Vascular Solutions Inc (VASC: NASDAQ)

Financial Analysis By: Laura Pladys – Healthcare

Company Profile as of 2/18/2015

Market Price: $28.82
Industry: Interventional Cardiology
Market Cap: $495.73M
52-Week: $18.42-30.97
Beta: 0.68

Source	Target Price	Recommendation
Siena	$32.70	BUY
Bloomberg	$32.88	BUY
Capital IQ	$32.88	BUY
Yahoo Finance	$32.88	BUY

Thesis

-International Expansion Opportunity
-Unique Products Development Opportunities
-Promising Financials

Vascular Solutions Inc is a buy because of the factors mentioned above. The company is focused on improving its international sales through distributors and its domestic sales through direct sales. The company has entered a unique partnership with the US Army Combat Casualty Care without having to invest in research and development. They are both working on developing the state and carriage of plasma to heel wounded soldiers on the field. Moreover, the company had an aggressive start in 2015 in its product development in its top selling line of products: catheters. The company's financials are better year over year and the company shows sign of undervaluation compared to its peers in the interventional cardiology industry.

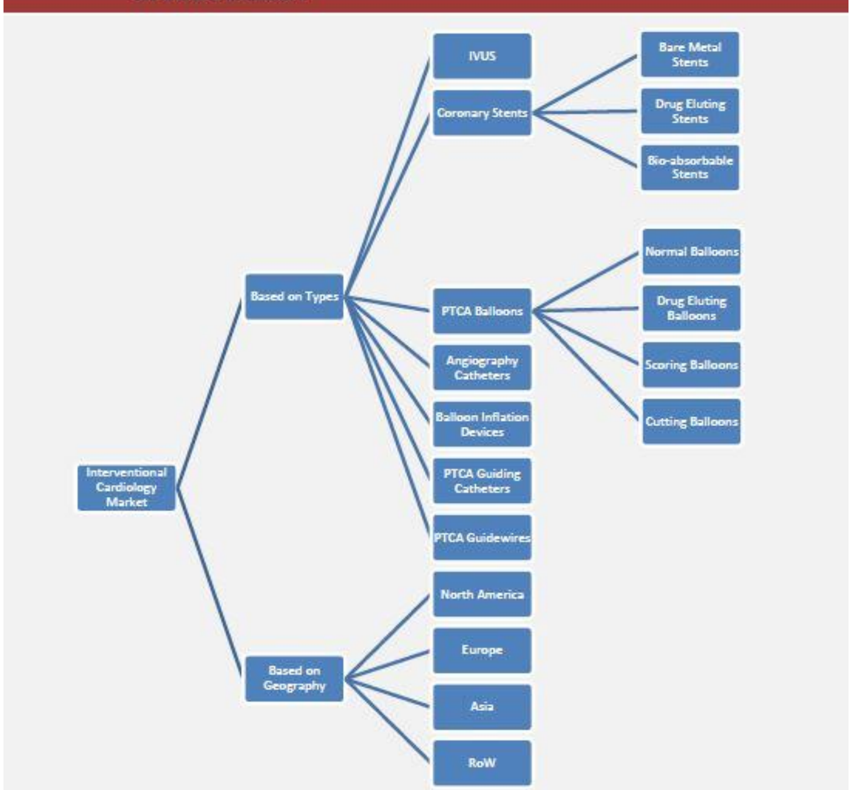
Company Overview

Vascular Solutions, Inc., a medical device company, provides various solutions to interventional cardiologists, interventional radiologists, electro physiologists, and vein practices worldwide. The company's catheter products include GuideLiner catheters for use in various interventions; Pronto extraction catheters for treating acute myocardial infarction; Micro-Introducers for performing arterial and venous catheterization procedures; Langston to measure intravascular pressure gradients for the diagnosis of aortic valve stenosis; and SmartNeedle, a doppler-guided needle device designed to provide auditory ultrasound-guided access to arteries and veins. It also offers Venture, a deflectable tip catheter used for steering guidewires in various interventions; Guardian, a hemostat valve to allow placement of multiple devices simultaneously; SuperCross, a catheter for support and delivery of guidewires during coronary and peripheral interventions; Snares to retrieve or manipulate devices in catheterization procedures; and Minnie, a support catheter used to facilitate placement and exchange of guidewires and other interventional devices. In addition, the company provides hemostat products comprising D-Stat Dry Thrombix, a thrombin-based hemostat bandage used in conjunction with manual compression to control bleeding in catheterizations; D-Stat Flowable, a flowable mixture to control bleeding in the pectoral pockets; Vasc Band, a compression device that utilizes an inflatable membrane to control bleeding; D-Stat Radial, a compression device that utilizes a thrombin pad to control bleeding; and accumed wrist positioning splint. Further, it offers vein products and services, such as Vari-Lase endovenous laser, a laser console and procedure kit used for the treatment of varicose veins, as well as a reprocessing service for the ClosureFAST radiofrequency vein ablation catheter. The company was founded in 1996 and is headquartered in Minneapolis, Minnesota.

Management

Howard Root has held the position of Chief Executive Officer and member of the Board of Directors of Vascular Solutions Inc since he co-founded the company in 1997. Prior to that, he worked as Vice President in the same industry for a company building mechanical heart valves. The Chief Financial Officer James Hennen has a background in audit and control and joined Vascular Solutions in 2004. These two have a very competent team. Charmaine Sutton serves as Senior Vice President of Operations since 2010 and has an impressive background in the medical industry as consultant as well as expert in the medical regulatory environment. Early 2015, the company expanded its US sales management and formed four new American territories for its sales. As a result, three of the regional directors were promoted up. Vascular Solutions Inc prefers to promote existing employees rather than hire external people. The team got bigger with the additional sales region representatives and none of the existing VASC employees left. The CEO believes that promoting existing employees leads to a long-term growth: Vascular Solutions Inc's goal.

FIG. 1 MARKET SEGMENTATION FOR THE INTERVENTIONAL CARDIOLOGY DEVICES MARKET



Interventional Cardiology Devices Overview

Interventional cardiology refers to treatment based on catheters to treat structural heart diseases. Cardiovascular diseases are expected to cause more than 25 million deaths worldwide by 2031. The interventional cardiology industry is much diversified with several segments based on types as well as on geography (see graph on the left for details). The primary factors driving the industry are increasing rates of cardiovascular diseases, the increasing demand of minimally invasive procedures available thanks to new technology, an increased number of interventional cardiologists as well as an aging population. The North American market holds the majority of the industry market share because of higher disposable income than emerging markets but this trend is expected to be reversed in less than a decade. International sales are expected to increase faster than domestic sales and disposable income is increasing in emerging regions, especially in Asia.

Cardiovascular diseases are the first cause of death worldwide and are forecasted to increase because of people's lifestyle: global number of smokers, increasing rates of obesity and dietary irregularities. Patients' rising awareness is expected to increase demand for interventional cardiology devices. Previously valued at $14.9B in 2013, the industry is expected to grow at a CAGR of 7.7% until 2020. In addition, the constant increase in congenital heart disease is a primary factor of this growth. Currently, congenital heart diseases are responsible for 1% of American birth defects per year. The increasing technology helps to boost the growth of the industry with new advanced devices, new products, and existing products enhancement. For the past five years, the industry has been transformed thanks to new techniques and new procedures, forecasted to keep improving. Surgery that would have been considered impossible a decade ago are now performed with a rate of success of 90%. Minimally invasive procedures require less post-surgery complications, pain, and side-effects. Patients' recovery period is also shorter.

Competition

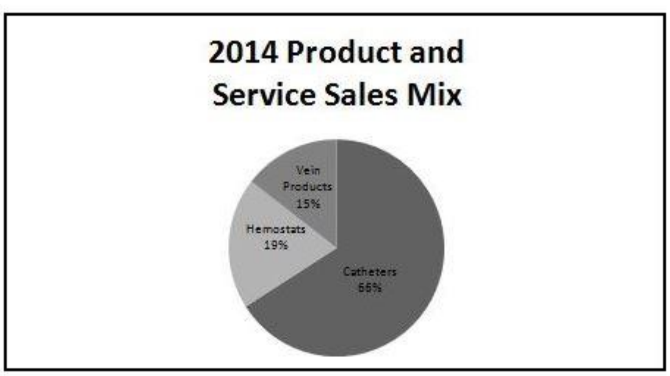
The healthcare sector, especially the interventional cardiology industry, is very competitive; therefore barriers to entry are high. With a market being oligopolistic, any advancement in the industry will impact every company positively or negatively. Despite the nature of the market, companies still succeed at being specialized in a dominant product segment. VASC main competition arises from the following players with several businesses lines as well as small manufacturers with a limited selection of products. VASC biggest competitors include:

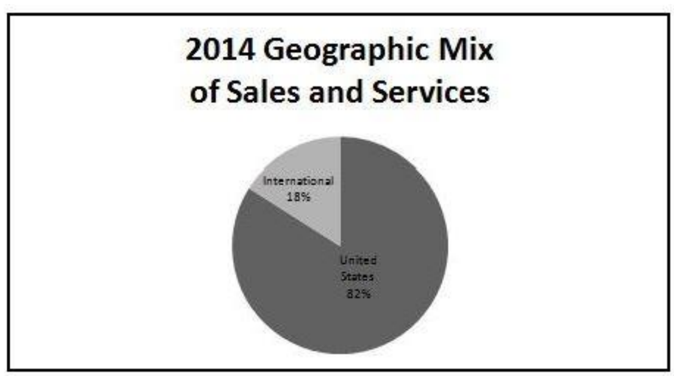
- Medtronic PLC
- Boston Scientific Corporation
- Merit Medical Systems Inc
- Angio Dynamics
- Terumo Corporation

Most of VASC competitors outperform the company in the financial, technological, research and development, marketing, and sales aspects. These companies may also have a greater experience and may have been in business longer than VASC, but the company differentiates itself with its diversified pipeline and focused opportunities in the interventional cardiology industry.

Products Proposed

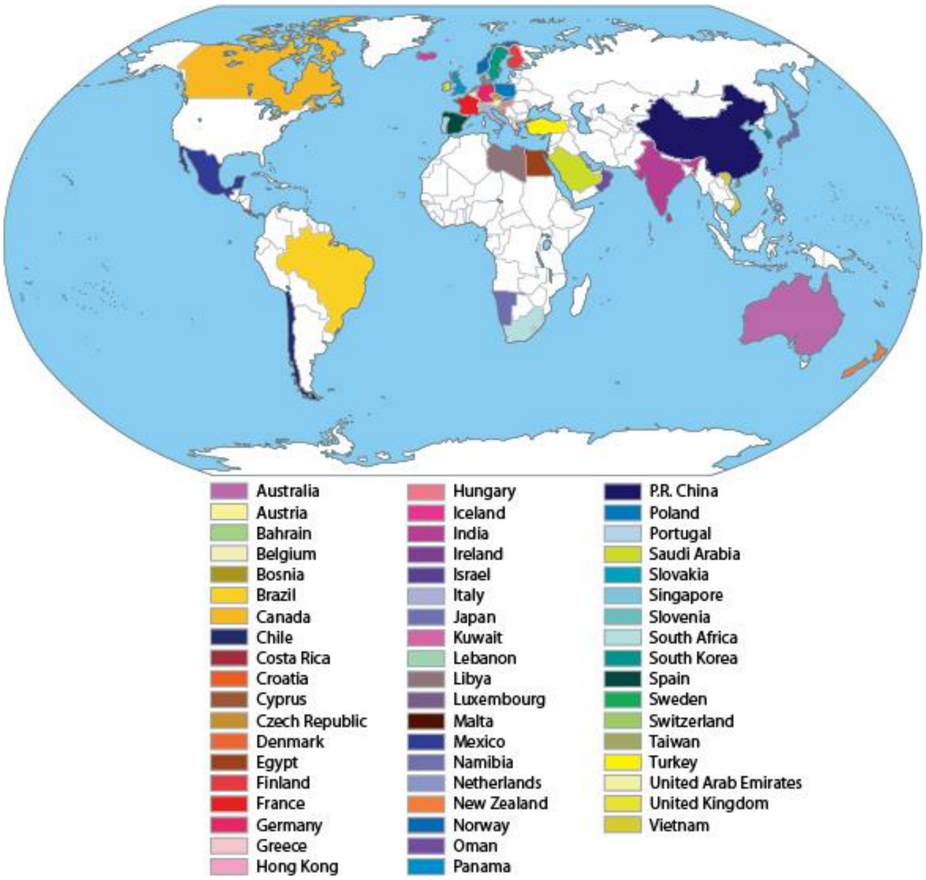
Vascular Solutions Inc started as a single product company in 2000 and now the company's pipeline gathers more than 80 products organized within three different categories: catheter products, hemostat products and vein products. In 2014, catheters products represented 66% of VAS's pipeline (see chart below). The catheters that VASC proposes primarily deal with minimally invasive procedures for diagnostics as well as the treatment of vascular conditions. The hemostat products are blood clotting products as well as radial artery procedures. The vein products and services deal with the treatment of varicose veins and other services related to a vein ablation catheter. VASC geographic mix is represented by 82% of sales directly from the company and 18% of it executed by distributors internationally.





The company believes that the top seller category in 2015 would be their radial products. The radial sheaths represent a market of $50 million and is forecasted to grow substantially. The company expects radial revenues to increase by 30% especially in the second half of 2015. Even though the company is in its early strategy in the radial market, it already anticipates launching several products in the market to drive their hemostat sales forward.

International Expansion

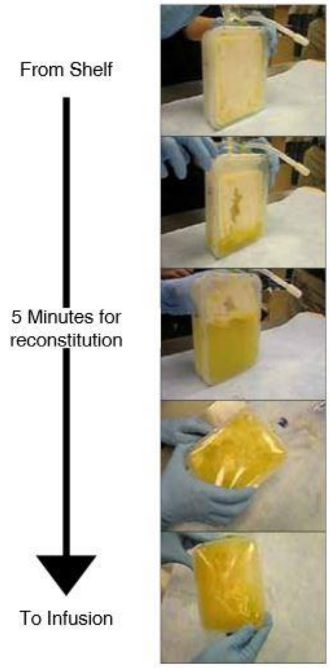


VASC started in 2000 with a single product, Duett sealing device, marketed and sold in the United States by its direct sales organization. As of December 31, 2014, Vascular Solutions Inc partners with 44 independent distributors covering 56 countries (see chart on the left for a detailed list of the countries covered). As stated above, international sales represented 18% of VASC's total sales for 2014. From 2013 to 2014, US sales grew at a rate of 8% while international sales grew at a much faster pace of 59%. VASC executes deals with its international distributors in US dollars except with its Irish subsidiary and its German distributor trading in Euro. With the dollar strongly appreciating against other foreign currencies and its euro transactions representing less than 2%, VASC does not have an important risk exposure on the currency. The company does not have any hedging strategy in place and does not feel like it is required at this point. Though VASC plans on keeping increasing its sales internationally, it does not plan to pursue a direct sales model as it is currently doing in the US. Whether it is short, medium, or long-term, the company refuses to follow direct sales as it would require too much management, currency, and financial risks. On the other hand, the substantial growth driver in the last quarter of 2014 was the company's international sales. It is expected to be the main driver of growth for the year 2015 as well. International sales are forecasted to grow at a faster pace than US sales. International sales carry a lower gross margin but carry as well lower selling expenses.

Product Development Opportunities

In January 2015, VASC launched a new 5 French version of its Pronto LP catheter, the only extraction catheter proposing a 5 French compatibility on the market yet. French version refers to the size of catheters. 5 French versions would represent catheters with a 1.7mm diameter. This new catheter would improve surgeons' rate of success while performing radial artery intervention. This catheter is implemented to complement VASC Pronto V4 Extraction Catheter in order to be even more precise and accurate while removing soft thrombus from arteries.

The company is committed to develop its internal new pipeline since as of December 31, 2014, Vascular Solutions Inc had 40 new medical device projects in various stages of development. One of the most important projects the company has started is the collaboration with the United States Army. This collaboration should result in "freeze-dried plasma for the battlefield management of severe hemorrhage". Plasma is the liquid blood component containing all of the proteins and clotting factors that represent a normal blood flow: hemostasis, the first step in wound healing. An abnormal or deficient blood clotting results in coagulopathy as a consequence of wounding. The replacement of these clotting factors is necessary for a successful healing. The Army currently uses fresh frozen plasma (FFP) but 40% of the FFP sent onto the battlefield breaks before arrival. This represents a consequent waste of plasma, especially for rare plasma like AB type that is only available within 4% of US donors. Since the plasma is currently fresh-frozen, it has to be kept frozen during transfers and weights a lot. Therefore, VASC is currently working on freeze-dried plasma (FDP) that would not require to be shipped on ice and would have a ruggedized container. This would reduce the risk of breakage and waste while saving on power requirement on battlefield. It could also save lives as it should be ready earlier for use in case of severe



hemorrhage (see picture on the left). This FDP has been ranked a top priority project by the US Army Combat Casualty Care. FDP has been put out of the market in the 1960's and no company was willing to undertake the R&D expenses and technical challenges until 2014. VASC has been chosen thanks to its expertise in lyophilization of biologic agents and their financial capabilities to undertake the project. By September 2015, an Investigational New Drug (IND) application should be submitted to the Food and Drug Administration (FDA).

In addition, the company announced at its Q4 2014 earnings that 2015 is "off to our best start ever". The company goal was to launch 10 new products per year. On February 3, 2015, the company had already 6 new products in the launch process. Out of these six products, 5 are catheters instruments with Turnpike being another great growing opportunity. Turnpike products are catheters designed to be used in coronary and peripheral interventions. It is the extension of the company's GuideLiner, a "unique coaxial 'mother and child' guide extension that enables deep seating and selective intubation in challenging coronary interventions". GuideLiner has been the stand-out performer in the last quarter of 2014 with quarter sales up by 71%. This increase included 35% growth in the US alone and 172% growth internationally thanks to the adoption of the product in Japan and the consistent adoption by physicians of the products. The turnpike represents a $20 to $30 million annual opportunity and is expected to significantly contribute to the 2015 sales growth. It is expected to be launched by the end of the first quarter of 2015. On top of these six products, nine additional products from the company's internal R&D pipeline are expected to be launched by the end of 2015. R&D investment has represented 11 to 12% of net sales in the past three years and is expected to remain at 12% in 2015.

Financials

On February 3rd, 2015, Vascular Solutions Inc held its Q4 2014 earning call. In 2014, the company sustained its double-digit revenue growth for the 11th consecutive year. Revenue increased 14% to reach $126.1 million. The increase is primarily explained by the 19% increase in catheter products sales, now representing 66% of the company's total sales. The company EV/EBITDA TTM of 18.5 times is 2.6 times lower than the industry average. The company's operating income has been stable for five years around 15% of revenue, showing signs of sustainability. VASC's gross margins has stayed in-between the 66% range since 2006 but is expected to increase primarily due to the agreement signed with the US Army. The US Army is undertaking R&D costs, which should increase VASC revenue without increasing its costs. Their EBITDA growth of 20.93% from 2013 to 2014 is higher than their revenue growth of 14.12%. The pattern has been reversed as in 2013 revenue grew 7% faster than EBITDA, meaning that the company is now creating value. Their $11.78 million free cash flow for 2014 decreased mainly due to a purchase of PP&E of $7.1 million from their cash to acquire the company's principal manufacturing facility. The cash as of December 31, 2014 represented 46% of the firm's total assets and the cash ratio was at 2.80. The majority of the cash is kept in their operating accounts. A portion of the company's cash is invested in a money market fund. Most of their investment is short-term money market instruments in US dollars and the company picks them in the highest short term category defined by the S&P or Moody's. The cash provided by their operating activities is driven by the result of their net earnings. 56% of the company's cash in investing activities was used in the purchase of the new manufacturing facility. The cash generated from their investing activities is due to tax benefits from stock based awards and the Employee Stock Repurchase Plan, supposed to expire in 2020. Most importantly, the company expects to keep on having positive free cash flows in the future. Concerning research and development, the company invested 11% of its revenue in order to maintain their new product momentum. The dollar amount increased but the percentage amount declined because of new hiring. The company expects to pursue investing on research and development in order to reach its long term development project goal. In 2008, the company got rid of its short and long term debt and managed to stay debt free until now. VASC's P/E of 33.68 times is significantly lower than the peers' average of 42.75 times. The forward P/E is expected to be 32.20 times, even lower than the peers' average of 47.49 times. The 2 year forward is also expected to decrease to 26.73 times while the peers' average is almost doubling. The bigger decrease in the 2 year expected P/E may be representative of the freeze-dried plasma expected launch in 2016, proving signs of Vascular Solutions Inc capacity to grow and create value. Overall, in the operating segment, Vascular Solutions Inc has outperformed its direct competitors in the past year (see chart below).

13) Op Stats (RV)	Co	Range
Sales Growth Yoy (%)	14.12	-3.68
EBITDA Margin (%)	19.69	-10.77
Gross Margin (%)	66.93	43.28

Most of the company's general and administrative expenses significantly increased as a dollar volume but not as a percentage of sales. The dollar increased is due to legal expenses that the company had last year. The company is currently suing two of its direct competitors, Boston Scientific and Terumo Corporation, for patent infringement. The company's net income of $1.7 million for the year 2014 was slightly below their expectations of $2 million because of the Short-Kit litigation. The company had unexpected legal fees because of this lawsuit and expects to have SG&A 3 to 4% higher than the current year in 2015. On November 13, 2014, the CEO Howard Root and Vascular Solutions Inc have been accused of "felony count of conspiracy and eight misdemeanor charges of selling unapproved and adulterated medical devices". This accusation sounds worse than what it actually is. What seems to have happened is that the company marketed a product beyond the approval that the FDA had granted them. The trial is supposed to be held in 2016, with small to no impact on the company next year.

Conclusion

Vascular Solutions Inc is a buy at a price below $27 a share. The company has a bright future ahead. Thanks to its presence in the international market and its expectations of expansion, its products development, and its financials showing signs of undervaluation, VASC is a BUY. The company's current litigation on its Short-Kit should not impact the company's performance in 2015. With its impressive start in 2015 with the launch of 6 new products in only a month and a unique partnership with the US Army Combat Casualty Care, VASC's revenues are expected to significantly improve. Sales internationally are expected to grow faster than domestic sales, representing a real opportunity for the company with recently long-term relationships with its Japanese distributors. Domestically, the company can rely on stable distribution capability. Overall, the company outperformed the industry average in 2014 and currently shows signs of improvement in the near future.

CENTER FOR GLOBAL FINANCIAL STUDIES

Vascular Solutions Inc.	VASC	Analyst Laura Pladys	Current Price $28.82	Intrinsic Value $29.12	Target Value $32.70	Divident Yield 0%	Target Return 0	NEUTRAL

General Info

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	Feb-03-2015
Next earnings date	NM

Market Data

Enterprise value	$459.30
Market Capitalization	$495.76
Daily volume	0.41
Shares outstanding	17.20
Diluted shares outstanding	17.71
% shares held by institutions	68.19%
% shares held by insiders	4.40%
Short interest	1.60%
Days to cover short interest	3.19
52 week high	$30.97
52-week low	$18.42
5y Beta	-0.04
6-month volatility	46.57%

Peers	Market Cap.
AtriCure, Inc.	$505.74
ATRION Corp.	$639.73
STAAR Surgical Company	$262.85
AngioDynamics Inc.	$672.90
Merit Medical Systems, Inc.	$759.12

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	
Altman Z	20.16
Debt Rating	AAA
Levered Beta	0.96
WACC (based on market value weights)	8.03%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Root, Howard	Co-Founder, Chief Executive Of	$ 3,134,847.00	$ 1,134,588.00	$ -
Hennen, James	Chief Financial Officer, Senior Vi	$ 484,743.00	$ 511,402.00	$ -
Sutton, Charmaine	Senior Vice President of Operatic	$ 572,312.00	$ 636,009.00	$ -
Rutstein, William	Senior Vice President of Internat	$ 474,554.00	$ 514,564.00	$ -
Powers, Carrie	Vice President of Marketing	$ 411,755.00	$ 462,317.00	$ -
Slayton, Timothy	Principal Accounting Officer and	$ -	$ -	$ -

Historical Performance

	VASC	Peers	Industry	All U.S. firms
Growth	22.8%	13.4%	14.0%	6.0%
Retention Ratio	23.6%	218.5%	93.0%	60.2%
ROIC	64.4%	5.2%	13.9%	12.1%
EBITA Margin	12.6%	13.8%	15.5%	13.7%
Revenues/Invested capital	63.4%	71.7%	91.8%	202.3%
Excess Cash/Revenue	15.3%	22.1%	36.3%	18.5%
Unlevered Beta	0.33	1.15	0.95	0.95
TEV/REV	2.4x	2.5x	3.4x	2.4x
TEV/EBITDA	16.7x	18.7x	14.7x	11.3x
TEV/EBITA	18.2x	25.6x	16.3x	15.4x
TEV/UFCF	66.8x		39.9x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-0.1%	0.0%	21.1%
Last Quarter-1	2.8%	5.6%	0.0%
Last Quarter -2	0.8%	17.2%	11.1%
Last Quarter -3	0.0%	0.0%	-11.1%
Last Quarter -4	1.6%	0.0%	15.8%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	20%	Straightline	10 years

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	0.95
Rev/Invested Capital	63.0%
Continuing Period Revenue Growth	3.2%
Long Term ROIC	11.9%
Invested Capital Growth	Equals to Maintenance
Justified TEV/REV	3.4x
Justified TEV/EBITDA	14.7x
Justified TEV/EBITA	17.0x
Justified TEV/UFCF	39.9x

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
			Forecasted Profitability			
LTM	14%	61%	$124.66	$20.05	$171.81	$48.12
LTM+1Y	10%	62%	$137.63	$22.82	$215.90	$6.80
LTM+2Y	9%	62%	$150.18	$26.14	$229.23	$12.80
LTM+3Y	5%	62%	$158.06	$27.83	$241.13	$15.94
LTM+4Y	5%	62%	$165.22	$29.19	$252.26	$18.06
LTM+5Y	4%	62%	$171.98	$30.40	$262.69	$19.98
LTM+6Y	4%	62%	$178.54	$31.50	$274.29	$19.90
LTM+7Y	4%	62%	$185.00	$32.64	$283.71	$23.22
LTM+8Y	3%	62%	$191.43	$33.78	$292.63	$24.86
LTM+9Y	3%	62%	$197.88	$34.95	$301.20	$26.38

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	10.0%	8.0%	$3.45	$476.41	$0.00	-$19.10	$495.51	$29.30
LTM+1Y	13.3%	8.1%	$11.14	$531.45	$0.00	-$27.66	$559.10	$32.91
LTM+2Y	12.1%	8.2%	$8.91	$558.26	$0.00	-$41.10	$599.36	$35.19
LTM+3Y	12.1%	8.3%	$9.21	$587.47	$0.00	-$56.95	$644.42	$37.82
LTM+4Y	12.1%	8.4%	$9.29	$617.27	$0.00	-$74.16	$691.43	$40.57
LTM+5Y	12.1%	8.5%	$9.28	$648.12	$0.00	-$92.54	$740.66	$43.57
LTM+6Y	12.0%	8.6%	$9.25	$682.28	$0.00	-$110.19	$792.47	$46.48
LTM+7Y	11.9%	8.7%	$9.03	$716.51	$0.00	-$130.64	$847.15	$49.68
LTM+8Y	11.9%	8.8%	$9.03	$753.00	$0.00	-$152.30	$905.30	$53.09
LTM+9Y	11.9%	8.9%	$9.11	$791.59	$0.00	-$175.14	$966.73	$56.20

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**3%**	**N/A**	**3%**	**23%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$29.30	$32.91
σ(ε)	$0.06	$0.07
3 σ(ε) adjusted price	$29.12	$32.70
Current Price	$28.82	
Analysts' median est.		$32.88