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## ANALYST QUICK NOTES

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**Integra LifeSciences Holdings Corp. (NGS: IART: BUY)**

**Target Price: \$58**

**David Toung**

**4/17/2017**

### Overview

- We think Integra is very timely today as we see the stock as short-term undervalued.
- IART -4.9% YTD, vs. +5.1% for the Healthcare sector and +2.6% for S&P 500.
- There appears to be negative market reaction to Integra's acquisition of Codman and we think this reaction is short-sighted. We think IART is currently undervalued and there is a good investment opportunity in the shares.
- Here is why we like the Codman acquisition.
  - In acquiring Codman from J&J, Integra is acquiring a key competitor in neurosurgery and adding a very good brand to its portfolio.
  - Not only will Codman's products expand Integra's own portfolio in neurosurgery, it will provide wider distribution and sales channels in overseas markets where Integra has been trying to expand.
  - Codman brings 300 additional people in the overseas sales organization. These sales people can sell the Codman products but also can cross-sell the existing neurosurgery portfolio of Integra products. This deal gets Integra to OUS expansion quicker.
  - Further, the deal adds to Integra's topline growth and is accretive to Integra's current EBITDA profile.
- Integra also completed the Derma Sciences acquisition in March. This deal adds about \$65 million in revenue in 2017.
- Combined, the Codman and the Derma Sciences deals will add nearly \$400 million in incremental sales and nearly double Integra's international revenue. Codman will be \$0.22 accretive in the first year following deal closing.
- So, why doesn't the market like the Codman acquisition?
  - Perhaps because some think that Integra is picking up a slow-growth, underperforming asset from J&J.

- We think Codman is in better hands with Integra than with J&J. Codman’s neurosurgery products are very complementary with Integra’s neurosurgery portfolio. Codman adds more sales people to Integra, particularly in overseas markets, where Integra was under scale. We also think Codman can be re-energized as part of Integra than as part of a giant that is J&J.
  - Other catalysts include the introduction of a new ultrasonic tissue ablation product that removes brain tumors. The new product builds on the success of an existing ablation product and with new features that neurosurgeons helped design.
  - In short, we like Integra because of its strong growth prospects and its ability to execute M&A deals that can “move the needle” for revenue and EPS growth. We also think the IART stock is currently undervalued.
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