AngioDynamics Inc. (ANGO - NASDAQ)

**SUMMARY**

Angiodynamics reported a better-than-expected second quarter fiscal 2015, wherein both earnings and sales managed to beat the respective Zacks Consensus Estimate. Management maintained its top-line guidance for fiscal 2015, while increasing its EPS projection for the year. AngioDynamics recently received FDA approval for its second generation AngioVac, which is expected to further boost procedure penetration and customer base. However, sluggish spending environment, growing competition and the recent warning from the U.S. Food and Drug Administration (FDA) related to its Navilyst Medical facilities are major concerns, going forward. Given the negative signals, we downgrade our recommendation to Neutral and set a price target of $20.00.

**SUMMARY DATA**

- **Risk Level**: Below Avg.
- **Type of Stock**: Small-Value
- **Industry**: Med Instruments
- **Zacks Industry Rank**: 108 out of 267

**ZACKS CONSENSUS ESTIMATES**

**Revenue Estimates**

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1 (Aug)</th>
<th>Q2 (Nov)</th>
<th>Q3 (Feb)</th>
<th>Q4 (May)</th>
<th>Year (May)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>83 A</td>
<td>87 A</td>
<td>82 A</td>
<td>90 A</td>
<td>342 A</td>
</tr>
<tr>
<td>2014</td>
<td>84 A</td>
<td>89 A</td>
<td>88 A</td>
<td>94 A</td>
<td>355 A</td>
</tr>
<tr>
<td>2015</td>
<td>87 A</td>
<td>92 A</td>
<td>90 E</td>
<td>97 E</td>
<td>366 E</td>
</tr>
<tr>
<td>2016</td>
<td>91 E</td>
<td>97 E</td>
<td></td>
<td></td>
<td>386 E</td>
</tr>
</tbody>
</table>

**Earnings Per Share Estimates**

(EPS is operating earnings before non-recurring items, but including employee stock options expenses)

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1 (Aug)</th>
<th>Q2 (Nov)</th>
<th>Q3 (Feb)</th>
<th>Q4 (May)</th>
<th>Year (May)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$0.10 A</td>
<td>$0.10 A</td>
<td>$0.16 A</td>
<td>$0.28 A</td>
<td>$0.64 A</td>
</tr>
<tr>
<td>2014</td>
<td>$0.04 A</td>
<td>$0.07 A</td>
<td>$0.16 A</td>
<td>$0.18 A</td>
<td>$0.45 A</td>
</tr>
<tr>
<td>2015</td>
<td>$0.16 A</td>
<td>$0.17 A</td>
<td>$0.16 E</td>
<td>$0.20 E</td>
<td>$0.69 E</td>
</tr>
<tr>
<td>2016</td>
<td>$0.19 E</td>
<td>$0.20 E</td>
<td></td>
<td></td>
<td>$0.86 E</td>
</tr>
</tbody>
</table>

**Projected EPS Growth - Next 5 Years %**

15
OVERVIEW

Headquartered in Latham, NY, AngioDynamics Inc. (ANGO) designs, manufactures and sells a wide range of medical, surgical and diagnostic devices. The company's devices are generally used in minimally invasive, image-guided procedures.

The company's offerings fall within three product line-ups: Peripheral Vascular, Vascular Access and Oncology/Surgery. The Supply Agreement, which comprises a supply agreement with Boston Scientific Corp, is eventually going to wind down.

Peripheral Vascular consists of Fluid Management (NAMIC portfolio), Venous (VenaCure EVLT laser system and Sotradecol), Thrombus Management (AngioVac venous drainage system and Thrombolytic Products), Angiographic Products & Accessories (Soft-Vu, AngiOptic, Accu-Vu, Mariner, AQUA Liner) and Drainage products (Total Abscession Family of Drainage Catheters).

Vascular Access or image-guided vascular access (IGVA) offers advanced imaging equipment to guide the placement of catheters that primarily deliver short-term drug therapies. IGVA procedures include the placement of Peripherally Inserted Central Catheters (PICC) lines, implantable ports and central venous catheters (CVCs). The products under this segment are BioFlo, PICC products, Port products and Dialysis products.

The Oncology/Surgery division includes Microwave Ablation, Radiofrequency Ablation (RFA) and NanoKnife product lines.

REASONS TO BUY

- AngioDynamics is expected to benefit from the ongoing market transition toward less invasive interventional procedures. We expect this trend to continue, as less invasive interventional procedures help reduce patient recovery time, thereby saving hospitalization costs. The market (vascular) served by AngioDynamics is expected to grow. We are also impressed with the company's expanding product pipeline (AngioVac, Bioflo and Celerity), international market expansion opportunities and cost saving initiatives through the operational excellence program.

- We believe that AngioVac and Vencure EVLT systems are key growth drivers for AngioDynamics' peripheral vascular business. The strong product line helps the company in offering solutions to patients suffering from venous thromboembolism (VTE- approximately 1 million events per year in the U.S.) and varicose vein problem (approximately $80 million sales opportunity by 2020). In Mar 2014, the company received the FDA approval for AngioVac venous drainage cannula and cardiopulmonary bypass circuit for extracorporeal bypass. The expansion includes removal of undesirable intravascular material such as fresh, soft thrombi or emboli during extracorporeal bypass for up to six hours from VTE patients. We believe that the upcoming AngioVac enhancements (fiscal 2015) and line extensions (fiscal 2016) will further drive demand for the product going forward. Apart from these two products, AngioDynamics has an innovative pipeline that includes next generation Laser, Automated Fluid Management and Thrombus Management products. These will further drive top-line growth over the long term.

- Strong demand for the BioFlo product continues to drive sales. Meanwhile, AngioDynamics is consistently winning contracts (Novation in July), which is expected to boost sales further, going forward. In June, the company received FDA clearance for the Celerity tip location system, which will be used as a supplement to assist in the placement of PICCs in adult patients. Celerity uses
Electrocardiography (ECG) instead of chest X-ray and fluoroscopy to confirm the location of a PICC and is significantly cost effective as compared to other prevalent competitive solutions. We believe that this low cost feature will help the company win new customers. The combined offering of the Celerity and the BioFlo technology is poised to strengthen AngioDynamics’ Vascular Access business over the long term.

- AngioDynamics continues to enjoy healthy demand for its coveted NanoKnife system for treating tumors. Increased penetration of the device contributed to revenues in the company’s Oncology division. NanoKnife remains one of the key driving forces for AngioDynamics. NanoKnife sales in the second quarter increased 13% on a year-over-year basis, driven by 16% growth in NanoKnife disposable sales. Installed base in the international market increased by 8 sites to 216 units. The company is already looking to further broaden its commercial opportunities. In Germany, AngioDynamics has received the OPS code, which is believed to be the first step in achieving full reimbursement for the NanoKnife procedure. Besides Germany, the company is also looking forward to achieve the same in Europe. These developments, according to us, will bode well for the company.

- AngioDynamics continues to expand its base on the back of acquisitions and strategic alliances. Major acquisitions like Microsulis (2013), Navilyst (2012), Vortex Medical (2012), NanoKnife (2008) and RITA Medical (2007) have significantly expanded its product pipeline. The takeover of Navilyst (fluid management business) and Vortex Medical (devices for venous drainage and the removal of thrombus from occluded blood vessels) was a strategic fit for the company’s peripheral vascular product portfolio. The acquisition of Microsulis, a provider of microwave tumor ablation technology, helped AngioDynamics emerge as a pioneer in the global tissue ablation market. We believe that the company will continue to pursue strategic acquisitions that will not only expand its product portfolio but also strengthen its competitive position over the long haul.

**REASONS TO SELL**

- AngioDynamics is exposed to a stringent regulatory environment. Regulatory setbacks might dampen approvals for pipeline products, which will in turn hurt overall growth.

- Sluggish capital-spending environment is adversely affecting AngioDynamics’ top-line growth. Lower elective procedures along with competitive pressure on its fluid management and Venacure EVLT offerings, are also major headwinds to the top line. The implementation of the medical device excise tax of 2.3% on U.S. sales of medical products, effective Jan 2013, has raised AngioDynamics’ operating expenses, which is marring the company’s profitability.

- AngioDynamics is exposed to pricing headwinds stemming from lower selling prices of peripheral vascular products due to aggressive price competition. The company faces stiff competition from device makers like Boston Scientific Corp, C.R. Bard and Merit Medical. Moreover, despite being able to sell off a bulk of its manufactured products, pricing pressure from GPO contracts could adversely affect selling prices and corresponding profitability of the company.

- AngioDynamics is on an acquisition spree which is improving its revenue opportunities on one hand but aggravating integration risks, on the other. Frequent acquisitions can negatively impact its balance sheet through a high level of goodwill and intangible assets, which totaled $566 million, or 71% of its total assets at the end of second-quarter 2015. Regular acquisitions are also a distraction for management which is likely to impact organic growth. This may limit AngioDynamics’ future expansion and worsen the company’s risk profile, going forward.
AngioDynamics depends on third-party manufacturers for a substantial portion of its sales. Roughly 35% of the company’s sales are derived from products manufactured by third-parties. Loss of any of these manufacturers or disruption in supply will stretch the company’s top line.

RECENT NEWS

Second Quarter Fiscal 2015 Highlights

AngioDynamics reported second-quarter fiscal 2015 earnings of $0.17 per share, which beat the Zacks Consensus Estimate by $0.01. Earnings per share (EPS) also surged 21.4% from the year-ago quarter.

Quarter Details

Sales increased 4% year over year to $92.1 million, better than the Zacks Consensus Estimate of $91 million. The year-over-year upside was primarily driven by robust performance from Vascular Access and Oncology/Surgery segments.

Sales at the Peripheral Vascular business were up 1.3% to $49.4 million, while Vascular Access revenues improved 9.4% to approximately $28 million. Sales at the Oncology/Surgery business augmented 8.6% to $13.6 million. However, sales at the Supply Agreement business plunged 32% year over year to $1.1 million.

AngioVac sales surged 46% on higher penetration in the thromboembolism market. The strong growth in Vascular Access was driven by solid sales of BioFlo, which now represents approximately 60% of the total PICC volume. Notably, the share of BioFlo products in the ports and dialysis market increased in the quarter.

In the Oncology/Surgery business, thermal ablation sales increased 7% to $8.1 million. NanoKnife sales were up 13% driven by 16% growth in NanoKnife disposable sales.

Excluding the planned termination of the supply agreement with Boston Scientific, sales were up 4.7% to $91 million. Not including the supply agreement, sales in the U.S. increased 3.7% to $72.1 million, while international sales spiked 8.7% to almost $19 million.

Gross margin expanded 100 basis points (bps) from the year-ago quarter to 51.7% on the back of favorable product mix and stringent cost control.

Adjusted EBITDA, as a percentage of revenues, increased 200 bps to 17.3%.

Operating expenses including medical device tax ($1.1 million), as a percentage of revenues, decreased 90 bps to 39.2%. The year-over-year decrease in operating expenses can be attributed to 130 bps decline in research & development expenses and 100 bps plunge in sales & marketing expenses, partially offset by a 140 bps increase in general & administrative expenses.

Meanwhile, operating margin expanded 190 bps on a year-over-year basis to 12.5% in the quarter.

As of Nov 30, 2014, AngioDynamics’ cash and cash equivalents totaled $16.6 million, up from $13.8 million as of Aug 31, 2014. Cash outflow from operating activities was $2.1 million.
Guidance

For the third quarter, AngioDynamics expects adjusted earnings in the range of $0.14–$0.17 per share on revenues of $88–$91 million. For fiscal 2015, earnings are forecasted in the range of $0.66–$0.72 per share (previous guidance $0.65–$0.71) on revenues of $362–$368 million, which reflects 3%–5% year-over-year growth.

Management expects the Vascular Access business to grow in double digits through the end of 2015, driven by an innovative product portfolio.

VALUATION

AngioDynamics shares are currently trading at 28.1X TTM earnings, a discount to the peer group average of 45.6X but at a premium to the S&P 500 average of 19.4X. The stock is trading below the midpoint of the historical range of 24.1X to 66.0X TTM earnings. Thus, a chance of upside from the current level is possible.

The stock is trading at 25.3X, a 93.7% discount based on our fiscal 2015 forward estimates, higher than a average discount of 41.8% historically, which indicates possibility of further upward movement. However, estimated 5 year EPS growth rate of 15% is lower than the peer group average of 18.2%. Additionally, sluggish spending environment and the recent warning from the FDA related to its Navilyst Medical facilities are major concerns

Thus, we downgrade our recommendation from Outperform to Neutral and set a target price of $20.00 (28.9X 2015 EPS).

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>P/E F1</th>
<th>P/E F2</th>
<th>Est. 5-Yr EPS Gr%</th>
<th>P/CF (TTM)</th>
<th>P/E (TTM)</th>
<th>P/E 5-Yr High (TTM)</th>
<th>P/E 5-Yr Low (TTM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AngioDynamics Inc. (ANGO)</td>
<td>27.3</td>
<td>21.9</td>
<td>15.0</td>
<td>13.8</td>
<td>28.1</td>
<td>66.0</td>
<td>24.1</td>
</tr>
<tr>
<td>Industry Average</td>
<td>435.8</td>
<td>32.6</td>
<td>18.2</td>
<td>33.4</td>
<td>45.6</td>
<td>160.4</td>
<td>32.0</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>16.8</td>
<td>15.7</td>
<td>10.7</td>
<td>15.3</td>
<td>19.4</td>
<td>19.4</td>
<td>12.0</td>
</tr>
<tr>
<td>Accuray Incorporated (ARAY)</td>
<td>N/A</td>
<td>N/A</td>
<td>20.0</td>
<td>N/A</td>
<td>N/A</td>
<td>329.0</td>
<td>61.4</td>
</tr>
<tr>
<td>Globus Medical, Inc. (GMED)</td>
<td>24.5</td>
<td>21.9</td>
<td>13.6</td>
<td>15.6</td>
<td>25.8</td>
<td>28.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Natus Medical Inc. (BABY)</td>
<td>25.3</td>
<td>21.9</td>
<td>18.5</td>
<td>25.4</td>
<td>28.8</td>
<td>37.0</td>
<td>14.7</td>
</tr>
<tr>
<td>Cynosure, Inc. (CYNO)</td>
<td>24.9</td>
<td>18.6</td>
<td>N/A</td>
<td>24.1</td>
<td>27.3</td>
<td>187.9</td>
<td>18.3</td>
</tr>
</tbody>
</table>

TTM is trailing 12 months; F1 is 2015 and F2 is 2016, CF is operating cash flow

<table>
<thead>
<tr>
<th></th>
<th>P/B Last Qtr.</th>
<th>P/B 5-Yr High</th>
<th>P/B 5-Yr Low</th>
<th>ROE (TTM)</th>
<th>D/E Last Qtr.</th>
<th>Div Yield Last Qtr.</th>
<th>EV/EBITDA (TTM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AngioDynamics Inc. (ANGO)</td>
<td>1.3</td>
<td>1.3</td>
<td>0.5</td>
<td>4.4</td>
<td>0.3</td>
<td>0.0</td>
<td>21.6</td>
</tr>
<tr>
<td>Industry Average</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>-731.6</td>
<td>0.1</td>
<td>0.1</td>
<td>-5.1</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>5.3</td>
<td>9.8</td>
<td>3.2</td>
<td>25.5</td>
<td>N/A</td>
<td>2.1</td>
<td>N/A</td>
</tr>
</tbody>
</table>
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of ANGO. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers.

**Outperform**: Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months.

**Neutral**: Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months.

**Underperform**: Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months.

The current distribution of Zacks Ratings is as follows on the 1126 companies covered: Outperform - 15.7%, Neutral - 75.5%, Underperform – 8.0%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the Zacks Rank, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy. Zacks Rank 2 = Buy. Zacks Rank 3 = Hold. Zacks Rank 4 = Sell. Zacks Rank 5 = Strong Sell. We also provide a Zacks Industry Rank for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining Risk Level, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed Low Risk, while the 5th group has the highest values and are designated High Risk. Designations of Below-Average Risk, Average Risk, and Above-Average Risk correspond to the second, third, and fourth groups of stocks, respectively.