

Teleflex Incorporated

Solid Q4 overshadowed by 2025 margin concerns

Reiterate Rating: NEUTRAL | PO: 265.00 USD | Price: 237.70 USD

2023 ended well, but guide/comments raise questions

TFX Q4 revenue of \$774m (+7% adjusted for Fx and selling days) beat the Street by 1%. EPS of \$3.34 beat the Street by 4% on better-than-expected margins (OM 26.3% vs Street's 25.8%). Despite the solid Q4, the stock was down 5%, in our view on questions raised by the 2024 guide and management comments implying Street 2025 margin and EPS numbers are likely too high. This comes as the Street was already discounting TFX's 2025 long range plan (LRP) targets. We also think there are likely to be new questions about UroLift's US stabilization after comments on the Q4 call. We reiterate Neutral.

Lowering our 2025 margin and EPS numbers

Before today, the Street was modeling 2025 GM of 61% and OM of 28%. These consensus estimates were already 70bps and 100bps, respectively, below TFX's LRP. Mgmt comments today suggest prior estimates are likely too high. We now model 2025 OM of 27.2% (vs 27.9% before) which is only 90bps above TFX's 2022 OM (base year for LRP). Our 2025E EPS estimate is \$15.06 down from \$15.57 previously.

Is UroLift stabilizing in the US?

UroLift continues to struggle in the US office setting but is growing in the hospital setting per management. TFX expects Interventional Urology to grow 7.5% in 2024 which implies sales of \$344m. If you back out \$67m of Palette (TFX expects \$66-68m), implied UroLift sales in 2024 are \$277m. We assume UroLift sales in 2023 were \$307m (\$320m less \$13m for Palette). By our math, the guide suggests that global UroLift will be down HSD/10% in 2024 which we believe raises question about US stabilization, especially when international sales contribution should be growing quarter over quarter.

2024 revenue growth guide misses; EPS guide inline

TFX's 2024 ex-Fx revenue guide of 3.75-4.75% was below the Street (~4.7%). Revenue growth faces a ~80 bps headwind (~100 bps incl Fx) from the roll off of \$76m of revenue from the Medline manufacturing service agreement (MSA), partially offset by ~\$55m of incremental sales from Palette. The 2024 EPS guide of \$13.55-13.95 (flat to +3%) bracketed the Street but the midpoint (\$13.75) was slightly below consensus (\$13.80). TFX is absorbing \$0.84 of EPS headwinds in 2024 – lost MSA revenue (\$0.26), Palette dilution (\$0.35) and a higher tax due to Pillar II (\$0.23).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.06	13.52	13.77	15.06	16.66
GAAP EPS	7.67	7.79	10.54	11.98	13.75
EPS Change (YoY)	-2.1%	3.5%	1.8%	9.4%	10.6%
Consensus EPS (Bloomberg)			13.75	15.53	17.08
DPS	1.35	1.35	1.39	1.43	1.47
Valuation (Dec)					
P/E	18.2x	17.6x	17.3x	15.8x	14.3x
GAAP P/E	31.0x	30.5x	22.6x	19.8x	17.3x
Dividend Yield	0.6%	0.6%	0.6%	0.6%	0.6%
EV / EBITDA*	14.2x	13.6x	13.0x	12.0x	11.1x
Free Cash Flow Yield*	2.4%	4.7%	6.8%	7.5%	8.2%

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

23 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	3,093.1	3,080.7
2025E Rev (m)	3,277.7	3,257.1
2026E Rev (m)	3,462.1	3,438.7
2024E EPS	13.84	13.77
2025E EPS	15.57	15.06
2026E EPS	16.85	16.66

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Stock Data

Price	237.70 USD
Price Objective	265.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-2-7
52-Week Range	177.63 USD - 276.43 USD
Mrkt Val (mn) / Shares Out (mn)	11,170 USD / 47.0
Free Float	99.7%
Average Daily Value (mn)	51.34 USD
BofA Ticker / Exchange	TFX / NYS
Bloomberg / Reuters	TFX US / TFX.N
ROE (2024E)	13.6%
Net Dbt to Eqty (Dec-2023A)	21.4%
ESGMeter™	Medium

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Timestamp: 23 February 2024 12:03AM EST

iQprofileSM Teleflex Incorporated

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.4%	10.4%	9.9%	10.1%	10.2%
Return on Equity	15.9%	15.0%	13.6%	13.0%	12.7%
Operating Margin	27.0%	26.5%	26.6%	27.2%	28.0%
Free Cash Flow	264	523	764	838	911

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.0x	1.3x	1.3x	1.3x
Asset Replacement Ratio	0.3x	0.4x	0.3x	0.4x	0.4x
Tax Rate	11.9%	10.5%	12.0%	12.0%	12.0%
Net Debt-to-Equity Ratio	35.3%	21.4%	4.3%	-10.1%	-22.1%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,791	2,974	3,081	3,257	3,439
% Change	-0.7%	6.6%	3.6%	5.7%	5.6%
Gross Profit	1,652	1,769	1,860	1,980	2,104
% Change	-1.0%	7.1%	5.1%	6.5%	6.3%
EBITDA	821	859	897	967	1,049
% Change	-4.2%	4.6%	4.4%	7.9%	8.4%
Net Interest & Other Income	(53)	(72)	(78)	(72)	(60)
Net Income (Adjusted)	618	639	653	716	794
% Change	-2.3%	3.5%	2.1%	9.8%	10.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	618	639	653	716	794
Depreciation & Amortization	231	236	232	229	224
Change in Working Capital	(240)	(128)	(71)	(55)	(53)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(266)	(138)	28	29	31
Capital Expenditure	(79)	(87)	(77)	(81)	(86)
Free Cash Flow	264	523	764	838	911
% Change	-54.6%	98.4%	46.1%	9.7%	8.6%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(64)	(64)	(66)	(68)	(70)
Change in Debt	(145)	(372)	(300)	(200)	(200)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	292	1,028	1,466	2,076	2,757
Trade Receivables	409	441	464	491	519
Other Current Assets	710	791	816	850	882
Property, Plant & Equipment	447	468	468	468	468
Other Non-Current Assets	5,070	4,893	4,738	4,591	4,452
Total Assets	6,928	7,621	7,953	8,477	9,078
Short-Term Debt	88	88	88	88	88
Other Current Liabilities	494	509	487	493	499
Long-Term Debt	1,624	1,900	1,600	1,400	1,200
Other Non-Current Liabilities	701	644	644	644	644
Total Liabilities	2,906	3,141	2,819	2,625	2,430
Total Equity	4,022	4,480	5,134	5,852	6,647
Total Equity & Liabilities	6,928	7,621	7,953	8,477	9,078

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

Company Sector

Medical Technology

Company Description

Teleflex is a global diversified medical device company that manufactures single-use devices for diagnostic and therapeutic procedures in critical care and surgical applications. TFX operates in seven segments - Vascular Access, Interventional, Anesthesia, Surgical, Interventional Urology, OEM and Other.

Investment Rationale

TFX is constantly evolving its business adding higher growth assets through acquisitions. We see top line growth accelerating towards the higher end of medtech as their high growth assets start to scale. TFX should be able to deliver consistent operating margin expansion on top of industry leading operating margins. Despite the positives, we do not see meaningful upside to our estimates. With valuation at the high end of medtech, the opportunity to see multiple expansion is likely limited.

Stock Data

Average Daily Volume 216,000

Quarterly Earnings Estimates

	2023	2024
Q1	3.09A	3.11E
Q2	3.41A	3.38E
Q3	3.64A	3.40E
Q4	3.38A	3.88E

Price objective basis & risk

Teleflex Incorporated (TFX)

Our \$265 PO is based on 17x our 2025 EPS estimate which is a 2x discount to the average of large cap medtech peers. We think a discounted multiple is appropriate given TFX's average MSD top line growth but limited margin expansion and EPS growth.

Upside Risks to our PO are 1) faster than expected UroLift growth, 2) meaningful easing of inflation pressure and 3) growth accretive M&A.

Downside Risks to our PO are 1) UroLift growth does not rebound as expected, 2) incremental inflation and/or supply chain challenges, 3) slower growth of high growth products and 4) additional procedure disruptions because of new Covid outbreaks

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



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM 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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Teleflex Inc (TFX) 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 ^{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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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