




## Teleflex Medical NYSE: TFX

Analyst: Jeremy Haley

**We recommend a marketweight position on Teleflex Medical's 4.625% 2027 senior unsecured notes.** Teleflex Medical is an international medical device company that designs, develops, manufactures, and supplies single-use medical devices for common diagnostic and therapeutic procedures in critical care and surgical applications. Our marketweight recommendation stems from TFX's promising new products and recent deleveraging (2024 notes called) paired with the 2027 bonds tightening of ~300bps from their peak in 4Q18. Furthermore, we believe investors are weighing the risk of increased leverage from M&A activity against a potential ratings upgrade should not M&A take place. Though we believe TFX's competent management team has the company well positioned for long term growth, the dramatic tightening of their notes leads us to believe that the 2027 bonds are correctly priced in the current market. Furthermore, we believe that the TFX 2027's may become more desirable following M&A activity that management has alluded to numerous times. We believe that investors have correctly priced TFX's high growth products (UroLift's ~50% growth YoY) and deleveraging (~4x to ~2.7x) into the notes current price as they have tightened considerably in the last year.

**Table 1: Capitalization Structure**

Teleflex NYSE: TFX Capitalization Table						
LTM Adj. EBITDA	664,299					
Outstanding Debt and Leverage Metrics						
Type	Rate	Maturity	Debt Outstanding	Bond Level Leverage	Price	Yield
Revolver	L + 150	4/5/2025	200,000			
Term Loan A	L + 150	4/5/2027	673,000		\$99.50	3.652%
<b>Total Bank Debt</b>			<b>873,000</b>	<b>1.31x</b>		
TFX 2026's	4.875%	6/1/2026	400,000		\$104.97	3.08%
TFX 2027's	4.625%	11/15/2017	500,000		\$106.11	3.21%
<b>Total Senior Debt</b>			<b>900,000</b>	<b>2.67x</b>		
<b>Total Debt</b>			<b>1,773,000</b>			
Market Capitalization	16,014,220					
(-) Cash and Cash Equivalents	257,544					
<b>Enterprise Value</b>			<b>17,529,676</b>	<b>26.39x</b>		

Source: Bloomberg & MFIF Analysis

### Security Data

**Bond Maturity: 11/15/2017**

**Rating: BB - / Ba3**

**Rank: Sr. Unsecured**

**Price: \$106.11**

**YTW: 3.21%**

**Call Date: 11/15/2022 @ \$102.31**

**Coupon: 4.625%**

**Spread: 163 bps**

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**Company Overview**

Teleflex Medical is an international single use medical device manufacturer and supplier. TFX’s main product segments include Vascular Access, Interventional, Anesthesia, Surgical, and Interventional Urology. TFX’s most promising products include UroLift, a minimally invasive medical device used for treating lower urinary tract symptoms and MANTA, a vascular closure device with a full market release scheduled for mid-2020.

**Management Overview**

Teleflex Medical’s management includes industry professionals who have grown TFX through frequent M&A activity (~\$1.2b 2017 acquisition of Neotract and Vascular Solutions). TFX CEO/President Liam Kelly has held high level positions in TFX since joining in 2009 and was formerly the VP of international marketing and R&D at Hill-Rom a healthcare equipment provider. TFX’s CFO since 2012 is Thomas Powell who has held senior positions at Siemens Healthcare Diagnostics, PepsiCo, Bain & Co, Tenneco and Arthur Andersen & Company. We believe that TFX’s current price reflects confidence in TFX’s management, given their track record of smoothly integrated acquisitions and long-term strategic vision.

**UroLift high growth drives Interventional Urology segment**

TFX has recently experienced very high growth in their Interventional Urology segment, primarily driven by UroLift’s FDA approval in 4Q2017. Optimism surrounding UroLift stems from its 50.4% increase in revenues over 3Q18. UroLift’s high growth is due to TFX increasing patient education of the symptoms UroLift can treat through social media advertising. Furthermore, TFX’s training of U.S. urologists on how to use the product has resulted in UroLift penetrating the market faster than expected (~\$60mm in revenue with only ~1/6th of U.S. urologists trained). Lastly, TFX’s early approval of UroLift in Japan’s ~\$2b TAM with an anticipated launch in mid-2020 has been well received by the market, contributing to the 2027 notes ~300bp tightening through 2019. While we believe TFX is well positioned for long term growth, we also believe that the market has correctly priced in UroLift’s contribution to TFX’s top line growth at a similar rate currently being seen.

**New Product Promise**

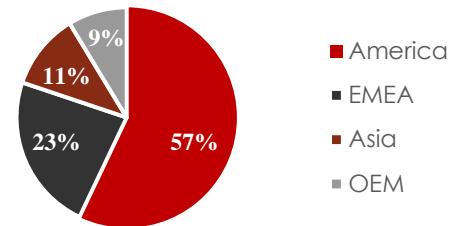
Teleflex Medical’s 2027 notes recent ~300bp tightening is understandable given the promise of new products, even beyond UroLift. TFX’s next big product launch will come from MANTA, a vascular closure device that was included in the 2018 acquisition of Essential Medical. MANTA underwent a limited release in 2Q19 and is currently being price tested in U.S. markets with a mid-2020 full market launch expected. MANTA’s release is much anticipated; thus, we believe that the notes tightening reflects warranted optimism. MANTA’s contribution to TFX’s portfolio has been referenced already by management, and while they won’t provide guidance on revenue expectations from the product until year end, they have still given investors confidence. This confidence comes from the concentrated market MANTA aims to enter (only 600 TAVR centers in U.S. with a CAGR of ~15%). Furthermore, strong clinical data has proven its effectiveness in reducing vascular complications which has resulted in proven cost savings for hospitals (shortens hospital stay by 5 days and ~\$18,000) which is why the pricing of the device is being considered. We are of the belief that the market is correct in their degree of optimism which has resulted in the 2027 notes tightening to their current levels.

Source: Company Presentations & MFIF Analysis

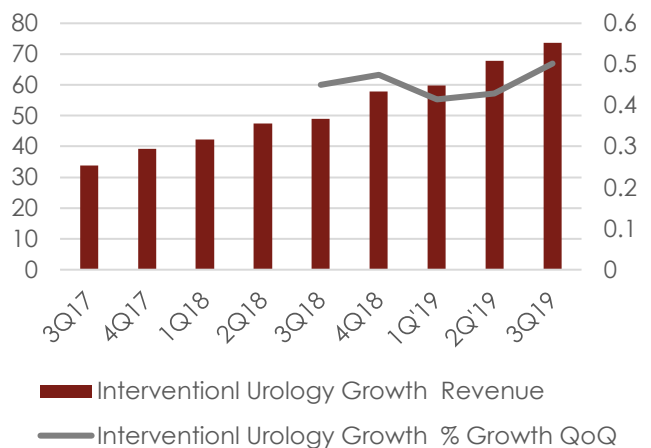
**Risks**

- TFX management doesn’t participate in large scale M&A activity and further reduces debt
- TFX is impacted from political debate surrounding single payer plan given its larger exposure in the U.S. than their peers
- Contingency consideration payments continue and materially affect bottom line

**Figure 1: Revenue Mix**



**Figure 2: UroLift Growth**



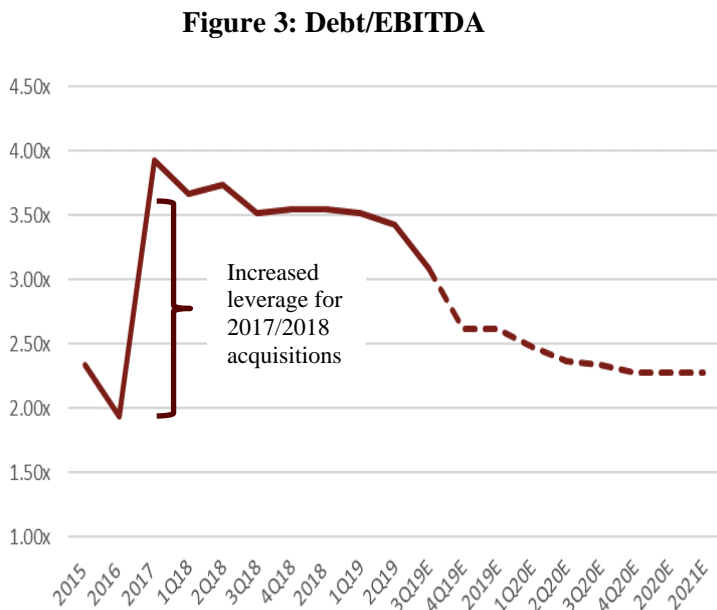
**Strong Performance Drives Tightening**

Teleflex Medical’s management team has outperformed consensus estimates on both EPS and revenue every quarter since 4Q2018. TFX management has also increased guidance for revenue growth throughout, further increasing confidence in their ability to deliver on their long-term strategic goals.

**M&A Activity on Horizon**

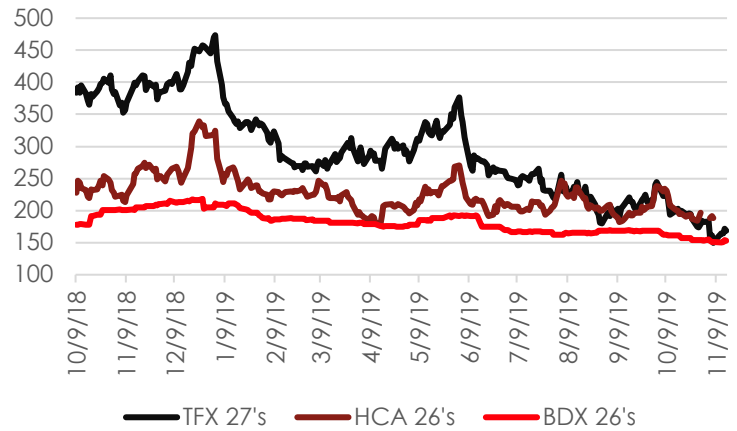
Teleflex Medicals recent deleveraging efforts, most recently seen through its retirement of its 2024 notes, provides them with the capacity to engage in M&A activity without overextending themselves. Currently standing at ~2.7x net debt/EBITDA, we believe the serial acquirer will likely engage in M&A activity through 2021. With strong FCF’s and managements stated interest in M&A activity within the men’s healthcare field, we believe the market is weighing the potential for increased leverage against the high growth TFX is currently experiencing.

TFX’s management has proven their ability to smoothly integrate products after large acquisitions (Neotract, Vascular Solutions, Essential Medical). However, we believe that the market is correct in pricing the 2027 notes against the increased leverage that will accompany a large-scale acquisition. We believe that the market is correct in weighing management’s comments on M&A (which have historically proven to be accretive) against the possibility of increased leverage necessary to finance M&A activity on the same scale as seen in 2018.



Source: Company Presentations, Financial Statements, & MFIF Analysis

**Figure 2: Comparable Z-Spreads**



	TFX 27's	HCA 26's	BDX 26's
<b>Bond Level Comparisons</b>			
Credit Rating	BB-	BB-	BBB-
Net Debt/Adj. EBITDA	2.70x	3.37x	2.79x
EBITDA/Interest	7.70x	5.41x	10.27x
Bond Level Leverage	2.67x	3.42x	2.87x
Coupon	4.625%	5.375%	6.700%
Maturity	11/15/2027	9/1/2026	12/1/2026
Price	\$106.13	\$110.96	\$122.31
YTW	3.20%	3.42%	3.14%
Yield/Leverage	1.20%	1.00%	1.09%
Next Call Date	11/15/2022	3/1/2026	N/A
Call Price	\$102.31	\$100.00	N/A
Z-Spread	163	183	153

Source: Bloomberg & MFIF Analysis

**Relative Valuation**

TFX has historically traded wide of its most direct competitors which are all higher rated companies (BDX, BSX, MDT). Recently however, TFX has tightened considerably and now trades in line with HCA, which many consider the gold standard of hospital companies, and BDX a much larger medical device manufacturer. The considerable tightening that TFX 2027’s has experienced reflects the optimism in its portfolio and pipeline, however we don’t believe that the notes provide upside worthy of investment at this time. If TFX does not increase leverage considerably in the next year however, we believe that they could be subject to a ratings upgrade, further justifying their current trading levels.

TFX followed the industry-wide widening in 4Q18 but has since tightened nearly ~300bps to be tight of HCA. Given the uncertainty around the scale of M&A that TFX may participate in, we feel that the market is correct in pricing TFX notes at the current levels. We are confident that TFX will continue to trade at these levels in the near term and that M&A related leverage, or a ratings upgrade would be the two catalysts that could cause TFX 2027’s spread to move considerably.

Table 4: TFX Summary Model

Teleflex Inc. (NYSE: TFX) 11/15/2019

	2015	2016	2017	2018	1Q19	2Q19	3Q19E	4Q19E	2019E	2020E	2021E
Net Revenue Growth		3%	15%	14%	4%	7%	6%	11%	7%	8%	8%
COGS as a % of net revenue	48%	47%	45%	43%	44%	43%	42%	43%	43%	43%	43%
Gross Margin	52%	53%	55%	57%	56%	57%	58%	57%	57%	57%	57%
SG&A as a % of revenue	31%	30%	31%	36%	37%	36%	35%	35%	36%	34%	35%
R&D as a % of revenue	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%
<b>Income Statement</b>											
Net Revenues	1,809,690	1,868,027	2,146,303	2,448,383	613,584	652,507	648,319	712,193	2,626,603	2,830,400	3,056,832
COGS	865,287	871,827	974,501	1,063,941	268,842	279,583	272,639	306,243	1,127,307	1,209,380	1,314,438
Gross Profit	944,403	996,200	1,171,802	1,384,442	344,742	372,924	375,680	405,950	1,499,296	1,621,020	1,742,394
SG&A Expense	568,982	563,308	669,963	878,688	227,693	236,186	229,896	249,267	943,042	963,419	1,069,891
R&D Expense	52,119	58,579	84,770	106,208	27,150	27,595	27,984	24,927	107,656	113,216	128,387
Restructuring & Impairment Expense	7,819	59,227	14,790	79,230	17,395	1,685	1,268	1,500	21,848	0	0
Gain on sale of assets	(408)	(4,367)	0	(1,388)	(2,739)	0	(1,089)	0	(3,828)	0	0
Income from continuing operations before interest, loss on extinguishment of debt and taxes	315,891	319,453	402,279	321,704	75,243	107,458	117,621	130,256	430,578	544,385	544,116
Interest Expense	61,323	54,941	82,546	103,020	22,692	20,758	19,545	17,500	80,495	74,000	74,000
Interest Income	(532)	(474)	(771)	(944)	(339)	(472)	(470)	(300)	(1,581)	0	0
Loss on extinguishment of debt	10,454	19,261	5,593	0	0	0	0	256,625	256,625	0	0
Income from continuing operations before taxes	244,646	245,725	314,911	219,628	52,890	87,172	98,546	(143,569)	95,039	470,385	470,116
Taxes on income from continuing operations	7,838	8,074	129,646	23,196	10,972	3,844	(130,383)	(17,946)	(133,513)	58,798	58,798
Income from continuing operations	236,808	237,651	185,265	196,432	41,918	83,328	228,929	(125,623)	228,552	411,587	411,318
Operating loss from discontinued operations	(1,730)	(922)	(4,534)	5,643	(1,343)	61	(9)	0	(1,291)	0	0
Tax benefit on loss from discontinued operations	10,635	1,112	1,801	1,273	(322)	14	(9)	0	(317)	0	0
Income (loss) on discontinued operations	8,905	190	(2,733)	4,370	(1,021)	47	0	0	(974)	0	0
<b>Net Income</b>	<b>245,713</b>	<b>237,841</b>	<b>182,532</b>	<b>200,802</b>	<b>40,897</b>	<b>83,375</b>	<b>228,929</b>	<b>(125,623)</b>	<b>227,578</b>	<b>411,587</b>	<b>411,318</b>
<b>Statement of Cash Flows</b>											
Net cash provided by operating activities	303,446	410,590	456,303	435,086	60,166	97,118	131,883	229,070	516,289	652,318	654,743
Net cash used in investing activities	(154,848)	(56,974)	(1,832,855)	(196,394)	(23,528)	(24,096)	(25,973)	(17,000)	(90,597)	(299,230)	(488,433)
Net cash used in financing activities	(85,583)	(118,692)	1,141,259	(206,433)	(124,361)	(43,288)	(142,878)	(282,166)	(592,693)	(97,612)	(97,612)
Net increase (decrease) in cash and cash equivalents	35,130	205,423	(180,229)	23,603	(85,949)	32,684	(46,352)	(70,096)	(171,661)	247,476	60,698
Cash and cash equivalents at the beginning of the period	303,236	338,366	543,789	363,560	387,163	301,214	333,898	287,546	387,163	217,450	464,926
<b>Cash and cash equivalents at the end of the period</b>	<b>338,366</b>	<b>543,789</b>	<b>363,560</b>	<b>387,163</b>	<b>301,214</b>	<b>333,898</b>	<b>287,546</b>	<b>217,450</b>	<b>217,450</b>	<b>464,926</b>	<b>525,624</b>
<b>Credit Metrics</b>											
Cash Flows from Operations	303,446	410,590	456,303	435,086	60,166	97,118	131,883	188,820	477,987	665,502	667,927
(-) Capital Expenditures	(61,448)	(53,135)	(70,903)	(80,795)	(23,494)	(32,613)	(27,690)	(17,000)	(100,797)	(100,797)	(90,000)
Free Cash Flow	241,998	357,455	385,400	354,291	36,672	64,505	104,193	171,820	377,190	564,705	577,927
LTM FCF	241,998	357,455	385,400	354,291	319,862	309,270	312,468	377,190	377,190	564,705	577,927
Adj. EBITDA Reconciliation											
Net Income	245,713	237,841	182,532	200,802	40,897	83,375	228,929	93,127	446,328	411,587	411,318
(Income) Loss from discontinued operations, net of tax	(8,905)	(190)	2,733	(4,370)	1,021	(47)	0	0	(974)	0	0
Income (loss) from continued operations	236,808	237,651	185,265	196,432	41,918	83,328	228,929	93,127	447,302	411,587	411,318
Taxes on income from continued operations	7,838	8,074	129,646	23,196	10,972	3,844	(130,383)	13,304	(102,263)	58,798	58,798
Interest expense	61,323	54,941	82,546	103,020	22,692	20,758	19,545	17,500	80,495	74,000	74,000
D&A	108,393	117,906	155,263	209,980	53,396	53,855	52,696	52,518	212,465	204,389	204,818
Restructuring, related charges & asset impairments	17,705	74,949	14,790	79,230	17,395	1,685	1,268	1,500	21,848	0	0
Non-cash stock based compensation	14,467	16,871	19,407	22,438	5,781	6,919	7,337	7,122	27,159	28,304	30,568
Net gain on sale of businesses and assets	(1,366)	(4,367)	0	(1,388)	(2,739)	0	(1,089)	0	(3,828)	0	0
Foreign currency losses (gain)	2,418	2,479	4,624	0	0	0	0	0	0	0	0
Other non-recurring items	4,624	23,560	(18,469)	(18,803)	654	(5,181)	(2,615)	0	(7,142)	0	0
Adj. EBITDA	452,210	532,064	573,072	614,105	150,069	165,208	175,688	185,071	676,036	777,077	779,503
LTM Adj. EBITDA	452,210	532,064	573,072	614,105	617,832	638,574	664,299	676,036	676,036	777,077	779,503
<b>Credit Ratios (LTM)</b>											
Debt/EBITDA	2.34x	1.94x	3.93x	3.55x	3.52x	3.43x	3.09x	2.62x	2.62x	2.28x	2.27x
Net Debt/EBITDA	1.59x	0.92x	3.34x	2.97x	3.08x	2.95x	2.70x	2.36x	2.36x	1.72x	1.62x
EBITDA/Interest	7.37x	9.68x	6.94x	5.96x	6.19x	6.80x	7.70x	8.40x	8.40x	10.50x	10.53x
FCF/Debt	23%	35%	17%	16%	15%	14%	15%	21%	21%	32%	33%

Source: Company Financial Statements &amp; MFIF Analysis