



**Investa Insights**

## Stock Pitch

July 23, 2019

Cantel Medical Corp.

**Ticker: CMD**

**Current Price: \$79.69 USD**

**Target Price: \$104.06 USD**

### Summary

This stock pitch examines Cantel Medical in its entirety in order to present a final recommendation, which is based on three key factors. The analysis includes Cantel's sustainable moat, competitive business model and strategic mergers and acquisitions (M&A) activity. Risks and catalysts specific to Cantel will be detailed in addition to a comprehensive outline of the company's financial health.

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Florence Kuan | Michael Duncan | Cameron Kerr | Thomas Dixon | Lawson Woodley

## Investa Insights

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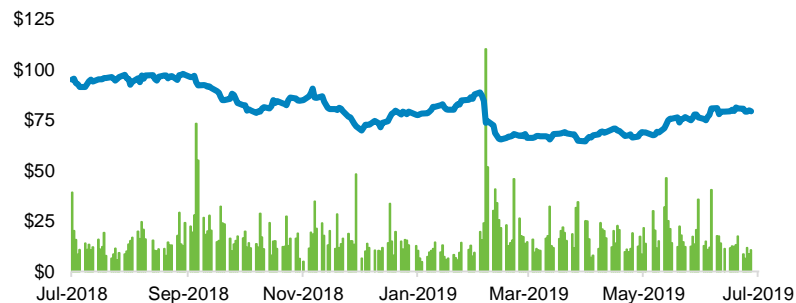
# Company Overview



## Company Overview

- Cantel Medical develops, manufactures and sells infection prevention products and services
- The company offers products within three segments: Medical, Dental and Life Sciences
- Operating in 14 countries, Cantel has developed strong direct distribution networks and third-party international agreements
- The firm was founded in 1963 and is currently headquartered in Little Falls, New Jersey

## Stock Price Performance

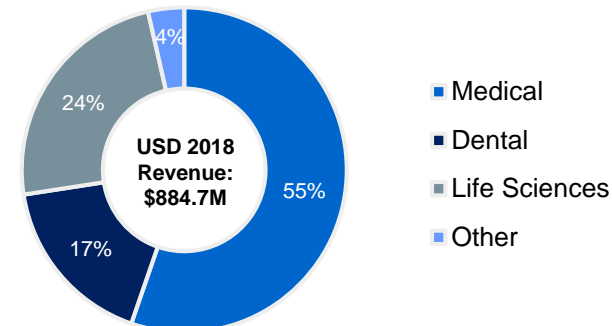


## Management Team



Name	George Fotiadis	Shaun Blakeman	Peter Clifford
Position	President and CEO	Senior VP and CFO	Executive VP and COO
Years of Experience	28	11	23
Background	Previously Director at Cantel Medical	Previously VP of Finance at Cantel Medical	Previously CFO at Cantel Medical

## 2018 Segmented Revenue



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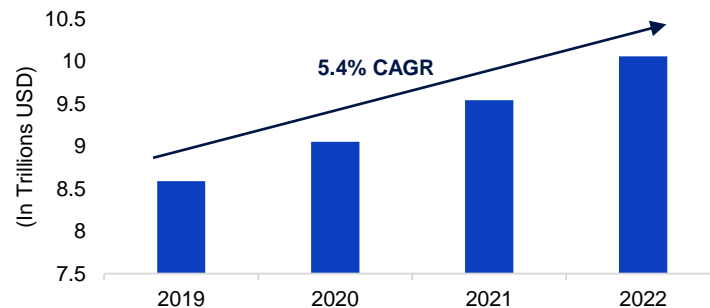
## Social Trends

- Increased life expectancy is driving stronger demand for long-term medical treatments and care
  - 668 million people worldwide are aged 65+ (11.6% of the population)
- Strong shift towards creation of innovative equipment and services in order to provide access and affordability
- Rise in preventative health care requires firms to adapt to varying consumer needs

## Sub-Segment Demand

- Number of dental visits per year are increasing due to demographic changes
  - Driving recurring dental revenues in sector
- Global demand for purified water driving strong growth in Life Sciences sector
  - Innovation and ease of water transportation is key
- Infection prevention remains a global headline risk for dental practitioners

## Healthcare Industry Global Revenue Forecast



## Regulatory Impacts

- Evolution of tech and increased strictness of compliance standards will drive consolidation, create share donors and increase requirements for comprehensive solutions
- Government policies increase consumer expenditure, driving stronger B2B equipment demands
- Heavy legal restrictions create high barriers for new entrants

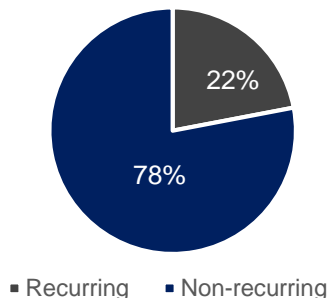
# Investment Thesis I: *Strong & Sustainable Moat Fuels Margin Expansion*



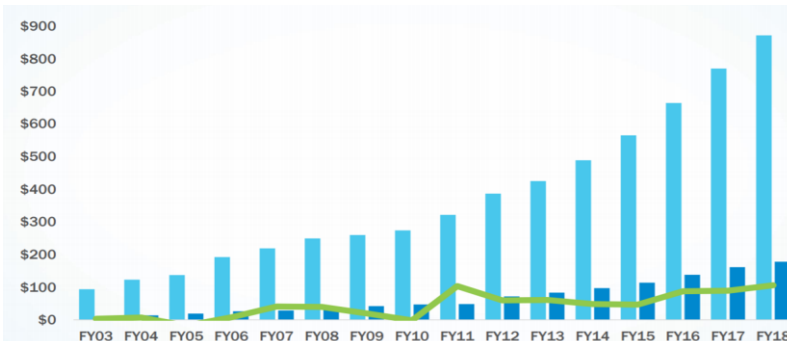
## Business Moat

- Diversified product mix offering market leading solutions to meet varying customer needs with a passionate and strong sales team
- Sales team has market leading training and the required knowledge, industry experience and established connections
- Altogether, Cantel has a strong platform which provides clinicians with the required information to make well-informed decisions
  - Key success driver in selling medical devices

## 2018 Segmented Revenue



## 10+ Years of Growth and Margin Expansion



## Large & Increasing Recurring Revenues

- Increases business stability and predictability of cash flows
- Competitive advantage is leveraged to lock in long term service contracts
  - Boosting recurring revenues in higher margin business
- Aids in marginalizing economic cyclicalities in recessionary periods

## Switching Costs

- Water purification installation costs between \$150,000-300,000, which should continue to tick up over time as more advanced systems replace older models
  - This creates switching costs through the perceived sunk-cost after installation
- Switching the system for a competing product would create many complications, including an operational learning curve surrounding the steps in running the new system, in addition to the cost to rip-and-replace the hardware.

## Intangible Assets

- Cantel Medical has a portfolio of intangible assets through the company's patents and licenses, brand assets, and leadership in the dialysis-focused water purification market.
- Acquisition of a perpetual license with Gambro's medical water equipment allows pricing of new purification systems at a 30-40% premium to legacy installations
  - Indicates the incremental value added through the company's developing IP portfolio.

## Total Goodwill and Intangible Assets

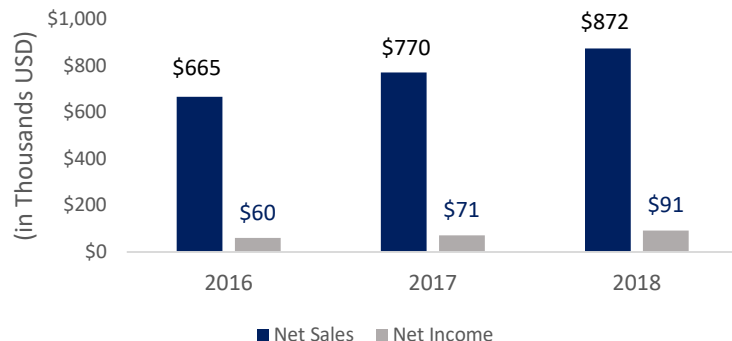


# Investment Thesis III: *Reliable Top & Bottom Line Growth Through Global M&A*



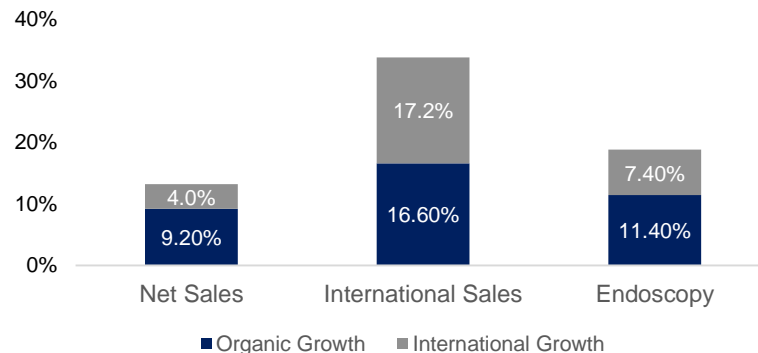
## Past Performance Points Toward Achieving 2021 Financial Targets

- Cantel's five-year strategic plan is to double sales and net profit by 2021
- The three pillars driving this initiative are product innovation, strategic acquisitions, and global market expansion
- Recent fiscal year and current LTM values suggest outperformance is extremely likely
- Since 2016, net sales and net income have grown substantially by 31.2% and 51.9% respectively
  - Strong top and bottom-line growth correlate with steady and evident cash flow generation



## Strong Acquisition History Playing Major Role in Global Expansion

- Over the past four years, acquisition activity has focused on international opportunities, leading to acquired companies and assets in countries such as Germany, Italy, and Canada
- These acquisitions are focused on driving global distribution and presence while continuously improving product offerings
- Endoscopy represents Cantel's leading business segment, a sector that is continuing to expand through rapid acquisition activity
- With 36 acquisitions completed since 2000, M&A plays a major role in overall sales growth and drives international growth

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## Catalysts



- Increase in technological advancements and consumer demand
- Divesting lower margin and slower growth businesses



- Successful penetration into surgery centers with a similar rate to that of hospitals
- New management team successfully integrates and boosts international expansion



- Uncertainties in future American healthcare regulations
- Potential revenue impacts from U.S. healthcare reform



- Ineffective expansion into the personal homecare sector
- Disruptive entrants in the market – alternative healthcare solutions provided by large tech companies



# Valuation | Precedent Transactions Analysis



## Precedent Transactions Analysis

Announcement Date	Acquirer Name	Target Name	Equity Value	Net Debt	Enterprise Value	Book Value	Sales	EBITDA	Market Cap	Net Income	EV to Sales	EV to EBITDA	Market Cap to Book Value	Price to Earnings
02/14/2017	Hologic Inc.	Cynosure Inc.	\$ 1,650	\$ (171)	\$ 1,479	\$ 586	\$ 433.8	\$ 57.1	\$ 1,080.3	\$ 36.5	0.29x	0.04x	1.84x	45.17x
04/02/2017	Apax Partners Ltd	Syneron Medical Ltd.	\$ 397	\$ (53)	\$ 344	\$ 277	\$ 296.7	\$ 13.4	\$ 369.5	\$ 4.7	0.86x	0.04x	1.33x	85.23x
04/23/2017	Becton, Dickinson and Company	C. R. Bard, Inc	\$ 24,000	\$ 895	\$ 24,895	\$ 5,354	\$ 3,777.6	\$ 1,163.3	\$ 24,140.0	\$ 964.9	0.15x	0.05x	4.51x	24.87x
10/22/2017	TPG Capital L.P.	Exactech Inc.	\$ 737	\$ (27)	\$ 710	\$ 307	\$ 264.4	\$ 43.0	\$ 474.4	\$ 22.9	0.37x	0.06x	1.54x	32.20x
05/16/2018	Zoetis Inc.	Abaxis Inc.	\$ 1,995	\$ (167)	\$ 1,828	\$ 341	\$ 244.7	\$ 46.4	\$ 1,603.1	\$ 38.4	0.13x	0.03x	4.70x	51.95x
04/10/2018	Altaris Capital Partners	Analogic Corporation	\$ 1,087	\$ (166)	\$ 921	\$ 538	\$ 469.9	\$ 45.1	\$ 1,049.8	\$ 22.2	0.51x	0.05x	1.95x	48.98x
12/12/2018	Cerberus Capital Management	Sparton Corporation	\$ 230	\$ 128	\$ 358	\$ 225	\$ 375.0	\$ 22.7	\$ 178.8	\$ 20.7	1.05x	0.06x	0.80x	11.11x
05/02/2019	3M	Acelity	\$ 6,700	\$ 5,257	\$ 11,957	\$ 5,020	\$ 605.3	\$ 345.4	\$ 10,950.0	\$ 170.8	0.05x	0.03x	2.18x	39.23x

in millions in millions in millions in millions in millions in millions in millions in millions

Cantel Medical Last Price \$ 70.69

Equity Value Multiples	Metric	Shares Outstanding		EPS	Implied Price Range		
					1st Quartile	Median	3rd Quartile
Net Income	\$	63.0	41.7	\$ 1.51	\$ 45.89	\$ 63.77	\$ 75.15

Min	0.05x	0.03x	0.80x	11.11x
1st Quartile	0.15x	0.04x	1.49x	30.37x
Median	0.33x	0.04x	1.90x	42.20x
3rd Quartile	0.60x	0.05x	2.76x	49.72x
Max	1.05x	0.06x	4.70x	85.23x

Enterprise Value	Metric	Shares Outstanding	Total Debt	Cash & Equivalents	Net Debt	Implied Enterprise Value Range			Implied Price Range		
						1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile

Sales	\$	907.5	41.7	\$ 233	\$ 51.4	\$ 182	\$ 133.66	\$ 302.15	\$ 542.86	-\$ 1.16	\$ 2.88	\$ 8.65
EBITDA	\$	158.3	41.7	\$ 233	\$ 51	\$ 182	\$ 5.73	\$ 6.78	\$ 8.22	-\$ 4.23	-\$ 4.20	-\$ 4.17

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# Valuation | Comparable Companies Analysis



Company Name	Ticker Symbol	Market Data			Financial Data				Valuation			
		Price (\$/Share)	Market Cap (\$B)	EV (\$B)	Sales (\$M)	EBITDA (\$M)	EBIT (\$M)	EPS (\$)	EV/Sales X	EV/EBITDA X	EV/EBIT X	P/E X
Cantel Medical Corp.	CMD	\$ 80.77	3.3	3.37	907.53	140.57	100.48	1.54	3.71x	23.97x	33.54x	52.45x
Haemonetics Corp.	HAE	\$ 123.03	6.26	6.46	967.58	188.53	104.72	1.04	6.68x	34.27x	61.69x	118.30x
NuVasive Inc.	NUVA	\$ 57.74	2.95	3.47	1,101.71	176.38	46.58	0.24	3.15x	19.67x	74.50x	240.58x
ICU Medical Inc.	ICUI	\$ 251.49	5.14	4.68	1400.04	97.82	23.08	1.37	3.34x	47.84x	202.77x	183.57x
Globus Medical Inc.	GMED	\$ 41.26	4.05	3.85	712.97	230.24	188.61	1.54	5.40x	16.72x	20.41x	26.79x
Integra Lifesciences Holding Corp.	IART	\$ 54.16	4.63	5.86	1,472.44	237.75	122.09	0.72	3.98x	24.65x	48.00x	75.22x
Average									4.38x	27.85x	73.48x	116.15x
Median									3.85x	24.31x	54.84x	96.76x

Metric	Multiple		Implied Price		Implied Return	
	Mean X	Median X	Mean (\$/Share)	Median (\$/Share)	Mean (\$/Share)	Median (\$/Share)
EV/Sales	4.38x	3.85x	\$ 99.38	\$ 87.84	23.0%	8.8%
EV/EBITDA	27.85x	24.31x	\$ 98.02	\$ 86.08	21.4%	6.6%
EV/EBIT	73.48x	54.84x	\$181.19	\$136.27	124.3%	68.7%
P/E	116.15x	96.76x	\$178.87	\$149.01	121.5%	84.5%
Average Implied Share Price			\$127.08		57.3%	

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# Valuation | Intrinsic Valuation



## Cantel Medical Corp. DCF Unlevered Cash Flow Summary

	Historical					Forecast					
	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
(\$ in MM, except per share values)											
<b>Revenue</b>	<b>489</b>	<b>561</b>	<b>663</b>	<b>770</b>	<b>872</b>	<b>985</b>	<b>1,113</b>	<b>1,261</b>	<b>1,434</b>	<b>1,639</b>	<b>1,880</b>
Operating expenses, excld. D&A	(398)	(453)	(537)	(623)	(706)	(803)	(907)	(1,028)	(1,169)	(1,335)	(1,532)
<b>EBITDA</b>	<b>91</b>	<b>108</b>	<b>126</b>	<b>147</b>	<b>166</b>	<b>182</b>	<b>206</b>	<b>233</b>	<b>265</b>	<b>303</b>	<b>348</b>
D&A	(19)	(24)	(25)	(31)	(35)	(71)	(75)	(79)	(84)	(89)	(94)
<b>EBIT</b>	<b>72</b>	<b>84</b>	<b>100</b>	<b>116</b>	<b>131</b>	<b>112</b>	<b>131</b>	<b>154</b>	<b>181</b>	<b>214</b>	<b>254</b>
Tax Rate						30%	30%	30%	30%	30%	30%
Taxes	25	28	34	35	26	33	39	46	54	63	75
<b>NOPAT</b>	<b>47</b>	<b>55</b>	<b>66</b>	<b>81</b>	<b>105</b>	<b>79</b>	<b>93</b>	<b>108</b>	<b>128</b>	<b>151</b>	<b>179</b>
Add: D&A	19	24	25	31	35	71	75	79	84	89	94
Less: CapEx	(14)	(13)	(19)	(27)	(38)	(34)	(42)	(50)	(54)	(57)	(61)
Less: Change in Non-Cash Working Ca	-	(16)	(18)	(14)	0	(33)	(12)	(31)	(35)	(29)	(33)
<b>FCFF</b>		<b>51</b>	<b>55</b>	<b>72</b>	<b>102</b>	<b>82</b>	<b>113</b>	<b>106</b>	<b>122</b>	<b>153</b>	<b>178</b>

## DCF Valuation Results

	Forecast					
	2019E	2020E	2021E	2022E	2023E	2024E
NOPAT	79	93	108	128	151	179
Add: Depreciation & Amortization	71	75	79	84	89	94
Less: CapEx	(34)	(42)	(50)	(54)	(57)	(61)
Less: Change in Non-Cash Working Capital	(33)	(12)	(31)	(35)	(29)	(33)
<b>FCFF</b>	<b>82</b>	<b>113</b>	<b>106</b>	<b>122</b>	<b>153</b>	<b>178</b>
Discount Period	1.0	2.0	3.0	4.0	5.0	6.0
WACC	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Discount Factor	0.95	0.90	0.86	0.81	0.77	0.73
<b>PV of Unlevered Free Cash Flows</b>	<b>78</b>	<b>102</b>	<b>91</b>	<b>99</b>	<b>118</b>	<b>130</b>

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# Valuation | Intrinsic Valuation



Gordon Growth Method	
PV of Forecast Period	619
% of Enterprise Value	13.5%
<b>Terminal Value</b>	
Terminal Year UFCF	178
Perpetuity Growth Rate	2.0%
<b>Terminal Value</b>	<b>5,441</b>
PV of Terminal Value	<b>3,983</b>
% of Enterprise Value	86.5%
<b>Enterprise Value</b>	<b>4,602</b>
Less: Net Debt	(233)
<b>Equity Value</b>	<b>4,368</b>
Fully Diluted Shares Outstanding	42
<b>Implied Share Price</b>	<b>\$103.96</b>
Current Share Price	\$79.69
<b>Implied Margin of Safety</b>	<b>30.4%</b>

Terminal Multiple Method	
Cumulative PV of Free Cash Flow	619
% of Enterprise Value	13.5%
<b>Terminal Value</b>	
Terminal Year EBITDA	348
EBITDA Multiple	11.5x
<b>Terminal Value</b>	<b>4,400</b>
PV of Terminal Value	<b>3,966</b>
% of Enterprise Value	86.5%
<b>Enterprise Value</b>	<b>4,585</b>
Less: Net Debt	(233)
<b>Equity Value</b>	<b>4,351</b>
Fully Diluted Shares Outstanding	42
<b>Implied Share Price</b>	<b>\$103.55</b>
Current Share Price	\$79.69
<b>Implied Margin of Safety</b>	<b>29.9%</b>

## Sensitivity Analysis

Terminal Growth	WACC					
	4.3%	4.8%	5.3%	5.8%	6.3%	
	1.0%	103.04	90.81	81.40	73.93	67.85
	1.5%	120.12	103.50	91.21	81.75	74.24
	2.0%	144.49	120.65	103.96	91.60	82.10
	2.5%	182.11	145.14	121.19	104.41	92.00
	3.0%	247.82	182.94	145.80	121.73	104.87

Exit Multiple	WACC					
	4.3%	4.8%	5.3%	5.8%	6.3%	
	10.5x	96.11	96.10	96.09	96.08	96.07
	11.0x	99.84	99.83	99.82	99.81	99.80
	11.5x	103.57	103.56	103.55	103.54	103.53
	12.0x	107.30	107.29	107.28	107.27	107.26
	12.5x	111.03	111.02	111.01	111.00	110.99

Terminal Growth	WACC					
	4.3%	4.8%	5.3%	5.8%	6.3%	
	1.0%	29.3%	14.0%	2.1%	-7.2%	-14.9%
	1.5%	50.7%	29.9%	14.5%	2.6%	-6.8%
	2.0%	81.3%	51.4%	30.4%	14.9%	3.0%
	2.5%	128.5%	82.1%	52.1%	31.0%	15.4%
	3.0%	211.0%	129.6%	83.0%	52.8%	31.6%

Exit Multiple	WACC				
	4.3%	4.8%	5.3%	5.8%	6.3%
	10.5x	20.6%	20.6%	20.6%	20.6%
	11.0x	25.3%	25.3%	25.3%	25.2%
	11.5x	30.0%	29.9%	29.9%	29.9%
	12.0x	34.6%	34.6%	34.6%	34.6%
	12.5x	39.3%	39.3%	39.3%	39.3%

## Valuation as July 23, 2019

Terminal Value	4,814
PV Terminal Value	3,923.1
Sum of PV FCFF	619
Enterprise Value	4,542.1
+ Cash & Cash Equivalents	51.3
+ Marketable Securities	0
- Debt	(233)
- Minority Interests	0
Equity Value	4,360.05
Current Shares Outstanding	41.7
Equity Value Per Share	\$ 104.50
Fully Diluted Shares Outstanding	42.0
<b>Equity Value Per Share After Options</b>	<b>\$ 103.76</b>

## Valuation Result

WACC	5.34%
Terminal Growth Rate	1.58%
Current Price	\$ 79.69
Intrinsic Value Per Share	\$ 103.76
Implied Upside / (Downside)	30.2%

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# Valuation | Summary



Analyst Recommendations		
Company	Price Target	Recommendation
SADIF Investment Analytics	\$86.24	BUY
Market Screener	\$95.00	BUY
CNN Business	\$104.00	BUY
Market Beat	\$114.00	BUY
Sidoti	\$120.00	BUY
Wallet Investor	\$93.27	BUY
Average:	\$102.01	BUY

Valuation Summary		
Analysis	Price	Weight
Street Consensus	\$102.01	5%
Gordon Growth Method	\$103.96	10%
Intrinsic Valuation	\$103.76	50%
Comparable Analysis	\$127.07	20%
Precedent Transactions Analysis	\$75.15	15%
Average	\$104.06	100%

Final Recommendation: BUY

Current Price  
\$79.69

Target Price  
\$104.06

Upside  
30.58%

WACC	
Cost of Equity	6.5%
Cost of Debt	2.8%
Tax Rate	21.0%
After-Tax Cost of Debt	2.2%
Equity % of Value	72.9%
Debt % of Value	27.1%
<b>WACC</b>	<b>5.34%</b>

Cost of Debt	
Risk Free Rate:	2.1%
Interest Coverage Ratio:	14.6x
Default Spread:	0.75%
Marginal Tax Rate:	21%
<b>Pre Tax Cost of Debt:</b>	<b>2.81%</b>

Capital Structure	
Equity	1,003,308
Debt	373,170
<b>Total Capital</b>	<b>1,376,478</b>

Cost of Equity	
Equity Risk Premium	5.38%
Levered Beta	0.82
Risk-Free Rate	2.06%
<b>Cost of Equity</b>	<b>6.50%</b>

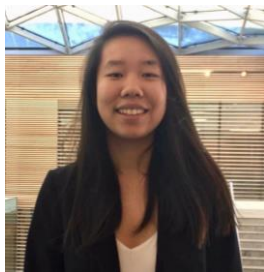
## Comparable Companies Beta

Health Care Equipment Based Peers	Levered Beta:	D/E Ratio	Tax Rate	Unlevered Beta
Merit Medical Systems Inc.	1.10	0.5x	21.0%	0.79
Steris PLC.	0.99	0.4x	21.0%	0.77
NuVasive Inc.	1.11	0.8x	21.0%	0.68
Wright Medical Group NV	0.74	1.3x	21.0%	0.37
Teleflex Inc.	1.00	0.9x	21.0%	0.59
<b>Average</b>				<b>0.64</b>
<b>Cantel Medical Corp.</b>	<b>0.82</b>	<b>0.4x</b>	<b>21%</b>	<b>0.64</b>

Cantel Medical Corp. Equity Value Calculation	
(\$ in MM, except per share values)	
Basic Shares Outstanding:	41.7
Diluted Shares Outstanding:	42.0
<b>Basic Equity Value:</b>	<b>3,308.1</b>
<b>Diluted Equity Value:</b>	<b>3,331.8</b>

## Diluted Shares Outstanding

Share Class	Type	Shares (Millions)	Exercise Price	Dilution
A	Stock Option	0.04	43.7	0.02
A	RSU	0.21	N/A	0.21
A	RSU	0.20	N/A	0.20
A	RSU	-0.11	N/A	-0.11
A	RSU	-0.02	N/A	-0.02
<b>Total:</b>		<b>0.32</b>		<b>0.30</b>



**Florence Kuan**  
Portfolio Manager



**Michael Duncan**  
Senior Associate



**Cameron Kerr**  
Investment Analyst



**Thomas Dixon**  
Investment Analyst



**Lawson Woodley**  
Investment Analyst