



COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Key Metrics

VIVO - NASDAQ (Intraday Price 5/17/17)	\$13.40
VIVO - NASDAQ (as of close 05/16/17)	\$14.75
Price Target	\$13.00
52-Week Range	\$20.68 - \$10.75
Shares Outstanding (mm)	42.6
Market Cap. (\$mm)	\$622.5
1-Mo. Average Daily Volume	335,190
Institutional Ownership	93.0%
Debt / Total Capital	24.3%
ROE (TTM)	17.7%
Book Value / Share	\$4.01
Price / Book Value	3.7x
Indicated Dividend / Yield	\$0.50 3.4%
TTM Operating Margin	24.0%

Operating EPS FY 9/30

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.21		\$0.15A	\$0.15	\$0.14
2Q	\$0.24		\$0.21A	\$0.21	\$0.21
3Q	\$0.21	\$0.18	\$0.17	\$0.18	\$0.17
4Q	\$0.14	\$0.14	\$0.13	\$0.14	\$0.13
Year	\$0.79	\$0.68	\$0.66	\$0.68	\$0.66
P/E	18.8x		22.3x		22.3x

Figures may not add up due to rounding; all price-related data reflects yesterday's closing price

Revenue (\$mm)

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$47.2		\$46.8A	\$48.1	\$48.0
2Q	\$51.3		\$54.1A	\$54.3	\$54.2
3Q	\$50.7	\$48.9	\$48.6	\$49.5	\$49.0
4Q	\$47.0	\$46.7	\$46.4	\$47.2	\$46.8
Year	\$196.1	\$196.5	\$195.9	\$199.1	\$198.0

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.

Medical Devices

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May 17, 2017

Meridian Bioscience, Inc.

VIVO – NASDAQ – Neutral – 3

Growth Engine Hits a Hurdle with FDA Warning; Tweaking Estimates and Price Target Lower

- **FDA Warning:** The FDA and CDC issued a warning that certain lead tests manufactured by Magellan Diagnostics could be inaccurate. The agencies said any children or pregnant or nursing women that have been tested going back to 2014 may want to consult with their healthcare provider about being retested. The press release specifically stated the concern about understated blood lead levels is derived strictly from tests in which blood drawn from veins is used. Further, the FDA and CDC said all tests using a finger or heel stick are still acceptable.
- **Impact and Outlook:** Management noted the vast majority of revenues come from the LeadCare II system, which uses finger and heel sticks for testing and is the most frequently used system in the physician office setting. However, reference labs often use a different system as well as venous blood. Management stated they believe something in the shipping process is causing the issue. As such, management intends to replace other systems with LeadCare II and expects most of the impact to be within reference labs.

We are still bullish on the Magellan business long-term, but this event is a material bump in the road, in our view. Free system swaps and tests are likely to occur, management is likely to be more focused on damage control rather than growth, and we believe uptake could slow at the margin.

- **Estimates and Valuation:** As a result of the news, we are lowering our growth rate assumptions for Magellan and tweaking our gross margin estimates downward. As a result of these changes, both our FY17 and FY18 estimates are lowered to \$0.66 from \$0.68. Maintaining the 20X forward P/E applied to our FY18 estimates, we are lowering our price target to \$13 from \$14. Based on intraday trading, shares are only modestly above our new price target; therefore, we maintain our Neutral rating.

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

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 A	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	37.8	35.5	34.3	141.4	140.7
Life Science Revenue	48.7	51.0	13.0	16.4	13.1	12.1	54.6	57.2
Total Revenue	194.8	196.1	46.8	54.1	48.6	46.4	195.9	198.0
<i>Gross Margin %</i>	62.6%	65.2%	62.9%	62.0%	62.5%	61.2%	62.1%	62.3%
Gross Profit	121.9	127.8	29.5	33.5	30.4	28.4	121.8	123.3
Research and development	12.6	13.8	3.4	3.9	3.6	3.7	14.6	14.7
Selling and marketing	25.6	29.9	7.5	8.0	8.0	8.1	31.6	32.5
General and administrative	27.6	30.8	8.4	7.4	7.3	7.8	31.0	31.7
Total Operating Expenses	65.8	74.5	19.4	19.3	18.9	19.6	77.2	78.9
Non-GAAP Operating Income	56.1	53.3	10.1	14.2	11.5	8.8	44.6	44.4
<i>Operating Margin %</i>	28.8%	27.2%	21.5%	26.2%	23.6%	19.1%	22.8%	22.4%
Other Income, Net	(1.0)	(0.7)	(0.4)	0.0	(0.4)	(0.4)	(1.2)	(1.3)
<i>Effective Tax Rate</i>	35.5%	36.4%	35.1%	34.4%	34.7%	34.0%	34.5%	34.5%
Non-GAAP Net Income	36.2	33.3	6.3	9.1	7.2	5.6	28.1	28.2
Diluted Shares Outstanding	42.0	42.4	42.5	42.6	42.6	42.6	42.6	42.7
Non-GAAP Diluted EPS	\$0.86	\$0.79	\$0.15	\$0.21	\$0.17	\$0.13	\$0.66	\$0.66
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	128.8	131.5	131.4	131.4	137.7
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	251.9	253.1	252.6	252.6	257.5
Current Liabilities	15.3	22.6	21.0	19.9	20.9	20.5	20.5	20.6
Non-Current Liabilities	2.2	62.8	63.3	61.2	60.2	59.2	59.2	53.9
Total Liabilities	17.4	85.4	84.3	81.1	81.0	79.7	79.7	74.5
Total Shareholders' Equity	165.9	166.5	165.7	170.8	172.1	172.9	172.9	183.0

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.

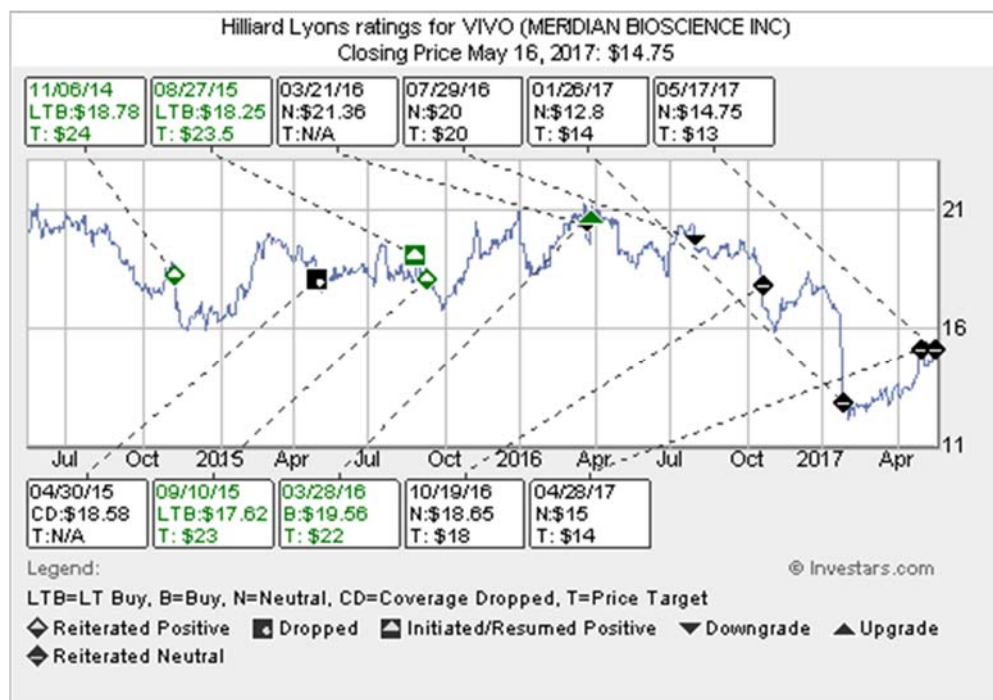
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

Other Disclosures

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