



COMPANY UPDATE / ESTIMATE CHANGE

Medical Devices

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Key Metrics

VIVO - NASDAQ (as of 02/13/17)	\$12.90
Price Target	\$14.00
52-Week Range	\$21.49 - \$10.75
Shares Outstanding (mm)	42.5
Market Cap. (\$mm)	\$543.2
1-Mo. Average Daily Volume	560,836
Institutional Ownership	88.4%
Debt / Total Capital	25.8%
ROE (TTM)	17.6%
Book Value / Share	\$3.90
Price / Book Value	3.3x
Indicated Dividend / Yield	\$0.50 3.9%
TTM Operating Margin	25.4%

Operating EPS FY 9/30

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.21		\$0.15A	\$0.16	\$0.16
2Q	\$0.24	\$0.20	\$0.19	\$0.20	\$0.19
3Q	\$0.21	\$0.19	\$0.18	\$0.20	\$0.18
4Q	\$0.14	\$0.14	\$0.14	\$0.15	\$0.14
Year	\$0.79	\$0.68	\$0.66	\$0.71	\$0.68
P/E	16.4x		19.5x		19.0x

Figures may not add up due to rounding

Revenue (\$mm)

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$47.2		\$46.8A	\$48.8	\$48.5
2Q	\$51.3	\$51.7	\$51.0	\$52.3	\$51.5
3Q	\$50.7	\$49.9	\$49.0	\$50.6	\$49.5
4Q	\$47.0	\$47.2	\$47.0	\$47.9	\$47.6
Year	\$196.1	\$195.5	\$193.8	\$199.5	\$197.0

Company Description – Based in Cincinnati, Ohio, Meridian Bioscience develops, manufactures, and markets in vitro diagnostic equipment and products used for specimen collection and transport. The company also manufactures and sells laboratory chemicals associated with research and diagnostic manufacturing.

Meridian Bioscience, Inc.

VIVO – NASDAQ – Neutral – 3

Tweaking Estimates after 10-Q Review and Discussion with Management

- **Call and 10-Q Notes:** The decline in *illumigene* revenue was worse than we initially assumed. Revenues of \$7.7 million for the product represented a decrease of 21.6% year-over-year. Management noted assays outside of *C. difficile* grew north of 3%, but the category made up roughly 50% of *illumigene* revenue in 1Q17.

The Diagnostics Americas region declined ~26% from last year when excluding the full results (which do include a small amount of international revenue) of the recently acquired Magellan Diagnostics. Life Science revenue to China likely grew around 40% and further diversified by product category.

As we noted in our last report, management has made sales leadership changes due to the Diagnostics struggles in North America. One comment about turning the ship around included a revisit of distributor relationships. Revenues to Meridian's two primary diagnostics distributors fell ~44% year-over-year, or 23% of the segment revenue. We believe this is an additional indicator investors should keep an eye on for signs of a turnaround.

Magellan's revenue growth of 32% was the result of continued domestic strength and international expansion. Magellan's past has been almost exclusively domestic, so a revenue contribution from the Red Cross in Europe created significant upside. However, this is unlikely to be a consistent source of revenue.

- **Estimates and Valuation:** Please see the next page for details of our estimate changes. We are maintaining our Neutral rating and \$14 price target, derived by applying a 20 forward P/E multiple to our FY18 estimates. We remind investors we believe Meridian's struggles could warrant a lower multiple but the high likelihood of corporate tax reform – which we do not incorporate in our estimates – warrants a higher multiple for a small, domestically focused company like Meridian.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

ESTIMATES UPDATE

The primary change in our revenue estimates came from *illumigene*. We have lowered our estimates for this product lineup, as we believe it will take more time for *C. difficile* revenue to stabilize. Also, we are concerned *C. diff* struggles could bleed into other products, as some customers use multiple assays on their *illumigene* platform and could be tempted to switch another assay to a competitor. We also tweaked Magellan estimates downward slightly due to a better understanding that Red Cross European revenue could provide some tough comps in both 4Q17 and 1Q18. Finally, we trimmed Life Science revenue estimates due to a low impact from the discontinuation of the biopharma services this past quarter. We are leaving our estimates for the gross margin, operating expenses, and tax rate unchanged.

Our FY17 revenue estimate now stands at \$193.8 million, versus our prior estimate of \$195.5 million. This is toward the lower end of guidance. We project Diagnostic revenues of \$140.1 million versus our prior estimate of \$141.6 million. We project Life Science revenues of \$53.7 million versus our previous estimate of \$54.0 million. As a result of the revenue estimate decreases, our FY17 EPS estimate is now \$0.66 versus \$0.68 previously. This is near the midpoint of the guidance range. Our FY18 revenue estimate is now \$197.0 million versus our prior estimate of \$199.5 million and our FY18 EPS estimate is now \$0.68 versus \$0.71 previously.

VALUATION

VIVO closed yesterday at 19.1X our next 12 month EPS estimate, which is close to a ten year low. However, we feel that is appropriate given the dour outlook and the fact that the formerly large dividend, which was just cut by 38%, has likely influenced valuation for many years. The dividend yield is now at 3.9%, which is toward the lower end of its range over the past five years.

We are maintaining our Neutral rating and \$14 price target, derived by applying a 20 forward P/E multiple to our FY18 estimates. We remind investors we believe Meridian's struggles could warrant a lower multiple but the high likelihood of corporate tax reform – which we do not incorporate in our estimates – warrants a higher multiple for a small, domestically focused company like Meridian.

SUITABILITY

Meridian is diversified in terms of its end user base, but does rely on distributors and generates over 25% of total company revenues from two distributors. Further, the Diagnostic segment is largely dependent on a few disease categories. Stiff competition, low trading volumes, and relatively weak liquidity are also factors in our suitability rating of 3.

RISKS & CONSIDERATIONS

- **Competition and technological innovation** – Meridian is constantly subject to intense competition in the diagnostics field. Further, technological innovation is high in the industry, presenting Meridian with challenges from existing competitors and the threat of new entrants.
- **Failure of new products** – Meridian internally develops new tests and often brings new technologies in-house for the final stages of development. Failure to successfully develop and sell new products could harm profitability.
- **Proprietary protection** – Meridian has several products that are not under patent protection, and the company relies on trade secrets to protect proprietary methods and formulas. Significant financial harm could arise should Meridian fail to protect trade secrets.

- **Patent Expiration** – Meridian also has several products under patent. Patent expirations can lead to new competition and potential revenue declines.
- **Distributor Dependence** – Meridian relies on relationships with distributors in the diagnostics industry. Should relationships sour or a distributor be acquired, Meridian could face potential financial harm.
- **Legal** – Product lawsuits are common in the health care sector. An unfavorable court decision could hamper the ability to market a product, whether a current patent under Meridian is successfully challenged or Meridian is determined to have infringed upon the patent of a competitor.
- **Regulatory** – Most of Meridian’s products are subject to regulatory clearance. If Meridian’s products are determined to be inadequate or harmful to consumers, the company could be forced to halt production or possibly recall products.

MERIDIAN BIOSCIENCE						VIVO: NEUTRAL		
<i>In millions</i>	2015 A	2016 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	2017 E	2018 E
<i>Fiscal Period End</i>	9/30/2015	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	9/30/2017	9/30/2018
Income Statement								
Diagnostic Revenue	146.1	145.1	33.8	36.4	35.3	34.5	140.1	139.8
Life Science Revenue	48.7	51.0	13.0	14.5	13.6	12.5	53.7	57.2
Total Revenue	194.8	196.1	46.8	51.0	49.0	47.0	193.8	197.0
<i>Gross Margin %</i>	62.6%	65.2%	62.9%	64.0%	63.5%	61.7%	63.1%	63.2%
Gross Profit	121.9	127.8	29.5	32.6	31.1	29.0	122.2	124.5
Research and development	12.6	13.8	3.4	3.4	3.6	3.7	14.1	14.4
Selling and marketing	25.6	29.9	7.5	8.5	8.0	8.1	32.1	32.3
General and administrative	27.6	30.8	8.4	7.4	7.2	7.8	30.9	31.5
Total Operating Expenses	65.8	74.5	19.4	19.3	18.7	19.6	77.1	78.2
Non-GAAP Operating Income	56.1	53.3	10.1	13.3	12.3	9.4	45.1	46.2
<i>Operating Margin %</i>	28.8%	27.2%	21.5%	26.0%	25.2%	20.0%	23.3%	23.5%
Other Income, Net	(1.0)	(0.7)	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)	(1.3)
<i>Effective Tax Rate</i>	35.5%	36.4%	35.0%	36.0%	34.7%	34.0%	35.0%	35.0%
Non-GAAP Net Income	36.2	33.3	6.3	8.2	7.8	6.0	28.3	29.2
Diluted Shares Outstanding	42.0	42.4	42.5	42.6	42.6	42.7	42.6	42.7
Non-GAAP Diluted EPS	\$0.86	\$0.79	\$0.15	\$0.19	\$0.18	\$0.14	\$0.66	\$0.68
Balance Sheet								
Cash and Equivalents	50.0	47.2	49.3					
Other Current Assets	72.9	79.6	76.8					
Total Current Assets	122.9	126.8	126.0	128.4	130.2	130.6	130.6	139.2
Net PP&E	27.5	30.5	30.4					
Intangible Assets	28.3	91.8	90.1					
Other Assets	4.7	2.7	3.5					
Total Assets	183.3	251.8	250.1	251.5	252.8	252.8	252.8	260.4
Current Liabilities	15.3	22.6	21.0	20.3	19.9	19.6	19.6	19.8
Non-Current Liabilities	2.2	62.8	63.3	62.3	61.3	60.3	60.3	55.8
Total Liabilities	17.4	85.4	84.3	82.6	81.1	79.9	79.9	75.6
Total Shareholders' Equity	165.9	166.5	165.7	168.9	171.7	172.9	172.9	184.8

Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, Kurt A. Kemper, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

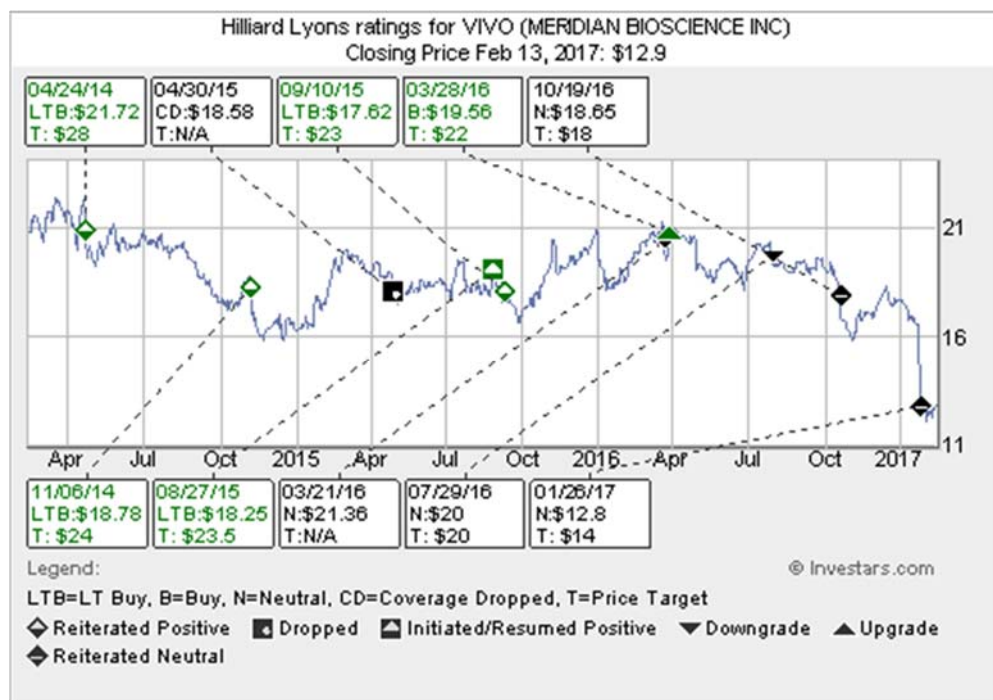
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitabilities:

1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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