



COMPANY UPDATE/ ESTIMATE CHANGE/ PRICE TARGET CHANGE

Medical Devices

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Key Metrics

VIVO - NASDAQ (as of close 11/09/17)	\$14.80
Price Target	\$15.00
52-Week Range	\$10.75 - \$18.58
Shares Outstanding (mm)	42.6
Market Cap. (\$mm)	\$624.6
1-Mo. Average Daily Volume	269,789
Institutional Ownership	90.2%
Debt / Total Capital	24.3%
ROE (TTM)	12.8%
Book Value / Share	\$3.98
Price / Book Value	3.7x
Indicated Dividend / Yield	\$0.50 3.4%
TTM Operating Margin	22.3%

Operating EPS FYE 9/30

	Prior 2017A	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.15	\$0.15	\$0.15	\$0.17
2Q	\$0.21	\$0.20	\$0.20	\$0.21
3Q	\$0.16	\$0.17	\$0.17	\$0.19
4Q	\$0.15	\$0.16	\$0.15	\$0.17
Year	\$0.67	\$0.67	\$0.67	\$0.74
P/E	22.2x		22.1x	20.1x

Figures may not add up due to rounding

Revenue (\$mm)

	Prior 2017A	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$46.8	\$48.7	\$48.7	\$50.5
2Q	\$54.1	\$54.9	\$54.9	\$56.7
3Q	\$50.1	\$51.1	\$51.1	\$53.0
4Q	\$49.7	\$50.9	\$50.9	\$53.0
Year	\$200.8	\$205.6	\$205.6	\$213.2

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

Finalized 4Q17 Results Released; Tweaking FY19 Estimates and Price Target Higher

- 4Q17 Results:** Meridian Bioscience released finalized results for 4Q17 and reaffirmed guidance for FY18. The company generated \$49.7 million in revenue in 4Q17, which was slightly above our updated estimate of \$49.5 million. GAAP EPS in 4Q17 were \$0.13 and operating EPS were \$0.15 versus our updated estimate of \$0.15.
- FY18 Guidance:** Meridian reaffirmed FY18 guidance. Management expects revenue growth to be approximately 3% to 6%, resulting in revenues of \$207 million to \$212 million. The diluted operating EPS guidance for FY18 is \$0.65 to \$0.68 with GAAP EPS expected to be between \$0.59 and \$0.62.
- Estimates Adjustment:** We left our FY18 estimates unchanged. Please see our last Meridian Bioscience report for more detail about the underlying assumptions driving estimates. We did, however, increase FY19 estimates, primarily on increased optimism for a new platform in development. We also tweaked our revenue estimate for Magellan higher. In sum, we increased our FY19 revenue estimate to \$213.2 million from \$212.1 million and the EPS estimate to \$0.74 from \$0.72.
- Valuation:** VIVO closed yesterday trading at 22.1X our next 12 month operating EPS estimate. The multiple is modestly above than the median over the past five years, but we note FY18 is an investment year and we view FY19 as the more appropriate year for valuation purposes. We are maintaining our Neutral rating but raising our price target to \$15 from \$14 previously. The price target is reached by applying a 20X multiple to FY19 estimates. The 20X multiple is consistent with prior price target derivation based on expected dividends and payout ratios. Please see our previous report for more discussion on P/E derivation.

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 is 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	
In millions	2015 A	2016 A	2017 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	2018 E	2019 E
Fiscal Period End	9/30/2015	9/30/2016	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	9/30/2018	9/30/2019
Income Statement									
Diagnostic Revenue	146.1	145.1	143.5	34.6	38.1	35.9	36.3	144.9	148.3
Life Science Revenue	48.7	51.0	57.3	14.1	16.7	15.2	14.6	60.7	64.9
Total Revenue	194.8	196.1	200.8	48.7	54.9	51.1	50.9	205.6	213.2
Gross Margin %	62.6%	65.2%	62.2%	62.4%	62.5%	62.7%	61.8%	62.3%	62.4%
Gross Profit	121.9	127.8	124.8	30.4	34.3	32.0	31.5	128.2	133.2
Research and development	12.6	13.8	15.7	4.0	4.1	4.2	4.6	16.9	17.6
Selling and marketing	25.6	29.9	32.1	7.8	8.4	8.1	8.5	32.9	33.6
General and administrative	27.6	30.8	32.3	8.2	8.3	8.5	8.3	33.3	32.4
Total Operating Expenses	65.8	74.5	80.1	20.0	20.8	20.8	21.4	83.1	83.7
Non-GAAP Operating Income	56.1	53.3	44.8	10.4	13.4	11.2	10.1	45.1	49.5
Operating Margin %	28.8%	27.2%	22.3%	21.3%	24.5%	22.0%	19.8%	22.0%	23.2%
Other Income, Net	(1.0)	(0.7)	(1.0)	(0.4)	(0.3)	(0.3)	(0.3)	(1.3)	(1.2)
Effective Tax Rate	35.5%	36.4%	40.8%	35.1%	34.4%	34.5%	34.0%	34.5%	34.5%
Non-GAAP Net Income	36.2	33.3	28.4	6.5	8.6	7.1	6.4	28.7	31.6
Diluted Shares Outstanding	42.0	42.4	42.6	42.7	42.8	42.8	42.8	42.8	42.9
Non-GAAP Diluted EPS	\$0.86	\$0.79	\$0.67	\$0.15	\$0.20	\$0.17	\$0.15	\$0.67	\$0.74
Diluted GAAP EPS	\$0.85	\$0.76	\$0.51	\$0.14	\$0.19	\$0.15	\$0.14	\$0.62	\$0.74
Dividend Per Share	\$0.800	\$0.800	\$0.500	\$0.125	\$0.125	\$0.125	\$0.125	\$0.500	\$0.560
Balance Sheet*									
Cash and Equivalents	50.0	47.2	57.1						
Other Current Assets	72.9	79.6	76.8						
Total Current Assets	122.9	126.8	133.9	135.0	139.0	138.9	139.4	139.4	148.0
Net PP&E	27.5	30.5	30.3						
Intangible Assets	28.3	91.8	81.8						
Other Assets	4.7	2.7	7.9						
Total Assets	183.3	251.8	254.5	249.3	253.0	252.5	252.8	252.8	260.7
Current Liabilities	15.3	22.6	22.9	20.9	22.5	21.5	21.5	21.5	22.1
Non-Current Liabilities	2.2	62.8	57.3	56.2	55.0	53.9	52.8	52.8	48.3
Total Liabilities	17.4	85.4	80.2	77.0	77.5	75.4	74.3	74.3	70.3
Total Shareholders' Equity	165.9	166.5	169.6	172.3	175.5	177.1	178.5	178.5	190.4
*FY17 Balance Sheet numbers are still estimates, as the 10-K has not been released yet									
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 decline 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	32	29%	13%	88%
Hold/Neutral	73	65%	7%	93%
Sell	7	6%	0%	100%

As of 8 November 2017

Other Disclosures

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