, Net	10	35	24	25	27
Capital Expenditure	(42)	(56)	(55)	(58)	(60)
Free Cash Flow	222	61	121	132	164
% Change	-16.0%	-72.4%	97.3%	9.0%	24.3%
Share / Issue Repurchase	(120)	(270)	3	3	3
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(108)	53	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	457	297	420	555	721
Trade Receivables	263	266	313	353	397
Other Current Assets	441	511	538	565	583
Property, Plant & Equipment	311	322	338	356	377
Other Non-Current Assets	2,417	2,373	2,292	2,211	2,130
Total Assets	3,890	3,769	3,901	4,041	4,209
Short-Term Debt	38	85	85	85	85
Other Current Liabilities	283	274	299	298	293
Long-Term Debt	1,405	1,420	1,420	1,420	1,420
Other Non-Current Liabilities	359	385	385	385	385
Total Liabilities	2,085	2,164	2,188	2,187	2,183
Total Equity	1,804	1,606	1,713	1,853	2,026
Total Equity & Liabilities	3,890	3,769	3,901	4,041	4,209

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Integra LifeSciences is a medical device company specializing in neurosurgery, orthopedics, and regenerative therapies. The company operates in two segments: Specialty Surgical Solutions and Orthopedics & Tissue Technologies.

Investment Rationale

We think IART's current valuation reflects the growth profile of the business. To get multiple expansion we think revenue growth would need to accelerate sustainably, which we do not expect. Given the limited upside potential in the stock we see more opportunity in other names in our coverage and expect shares to underperform relative to our coverage universe.

Stock Data

Average Daily Volume

527,253

Quarterly Earnings Estimates

	2023	2024
Q1	0.74A	0.58E
Q2	0.71A	0.74E
Q3	0.76A	0.85E
Q4	0.89A	1.00E

Price objective basis & risk

Integra Lifesciences (IART)

Our \$42 PO is based on 12x our 2025 EPS estimate which is a discount to SMID cap peers. We think a discounted multiple is justified given our concerns on IART's ability to accelerate revenue growth and expand margins in 2024 given the Boston facility shutdown.

Upside risks to our PO are better-than-expected revenue growth or an accretive acquisition that is well received by the Street. Downside risks to our PO are unexpected issues that result in revenue growth misses, announcement of M&A that is not well received by investors, and an increased level of competitiveness in IART's core markets.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQ^{method} SM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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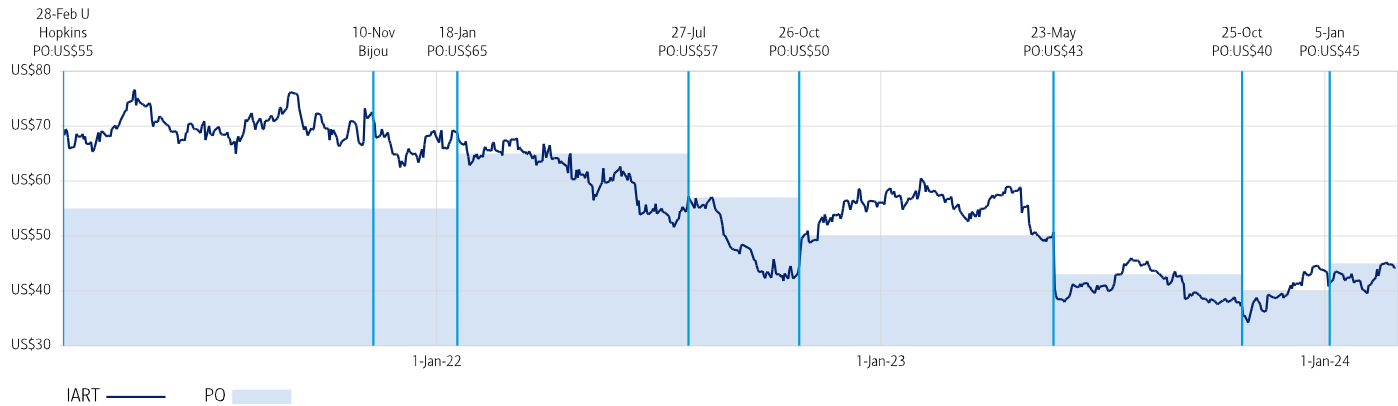
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Integra LifeScie (IART) Price Chart



IART — PO ■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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