BioTelemetry Inc.

NASDAQ: BEAT

Analyst: Andrew Varone
Sector: Healthcare

BUY

Price Target: $16.87

Key Statistics as of 12/9/2015

Market Price:	$12.08
Industry:	Medical Laboratories & Research
Market Cap:	$329.30M
52-Week Range:	$7.86-$16.96
Beta:	0.28

Thesis Points:

- The macro environment have created undervaluation and gives an opportunity for growth
- BioTelemetry has subsidiaries that produce heart monitors and record the data.
- Patents have left the company with no direct competition as they have won their infringement cases.

Company Description:

BioTelemetry provides cardiac monitoring services, cardiac monitoring device manufacturing, and centralized cardiac core laboratory services. Since the Company became focused on cardiac monitoring in 1999, the Company has developed a proprietary integrated patient management platform that incorporates a wireless data transmission network, Food and Drug Administration ("FDA") cleared algorithms and medical devices, and 24-hour digital monitoring service centers.
The Company operates under three segments: patient services, product and research services. The patient services segment is focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders. The Company provides cardiologists and electrophysiologists who prefer to use a single source of cardiac monitoring services with a full spectrum of solutions, ranging from the differentiated Mobile Cardiac Outpatient TelemetryTM ("MCOT™") service to wEvent, event, Holter, Pacemaker and International normalized ratio ("INR") monitoring. INR monitoring is a measurement of blood coagulation in the circulatory system and is prescribed for patients on long term anticoagulation therapy. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The research services segment is engaged in central core laboratory services providing cardiac monitoring, scientific consulting and data management services for drug and medical device trials.

Thesis

BioTelemetry is a BUY because of the upside that is presents. The company is currently undervalued of the macroeconomic factor which has made the industry worried about a decrease in the prices that they can charge. BEAT is the lead company in their industry, as they possess 29 U.S. patents which makes them have no competition. They have acquired companies which allow them to manufacture heart monitor and analyze all the data that they collect from their patients. The entire healthcare industry is moving towards innovation and the use of wireless technology. BioTelemetry is already there with their approved Mobile Cardiac Outpatient Telemetry system.
BioTelemetry is a BUY with an upside potential of 37%.

Porter's 5 Forces

Threat of New Entrants: Low
For firms to enter the market and compete with BEAT in the market of wireless heart monitors is next to impossible. The first in the large capital cost that is associated with this market. Since it is wireless, there is a large technology bill and upkeep with regards to the servers that are put in place to monitor patients hearts. BioTelemetry themselves have invested $300M alone in their technology and service platforms. The next barrier that makes entry almost impossible is their patents. They have a number of patents that have given legal troubles to those that have tried to enter the market. Currently they have 29 U.S. patents and 34 international patents that have been issued.

Threat of Substitutes: Low
Heart monitors are a key instrument to measure the heart rates of those who are at risk for heart problems. Because of this, those with heart issues will almost need to have a heart monitor as it will be an indicator of an issue when they present themselves.

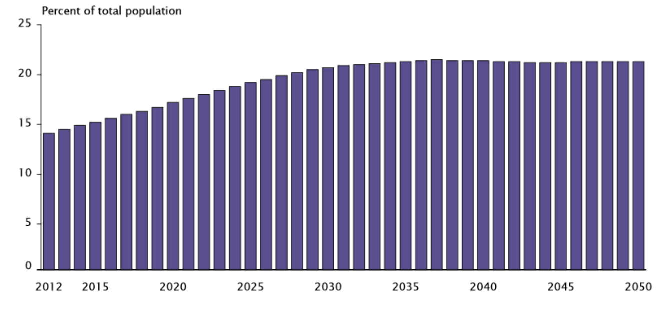
Bargaining Power of Buyers: Medium
There has been a governmental push to give the buyers of medical equipment and drugs more bargaining power by reducing the prices that the companies can charge. On the other side, the wireless heart monitor provides uniqueness to the industry that many buyers would prefer over their current heart monitors, as more freedom can be gained.

Bargaining Power of Suppliers: High
The overall suppliers for customers for these heart monitors are the insurance providers. They have all the bargaining power when it comes to negotiating rates they will pay for their services. Because of this, the company will have to take their rates or lose out on insurances companies and their clients.

Competitive Rivalry: Neutral
Being able to produce a wireless heart monitor is a sustainable competitive advantage as patients will not want to lose their freedom and would prefer to have a wireless heart monitor. On the other side though, this will not apply to all patients in the hospital as some will be unable to get out of their beds. If this is the case, the competitive advantage is nonexistent for these types of patients.

Macro Factors

There has been undervaluation due to the "Clinton Effect". Clinton, as well as other Democratic candidates, wants to limit amount charged for the healthcare sector. If such legislation was passed, the forecasted revenues would decrease because the company would have to charge less. What is important is to remember that this is speculation, if legislation fails to be put into place, no revenues would be lost for the company. Another positive for this is that this is a macroeconomic factor. Since it is not firm specific, the entire will have to adjust to new legislation rather than a specific firm. This have left a point for entry for investors as the stock has stayed around $12, down $2 since the Clinton announcement.
The next large macroeconomic factor is that the United States has an aging demographic. The percentage of the United States population that is above the age of 65 is around 15% for 2015. The number of those above the age of 65 is expected to grow faster than the age of those below the age of 65 due to the baby boom. Because of this, it is forecasted that 20% of the total population will be above the age of population by the age of 65.



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

As people get older, they will be more susceptible to having health related issues where a heart monitor would be required. Despite being at the risk of having health risk, they could not require intensive care and be able to go on with their everyday life. This creates a market for the wireless heart monitor as people will be able to have their heart monitored all while going on with their life. This will prove to have older individuals have longer and happier lives. They will live longer as any problems can be detected right away and a specialist can be spent to give the individual medical attention.

The Product

BioTelemetry has revolutionized the Healthcare sector by introducing the first Mobile Cardiac Outpatient Telemetry system. This system has been prescribed to patients from doctors from up to 30 days of monitoring. The patients can continue their normal life activities as they are monitored 24/7. If any events occurred, the data is transmitted automatically sent to CardioNet Monitoring Center where they are analyzed and responded too if necessary. This is revolutionary as patients are no longer required to stay in the hospital for monitoring; they can do it at the comforts of their home. The entire healthcare industry is moving towards wireless innovations for their treatments and recoveries. BEAT has been one of the first to go wireless with their Mobile Cardiac Outpatient System.

The Company

BioTelemetry can be broken down into three sections which help them carry out this process. They are, CardioNet, Cariocore, and Braemar. CardioNet is provides a next-generation ambulatory cardiac monitoring service. The features included are beat-to-beat monitoring, real time analysis, automatic arrhythmia detection and wireless ECG transmission.

The next company is Cariocore, which was acquired by BioTelemetry and would be named BioTelemetry Research. BioTelemetry Research is the world's largest cardiac data network. They process over two billion hearts a day, which is done by supporting 30,000 devices monthly and by monitoring 500,000 patients a year.

The last component is Braemar, which is a subsidiary of BioTelemetry. This is where they engineer, develop, and manufacture ambulatory cardiac monitors for healthcare companies worldwide. This means that BioTelemetry has control over the construction as well as the data from their patients.

Going forward, organic growth is present in the greater demand for these heart monitors. As more people age, there will be more people that require heart monitors to check over their health. Another area of growth is by their expansion. They want to expand their clinical services into advanced imaging services and respirator testing. Being able to expand into these markets with their innovated technology would allow them to continue grow.

Competition

There is no direct competition because of the barriers of entry that exists. Currently, there are 29 U.S. patents and 34 international patents that the company has. This makes entry extremely difficult. Despite this, companies still try to enter the market but, BioTelemetry have submitted patent infringement charges and have won every time that this happened. This last time this occurred was against MedTel. There were five patents that were looked into for infringement and for all five, it was determined there was indeed infringement. As punishment, the company had to return all the patented materials. If they did not by 21 days, they would be fined $20,000 for every day that they were not returned. This is only the latest case of infringement, there have many prior where BioTelemetry has won their cases and infringement was found.

Financial Analysis

BioTelemetry has started to turn a positive net income for the first time over the LTM. This is expected to continue and have them have a positive net income for 2015. The company has seen EBITDA growth over its past five years. It is expected for EBITDA to growth at twice the rate that it did compare to 2014. Not only EBITDA growth has been faster each year but, the LTM EBITDA growth was higher than the LTM revenue growth. This shows that the company is cutting cost and will get a bigger bottom line. For the next three years, it is forecasted that the EBITDA will continue to outgrow revenues.

Lastly, BioTelemetry is has been seen with the ROIC/WACC ratio which is around 4.3.

Summary

BioTelemetry is a BUY because of the upside that is presents. The company has positioned themselves at the head of the market and will continue to gain market share as they grow. Also, the company is looking to expand and add to their Mobile Cardiac Outpatient Telemetry system. Their competitive advantage will be sustainable as no one will be able to replicate it until their patents run out.

BioTelemetry is a BUY with an upside potential of 37%.

CENTER FOR GLOBAL FINANCIAL STUDIES

BioTelemetry, Inc.	BEAT	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 36.83%	BULLISH
		Andrew Varone	$12.33	$16.34	$16.87	0%		

General Info

Sector	Healthcare
Industry	Healthcare Providers and Services
Last Guidance	November 9, 2015
Next earnings date	February 19, 2016

Market Data

Enterprise value	$345.19
Market Capitalization	$4,449.48
Daily volume	0.22
Shares outstanding	27.26
Diluted shares outstanding	28.44
% shares held by institutions	26.01%
% shares held by insiders	4.36%
Short interest	4.37%
Days to cover short interest	2.92
52 week high	$16.96
52-week low	$7.86
5y Beta	1.06
6-month volatility	51.58%

Peers	Market Cap.

Current Capital Structure

Total debt/Common Equity (LTM)	0.16
Cost of Borrowing (LTM)	2.20%
Estimated Cost of new Borrowing	4.41%
Altman's Z	2.81
Estimated Debt Rating	A
Current levered Beta	0.52
LTM WACC	5.17%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Capper, Joseph	Chief Executive Officer, President and Directc	$1,856,787	$1,691,663	$2,063,976
Getz, Heather	Chief Financial Officer, Principal Accounting (	$625,707	$630,965	$763,021
Ferola, Peter	Senior Vice President of Corporate Developm	$501,945	$485,347	$591,475
Wisniewski, Daniel	Senior Vice President of Technical Operations	$549,648	$533,885	$624,432
Prystowsky, Eric	Medical Advisor	$140,002	$160,874	$104,570
Broadway, Fred	Senior Vice President of Sales & Marketing	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-5.56%	4.19%	18.18%	6.89%
Last Quarter-1	-2.05%	4.94%	33.33%	10.82%
Last Quarter -2	-0.89%	19.40%	100.00%	30.81%
Last Quarter -3	-0.18%	-1.10%	-16.67%	5.35%
Last Quarter -4	2.91%	10.22%	200.00%	64.51%
Standard error	1.4%	3.5%	38.3%	14.36%
Standard Error of Revenues prediction	1.4%			
Imputed Standard Error of Op. Cost prediction	3.2%			
Imputed Standard Error of Non Op. Cost predictio	38.1%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions

Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$166.25
FY2015	6.8%	$177.61
FY2016	5.0%	$186.49
FY2017	5.0%	$195.81
FY2018	4.0%	$203.64
FY2019	4.0%	$211.79
FY2020	3.0%	$218.14
FY2021	3.0%	$224.69
FY2022	3.0%	$231.43
FY2023	3.0%	$238.37
FY2024	3.0%	$245.52
Continuing Period	3.0%	$252.89

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year
Operating Cash/Rev.	0.00%	0.26%	0.0%
NWV/Rev.	3.26%	3.26%	0.0%
NPPE/Rev.	15.04%	14.98%	0.0%
Dpr/NPPE	33.46%	29.57%	-0.4%
NOPAT MARGIN	10.97%	9.26%	-0.2%
Op. Exp./Rev.	82.30%	84.08%	0.2%
SBC/Rev.	3.07%	0.91%	-0.2%
Rent Exp./Rev.	2.24%	1.35%	-0.1%
R&D/Rev.	4.10%	2.29%	-0.2%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	42.67%	42.00%	-0.1%
ROIC	22%	46.79%	2.43%
EV/Rev.	2.05x	2.23x	0.02x
EV/EBITA	14.86x	15.08x	0.02x
Debt/Equity	16%	20%	0.4%
Unlevered beta	0.47	0.50	0.00
Dividends/REV	0%	0%	0.0%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value $\sigma(\varepsilon)$	$0.09
1-year target price $\sigma(\varepsilon)$	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	22.4%	5.2%	$93.15	$513.99	$93.46	27.26	$16.25
FY2015	25.5%	5.3%	$96.71	$520.94	$85.35	27.26	$16.71
FY2016	23.4%	5.6%	$98.58	$529.34	$68.39	27.26	$17.55
FY2017	23.4%	5.8%	$100.40	$538.70	$49.26	27.26	$18.50
FY2018	23.1%	5.9%	$101.17	$548.25	$27.98	27.26	$19.55
FY2019	23.1%	6.1%	$101.83	$558.95	$5.80	27.26	$20.67
FY2020	22.9%	6.2%	$101.40	$570.09	-$17.82	27.26	$21.88
FY2021	22.9%	6.4%	$100.84	$582.69	-$74.25	27.26	$23.76
FY2022	22.9%	6.5%	$100.16	$596.89	-$97.00	27.26	$25.05
FY2023	22.9%	6.6%	$99.35	$612.81	-$115.15	27.26	$26.20
FY2024	22.9%	6.8%	$98.40	$630.58	-$130.73	27.26	$27.41
Continuing Period	46.8%	6.9%	$50.06				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $16.34; the 3σ(ε)-adjusted target price is $16.87; and the analysts' median target price is $17.67

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance