

Medical Technology

AAOS day 1 takeaways

Estimate Change

ZBH & other takes from AAOS day 1

We are attending the American Academy of Orthopedic Surgeons (AAOS) conference this week in San Francisco. Zimmer Biomet (ZBH) management provided incremental color on its Rosa robotic shoulder and framed how to think about its EPS growth in 2025. Later today Stryker's (SYK) management will host a breakfast meeting. Companies remain optimistic that the hip/knee markets should remain very healthy as favorable trends continue to drive procedures.

ZBH provides framework to DD EPS growth in 2025

The Street is only modeling 8% EPS growth for ZBH in 2025, but ZBH sees a path to double-digit growth in 2025. The path assumes 5% revenue growth, 50bps of operating margin expansion and the rest from share buyback. Our math suggests that ZBH would have to buyback ~4m shares or nearly \$500m at today's price (roughly what ZBH bought back in Jan 2024). ZBH notes in 2024 its +7% EPS growth guide is underlying double-digit EPS growth ex Fx and ex the higher tax rate.

ZBH robotic shoulder submitted; approval could be soon

ZBH is showing its new Rosa shoulder to a small number of surgeons behind closed doors on the exhibit floor this week (but not to investors). ZBH has submitted the Rosa shoulder 510(k) to FDA which suggests approval is likely coming soon. While we did not see the shoulder robot, management provided some details. The shoulder application will be an add-on to existing Rosa units but will require both a software and hardware upgrade. It can be used for anatomical or reverse shoulder replacements. There should be pricing uplift on the implant and disposables (comparable to robotic hips/knees). ZBH believes Rosa shoulder adoption should be faster than knees because it can leverage the existing Rosa installed base and shoulder surgeons have adopted pre-operative planning earlier than hip/knee surgeons.

SMID cap ortho names (FNA, SIBN, GMED) sound good

We met with SMID cap ortho companies, Globus Medical (GMED), Paragon 28 (FNA) and Si-Bone (SIBN) which all sounded good but were somewhat limited in what they could say because they have not report full Q4 results. GMED said its integration with NuVasive is inline with expectations and the company is on track to hit its cost synergy goals in 2024. We expect bunion repair to be a key 2024 growth driver for FNA as it launched new products. SIBN's recent Granite label expansion should provide additional growth opportunity in 2024. We expect FNA's and SIBN's 2024 revenue guides to be inline with consensus but could see potential upside to the initial guides.

We also update our ZBH model for last week's Q423 earnings. Our 2024E EPS goes to \$8.10 from and our 2025E EPS goes to \$8.69 from \$8.65. We maintain our Neutral rating on ZBH as we wait for ZBH to diversify into faster growth markets and prove out the sustainability of hip/knee market growth.

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Glossary

ZBH: Zimmer Biomet
510(k): An FDA submission for medical device
FDA: Federal drug administration

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Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
SYK	SYK US	Stryker	US\$ 339.8	B-1-7
ZBH	ZBH US	Zimmer Biomet	US\$ 123.16	B-2-7

Source: BofA Global Research

Price objective basis & risk

Stryker (SYK)

Our \$350 PO is based on 30x our 2024 EPS which is a premium to medtech but in line with where higher-quality, higher-growth names trade today on 2024 EPS.

Downside risks to our PO are a slowdown in hospital capital spending, supply chain disruption, or more inflation pressure on costs and materials. Upside risks to our PO are new product launches and continued share gains driving upside to revenue growth. Moderating inflation/improving supply chains could also drive upside.

Zimmer Biomet (ZBH)

Our \$135 PO is based on 17x our 2024E EPS. This multiple is in line with large cap medtech peers. We think in line is appropriate given ZBH is growing revenue and eps in line with average large cap medtech peers.

Upside risks to our PO are 1) orthopedic backlog caused by covid comes through faster than expected, 2) pipeline product adoptions happens quicker than we had modeled and 3) an acquisition that accelerates top-line growth.

Downside risks are 1) a slowdown in the hip/knee market, 2) pressure on margins from supply chain/inflation/ increased pricing pressure in hips/knees and 3) slower than expected benefit from robotic utilization and new product mix and 4) strategic activity that is not well received.

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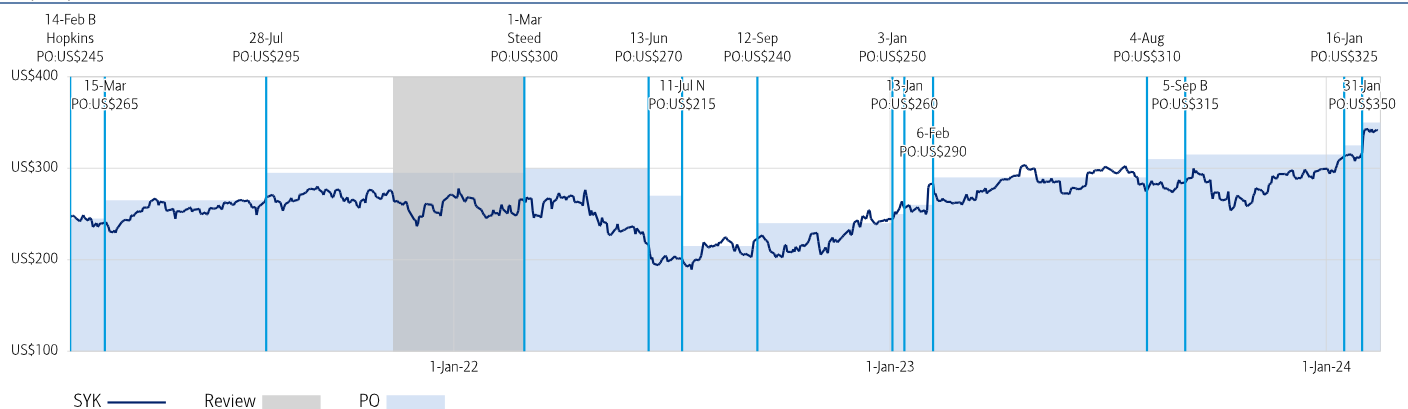
US - Medical Technology & Devices Coverage Cluster

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				
	Embecka	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
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

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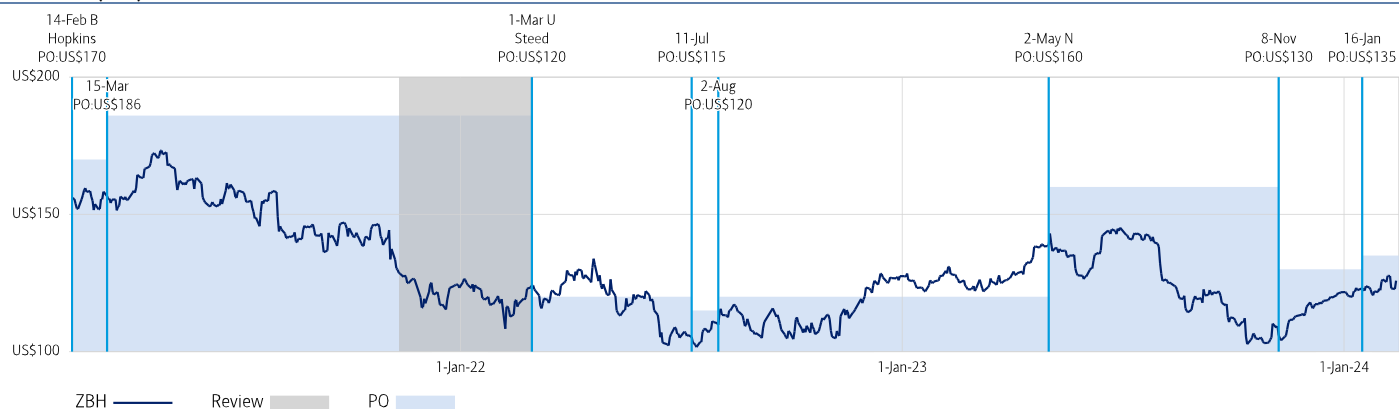
Stryker (SYK) Price Chart



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

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Zimmer Biomet (ZBH) Price Chart

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

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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%

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