

## Paragon 28

## 2024 guidance creates opportunity for upside

Reiterate Rating: BUY | PO: 15.00 USD | Price: 12.48 USD

## Revs at high end of prelim; EBITDA closer to breakeven

Q4 revenue of \$60.6m (+17% ex-fx) at the high end of the early Jan preliminary range (\$60.3-60.6m). Paragon's 2024 revenue guidance of \$249-259m bracketed the Street (\$256m). The guide represents 15-20% growth, at the midpoint lower than the company's goal of 20% revenue and a slight deceleration compared to 2023 growth (20%). We think the guide creates an attractive set up in 2024, especially considering the company's product launches. Management commentary suggests a sequential step down in revenue in Q1 and growth is more skewed to 2H24. We reiterate our Buy as the achievable guide creates an attractive set up and an opportunity to get back to beating and raising. We update our model for full results.

## New products coming this year in growth areas of market

In late 2023 and early 2024, Paragon launched 5 new products in high growth segments of the foot and ankle market like bunion, soft tissue and minimally invasive. Paragon Plans to launch the first module of SMART 28 mid-year but we still do not have many details. These new products will start to contribute in 2H24 but will see more meaningful sales in 2025. Given the new products, Paragon's guidance is more skewed to 2H24. Q1 revenue will likely be down LSD sequentially, with some improvement in Q2, but a more meaningful step up in Q3 and especially Q4.

## US growth should trend back towards 20%

Paragon's US growth was mid teens for the last three quarters of 2023 obviously below the 20% growth target for the company. US growth was negatively impacted by supply chain issues which are largely behind the company. Management said that it still fully believes that it can grow 20% in the US. We think Paragon only has MSD market share so there is plenty of room for the company to grow.

## On the brink of positive EBITDA

Paragon's Q4 EBITDA loss was \$4.4m and fully year but nearly breakeven excluding the \$4m impact from the inventory write off. The full year EBITDA loss was \$10m. Paragon committed to driving positive EBITDA on annual basis starting in 2024. We model only modestly positive EBITDA of \$200+k in 2024. We model negative but improving EBITDA in 1H24 but then it turns positive in 2H with nearly \$2m in Q4 2024. We think it's possible that Paragon can deliver more EBITDA, especially if it hits the upper end of the revenue guide but we'll wait to see how the year starts. Additionally, Paragon is taking several steps to improve its cash flow.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.52)	(0.52)	(0.45)	(0.31)	(0.18)
EPS Change (YoY)	-92.6%	0%	13.5%	31.1%	41.9%
Consensus EPS (Bloomberg)			(0.36)	(0.25)	(0.21)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	NM	78.5x	40.8x
Free Cash Flow Yield*	-8.7%	-8.8%	-4.0%	-2.4%	-1.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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01 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	256.5	254.3
2025E Rev (m)	304.0	301.3
2026E Rev (m)	357.0	353.8
2024E EPS	-0.32	-0.45
2025E EPS	-0.16	-0.31
2026E EPS	-0.04	-0.18

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## Stock Data

Price	12.48 USD
Price Objective	15.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-1-9
52-Week Range	7.95 USD - 19.72 USD
Mkt Val (mn) / Shares Out (mn)	1,034 USD / 82.8
Free Float	44.4%
Average Daily Value (mn)	5.11 USD
BofA Ticker / Exchange	FNA / NYS
Bloomberg / Reuters	FNA US / FNA.N
ROE (2024E)	-22.3%
Net Dbt to Eqty (Dec-2023A)	19.6%
ESGMeter <sup>TM</sup>	NLA

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# iQprofile<sup>SM</sup> Paragon 28

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-16.4%	-14.2%	-9.5%	-5.6%	-2.1%
Return on Equity	-24.0%	-26.7%	-22.3%	-17.3%	-10.4%
Operating Margin	-19.3%	-17.2%	-11.4%	-5.8%	-2.0%
Free Cash Flow	(90)	(91)	(41)	(25)	(17)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	3.0x	1.7x	1.5x	1.5x	1.5x
Tax Rate	0.2%	0%	NM	NM	NM
Net Debt-to-Equity Ratio	3.2%	19.6%	49.6%	71.3%	83.7%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	181	216	254	301	354
% Change	23.0%	19.3%	17.5%	18.5%	17.4%
Gross Profit	149	173	203	301	354
% Change	24.9%	16.0%	17.7%	48.1%	17.4%
EBITDA	(11)	(10)	0	14	27
% Change	NM	7.4%	NM	NM	92.4%
Net Interest & Other Income	(5)	(5)	(8)	(8)	(8)
<b>Net Income (Adjusted)</b>	<b>(40)</b>	<b>(43)</b>	<b>(37)</b>	<b>(25)</b>	<b>(15)</b>
<b>% Change</b>	<b>-179.8%</b>	<b>-6.5%</b>	<b>13.3%</b>	<b>31.1%</b>	<b>41.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(40)	(42)	(37)	(25)	(15)
Depreciation & Amortization	14	16	17	18	19
Change in Working Capital	(17)	(93)	(16)	(8)	(16)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(5)	55	21	17	23
Capital Expenditure	(41)	(27)	(25)	(27)	(28)
<b>Free Cash Flow</b>	<b>-90</b>	<b>-91</b>	<b>-41</b>	<b>-25</b>	<b>-17</b>
<b>% Change</b>	<b>-317.8%</b>	<b>-0.3%</b>	<b>54.3%</b>	<b>40.1%</b>	<b>30.3%</b>
Share / Issue Repurchase	4	72	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	35	57	0	50	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	38	76	34	59	42
Trade Receivables	38	37	43	50	57
Other Current Assets	66	103	112	110	114
Property, Plant & Equipment	62	74	84	94	104
Other Non-Current Assets	48	48	47	46	45
<b>Total Assets</b>	<b>252</b>	<b>338</b>	<b>320</b>	<b>359</b>	<b>362</b>
Short-Term Debt	1	1	1	1	1
Other Current Liabilities	68	51	57	58	61
Long-Term Debt	42	110	110	160	160
Other Non-Current Liabilities	2	1	1	1	1
<b>Total Liabilities</b>	<b>112</b>	<b>162</b>	<b>169</b>	<b>220</b>	<b>223</b>
<b>Total Equity</b>	<b>141</b>	<b>178</b>	<b>153</b>	<b>142</b>	<b>141</b>
<b>Total Equity &amp; Liabilities</b>	<b>253</b>	<b>340</b>	<b>322</b>	<b>361</b>	<b>364</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Medical Technology

## Company Description

Paragon 28 (FNA) is an orthopedic company solely focused on the design and development of innovative implants and procedures for foot and ankle surgery. Despite its size, FNA has one of the broadest product portfolios in the industry with 72 product systems and over 8,700 SKUs.

## Investment Rationale

Paragon has been a disruptive force in the \$4B foot and ankle industry with its dedicated focus to improve the outcomes of foot and ankle surgeries. FNA's dedicated focus on F&A and product development expertise has led to share gains over the last decade. We think share gains can accelerate moving forward based on positive surgeon and industry feedback and 20+ product launches over the next two years.

## Stock Data

Average Daily Volume 409,211

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.11A	-0.12E
Q2	-0.13A	-0.12E
Q3	-0.10A	-0.10E
Q4	-0.17A	-0.10E



## Price objective basis & risk

### Paragon 28 (FNA)

Our \$15 PO is based on 4x our 2025 sales estimate which is inline with the historical average multiple for SMID cap medtech 1-7x EV/Sales. We believe a multiple in line with the SMID cap medtech group is appropriate because FNA has been executing and has potential to deliver 20% topline growth and is only on the brink of turning EBITDA positive.

Downside risks to our PO are heightened competition, poor commercial execution and any supply chain disruptions. Upside risks to our PO include an acceleration in use by new surgeons, faster than expected utilization by existing surgeons and better profitability than expected.

## Analyst Certification

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### US - Medical Technology & Devices Coverage Cluster

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<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

## iQmethod<sup>SM</sup> 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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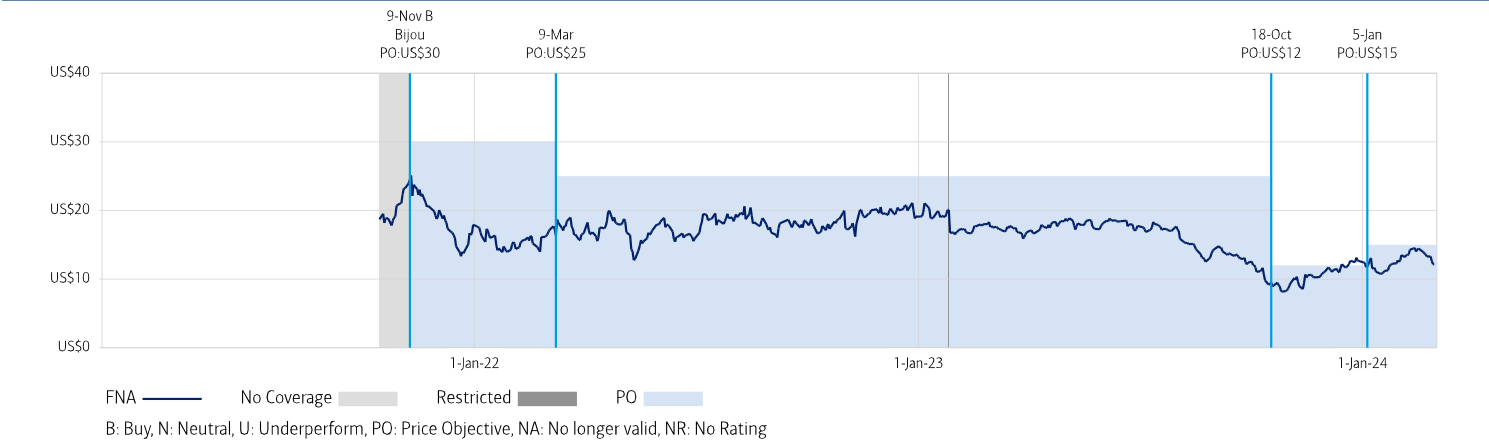
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Paragon 28 (FNA) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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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