



Meridian Bioscience [VIVO]

Finance & Investment Club
Healthcare Sector
Spring 2016

Company Introduction: Meridian Bioscience

Company Background:

Meridian Bioscience, is a life science company that manufactures, markets, and distributes diagnostic test kits, reagents, and biopharmaceutical technologies

- Founded in 1976 with HQ in Cincinnati, OH
- Focus on gastrointestinal, viral, respiratory, and parasitic infectious diseases
- Current CEO & President, John A. Kraeutler has 35 years of diagnostics industry experience
- 860 employees in 70 countries (NA, Europe, Africa, Middle East, Australia)

Recommendation:

Current Price: \$20.67

Target Price: \$15.36

Potential Upside: 25.7%

Underweight

Reasons:

- Stock Price inflation due to dividend yield
- Failing product segments
- Weak upper management

Financial Summary:

- Market Cap: \$886m
- P/E: 24.23
- 2015 Sales: \$194m
- No debt
- Constant dividend with yield of 3.9%
- Two business segments:

1) Diagnostics (~75% sales):

illumigene machine, test kits

2) Life Sciences (~25% sales):

Manufacture reagents for research facilities



Molecular Diagnostics (MDx) Industry Definition:

Industry Definition:

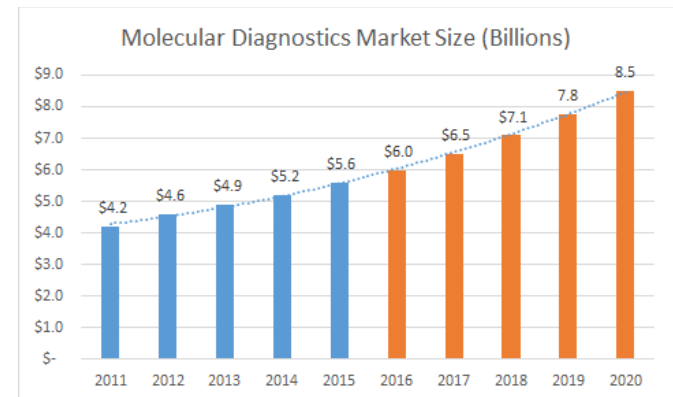
- Molecular diagnostics is a technique used to analyze biological markers in an individual's genetic code
- Players in this industry manufacture equipment, diagnostic test kits, and reagents (a material for analysis) for research institutions, hospitals, and clinics
- This molecular technique is relatively new & was developed around the late 1980s, and has recently risen to popularity due to technological innovation
- Most companies in this industry are subsidiaries of large pharmaceutical/healthcare companies, or small/medium sized, stand-alone diagnostic companies that are focused on niche markets such as specific biomarkers/diseases

Due to the novelty of this industry, data is very limited:

Analyst Estimates:

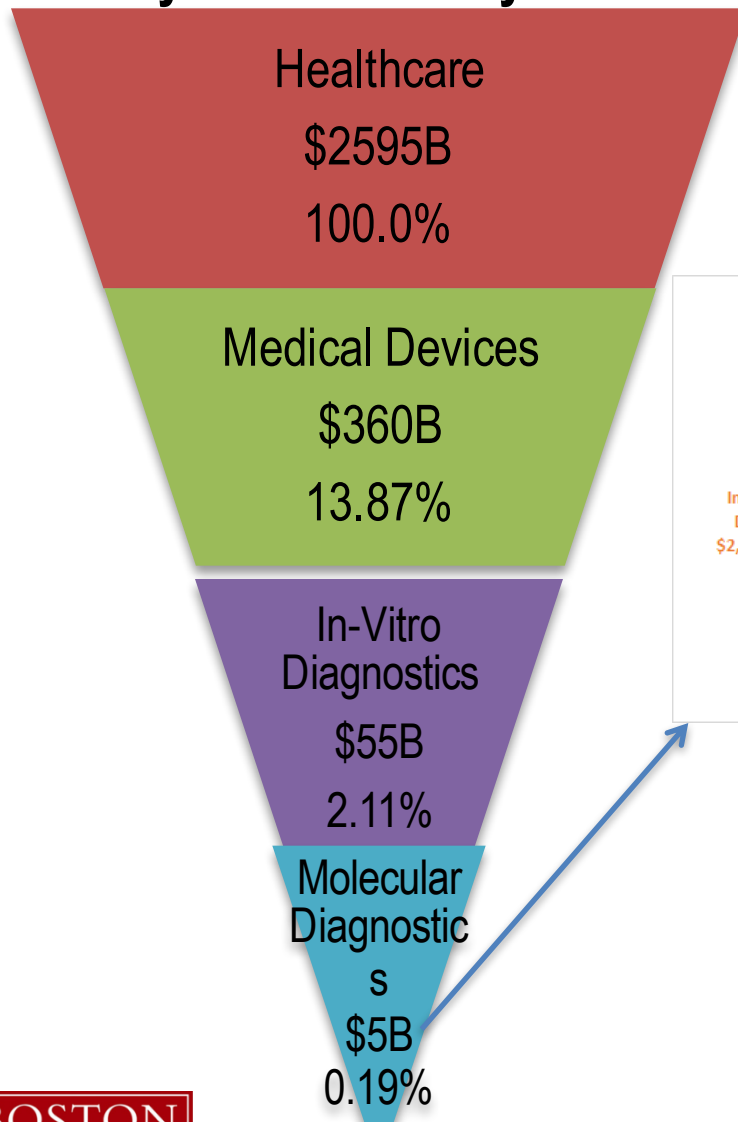
2016E Market Value: \$6 Billion

2016E Market Growth: 8-10% CAGR to 2020

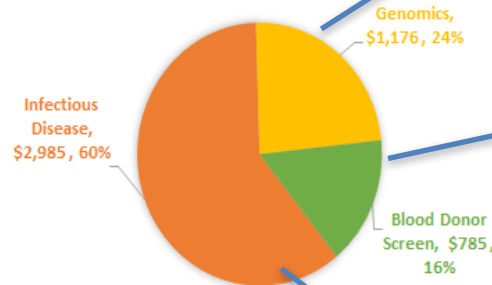


Molecular Diagnostics (MDx) Industry Breakdown:

Industry Breakdown by Revenue (US)



GLOBAL MDX MARKET SEGMENTS (\$MILLIONS)



In-Vitro Diagnostics:
Tests performed on a sample taken from the body and its organs, e.g. blood, tissue, urine etc.

A) Genomics

- 1) Genetic testing for inherited disorders
- 2) Cancer testing
- 3) Transplants

B) Blood Donor Screening

Screens for HIV, HPV, HCV and other diseases

C) Clinical Infection Diseases

Tests in Virology and Bacteriology, e.g. HIV, HPV, HCV, & Tuberculosis

1) Volatility in Diagnostic Product Sales

2) Weak Pipeline Growth & Lack of R&D

3) Failing Sales Force & Weak Upper Management

Trend 1: Volatile Top Selling Diagnostic Products

VIVO's top selling diagnostic products are in a downtrend and prone to seasonal effects

74% of 2015 diagnostic sales were from 4 products
Lack of diversification increases risk

C. Difficile (21%):

- VIVO's top-selling product since 2011
- Declining drastically in sales since 2013 due to competition

H. Pylori (21%):

- H. Pylori product patents expire in May 2016 in US and 2017 in countries outside the US.
- Revenues for H. Pylori were ~\$30m in 2015, and will see similar decline to C. Difficile

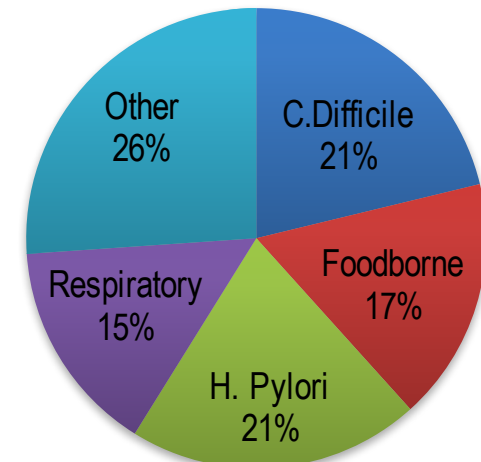
Foodborne (17%):

- Increased competition
- 11% decline in 1Q16

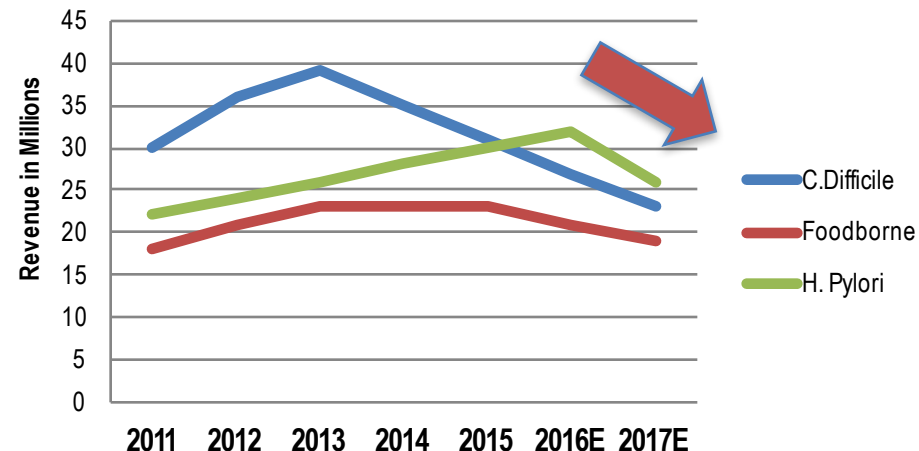
Respiratory (15%):

- Very seasonally affected
- 9% decline in 1Q16 due to warmer weather

2015 Diagnostic Product Breakdown



Product Trends



Trends & Drivers of Growth by Segment

1) Volatility in Diagnostic Product Sales

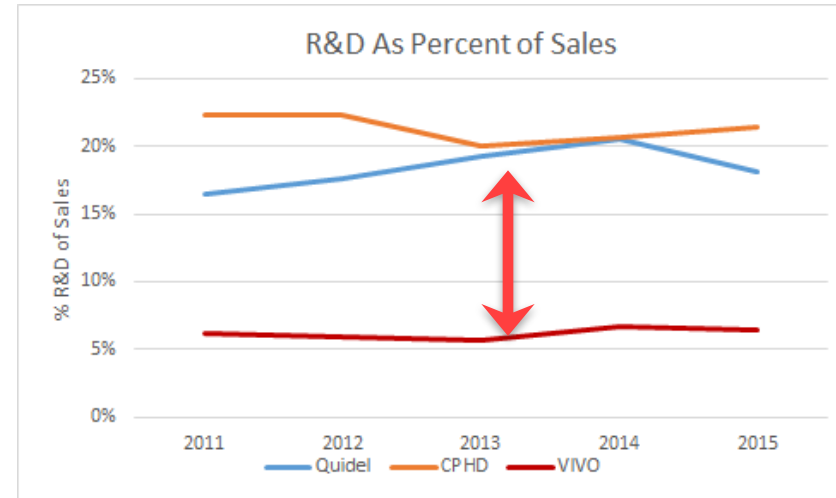
2) Weak Pipeline Growth & Lack of R&D

3) Failing Sales Force & Weak Upper Management

Trend 2: Weak Pipeline Growth & R&D

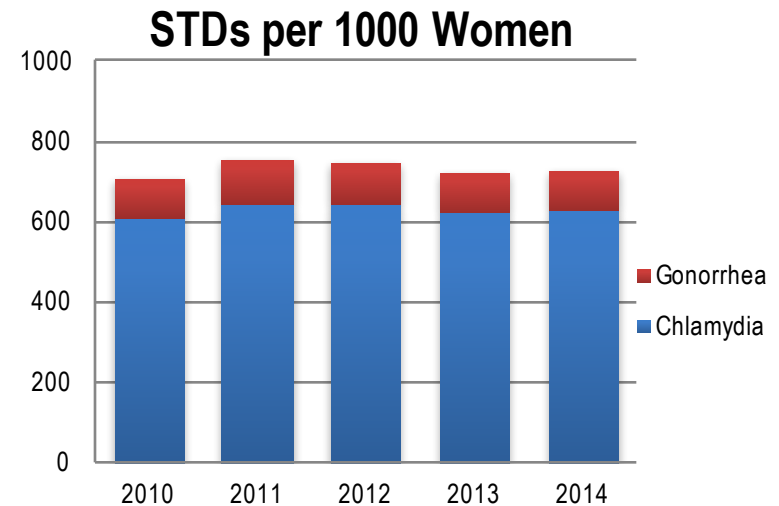
VIVO's R&D expenditure lags significantly behind their two competitors at 6% vs. 20%

- No plans to increase R&D
- No blockbuster products
- Increases VIVO's gross margin (68%) in short term



In 2015, Vivo came out with new products in their Women's Health & STD segment

- 1) Chlamydia:
 - 2) Gonorrhea
 - 3) Herpes 1 & 2
- Women's STDs increase yearly due to more sexually active youth, but VIVO has limited market
 - Segment sales total \$7M and are expected to increase to \$10M in 2016... only **5%** of revenue



1) Volatility in Diagnostic Product Sales

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Trend 3: Failing Sales Force & Weak Upper Management

VIVO Sales & Marketing expenses are around 12% of their Sales and growing

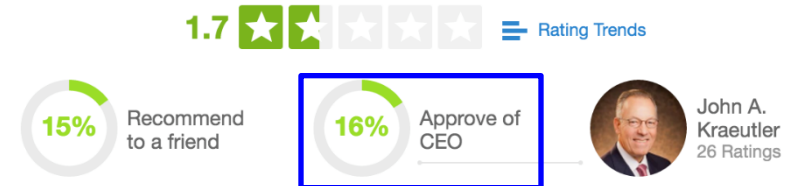
- Utilizes 2 independent distributors in U.S. that sell 10% or more of revenue
- Utilize direct sales forces in U.S., Europe, Middle East, Africa, & Australia



Glassdoor Reviews (Total of 30)

- Sales rep turnover above 80%
- Immense pressure and micromanagement
- Multi-state territories
- 16% CEO Approval (26 Reviews)
- “Outdated technology compared to competitors”

Meridian Bioscience Reviews



"Terrible company culture for sales reps"

★ ★ ★ ★ ★ Former Employee - Technical Sales Representative

Valuation and Recommendation

Key Statistics:

Current Trading Price (04-16-2016)	\$20.67
Market Cap	\$864.79
Net Debt	\$49.97
Beta	1.02
Shares Outstanding	41.84
Marginal Tax Rate	35.46%

WACC Calculation:

Cost of Debt	0.00%
% Weight	0%
Cost of Equity	10.34%
% Weight	100%
WACC	10.34%

Valuation Summary

Method	Price	Weight
Discounted Cash Flow		
Perpetuity Growth Method (3%)	\$ 13.92	70%
Exit Multiple Method (11x)	\$ 18.70	30%
Comparable Company Analysis		
P/E	\$ 20.67	0%
EV/EBITDA	\$ 22.92	0%
EV/Revenue	\$ 15.67	0%
Target Price	\$ 15.36	

Valuation Weighting

Perpetuity Growth Method: 70%
Exit Multiple Method: 30%

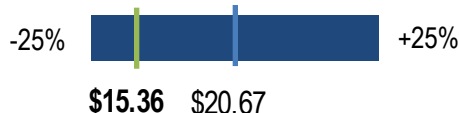
Analyst Benchmark



Recommendation

Underweight

Current Price: \$20.67
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Company Drivers:

- Dividend Yield possibly inflating Stock Price
- Declining major product segments
- Low R&D expenditure, no future blockbuster products
- Sales & marketing arm declining
- Low approval of CEO

THANK YOU

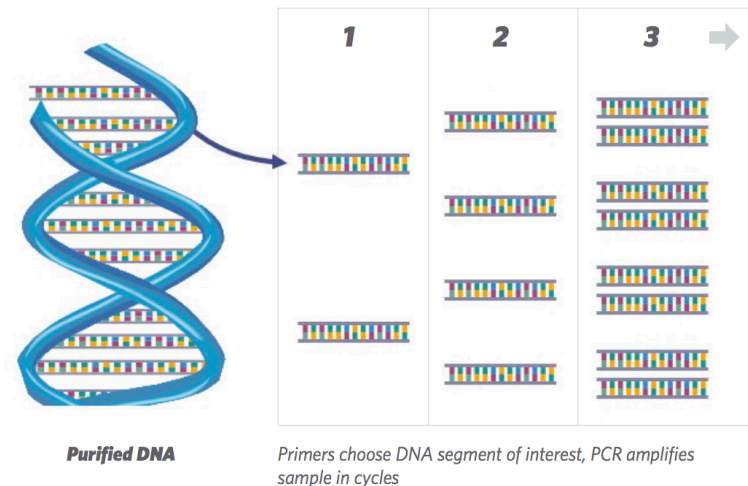
The Science Behind Molecular Diagnostics

Molecular Diagnostics is rapidly changing the accuracy and speed of diagnostics, and science is constantly improving

Polymerase Chain Reaction (PCR):

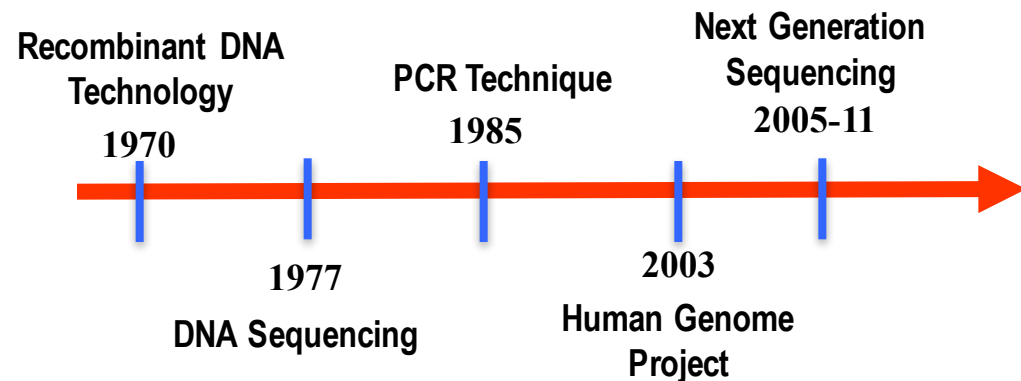
- 1) Rapidly amplify a short gene sequence where known critical mutations/variances occur that lead to a specific disease
- 2) Make thousands of copies
- 3) Segment is tested for a specific gene sequence with an assay

Amplification Cycles



Example - Cystic Fibrosis (CF):

1. CF is seen in patients with two altered CFTR genes, one from each parent (Carriers only have 1)
2. CF MDx test is used to test for carriers, as well possibly affected newborns



Industry Risks & Challenges

FDA Regulations and Political pressures present a risk to industry, but are slightly mitigated by other factors

FDA Regulations:

- There are currently over 50 FDA approved Molecular Diagnostic tests and increasing
- But - long term future of the industry depends on Next Generation Sequencing, and FDA Approvals can change regulations or speed of approval process

Political Pressures on Healthcare:

- Scandals such as Martin Shkreli have drawn political attention to healthcare pricing and outrage from Hilary Clinton and Bernie Sanders
- Public outcry can hurt profitability of entire Healthcare sector, but will be particularly painful for an emerging industry such as Molecular Diagnostics
 - Test volume will not decrease, but profitability will

Mitigation:

Affordable Care Act

- More insured people = more tests performed
- Rise in Aging populations
- Increased incidence of Clinical infectious diseases and diagnostic check-ups

Industry Risks:

