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Zacks Small-Cap Research

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Trinity Biotech (TRIB-NASDAQ)

TRIB: Q4 2010 Results. 2011 Outlook / Price Target Revised Up.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	05/11/2010
Current Price (03/07/11)	$9.68
Target Price	**$10.80**

OUTLOOK

Since the Q2 2010 clinical lab coag divestiture TRIB has slashed operating costs and begun pumping its huge and growing cash balance into higher growth segments. Expectations are high for the PDX instrument, expected to launch in Europe and the U.S. in 2011. Development of several new POC tests is ongoing – the fruits of which should be realized in 2012. TRIB just announced a share buyback program and dividend. Management has a recent history of underpromising and overdelivering. Our 2011 outlook could prove optimistic.
We are maintaining our Outperform rating. Our price target has moved from $9.90 to $10.80.

SUMMARY DATA

52-Week High	**$9.68**
52-Week Low	**$5.09**
One-Year Return (%)	**85.44**
Beta	**1.57**
Average Daily Volume (sh)	**46,730**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$201**
Short Interest Ratio (days)	**5.78**
Institutional Ownership (%)	**42**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-1.4**
Earnings Per Share (%)	**8.4**
Dividend (%)	**N/A**
P/E using TTM EPS	**15.4**
P/E using 2011 Estimate	**13.4**
P/E using 2012 Estimate	**11.3**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Value**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(millions)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$29.0 A	$22.6 A	$18.8 A	$19.3 A	$89.6 A
2011	$18.9 E	$19.9 E	$20.7 E	$21.9 E	$81.4 E
2012					$89.1 E
2013					$97.8 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$0.15 A	$0.15 A	$0.16 A	$0.17 A	$0.63 A
2011	$0.15 E	$0.16 E	$0.19 E	$0.22 E	$0.72 E
2012					$0.86 E
2013					$1.02 E

Zacks Projected EPS Growth Rate - Next 5 Years % **16**

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FINANCIAL RESULTS

Trinity reported financial results for the fourth quarter and full year ending December 31, 2010 on March 3, 2011. Fourth quarter revenue of $19.3 million was 2% ahead of our $18.8 million estimate and fell less than 1% y-o-y (continuing operations). Revenue from ongoing operations (i.e. – ex coag) in the clinical lab segment was $15.8 million or roughly flat y-o-y. Point of care revenue was $3.5 million, down 4% from the same period 2009. Point of care segment revenues can be somewhat variable quarter to quarter and management noted underlying demand remains strong which has resulted in a rebound in this segment's sales through the first two months of 2011.

For the full year 2010 total revenue from continuing operations was $73.9MM, down about 6% from 2009. Ongoing clinical lab segment revenue fell 4.5% for the year with POC sales down 11%. Impacting the clinical lab segment was a soft Lyme disease season in 2010 which was partially offset by high single-digit growth in Trinity's infectious disease and diabetes businesses. As noted throughout the year, credit issues with a large customer in Africa crimped POC revenue – this along with the aforementioned choppiness in quarterly demand means POC revenue could show meaningful growth in 2011.

EPADR increased to $0.166 and $0.630 in Q4 and the full year 2010 compared to $0.155 and $0.565 in the 2009 periods. The EPADR growth is especially impressive considering Trinity's clinical lab coagulation business, which was divested in Q2 2010, contributed almost $50 million in revenue in 2009 versus only ~ $16MM in 2010.

Gross margin widened from 45.3% in 2009 to 49.0% in 2010 (50.8% in Q4 2010). Operating margin went from 11.2% to 15.7% over the same periods (18.6% in Q4 2010). Margins improved sequentially each quarter which was a direct result of Trinity ridding itself of the low margin and asset intensive clinical lab coagulation business. Trinity shed excess operating costs very rapidly throughout 2010, dropping combined R&D and SG&A from $9.9 million in Q1 2010 to $6.6 million in Q4 2010.

Cash

Trinity also benefitted from its large cash balance (~ $68MM initial payment from Stago for coag business) – earning $857k in net interest income in 2010, compared to $1,185k interest expense in 2009.

Trinity exited 2010 with $58 million in cash and is averaging roughly $1.1 million in free cash flow per month. Per terms of the deal with Stago, Trinity will receive a second installment ($11.25MM) in Q2 2011 and the third and final payment ($11.25MM) one year later.

BUSINESS UPDATE

Phoenix Biotech

In February 2011 Trinity announced the acquisition of Phoenix Biotech, a Toronto-based manufacturer of syphilis total antibody tests on the ELISA platform. $1 million of the $2.5 million total purchase price was paid upfront, with the remainder to be paid over the following 12 months.

Trinity had already been a non-exclusive distributor of Phoenix's syphilis tests in the U.S. and sales through Trinity accounted for approximately $250k of Phoenix's $1.25 million annual revenue. The acquisition is expected to provide additional net revenue of approximately $1 million to Trinity. Manufacture of Phoenix's products will be integrated with Trinity's Jamestown, NY operations.

PDX

PDX (aka *Premier Hb9210*), Trinity's next generation clinical lab HbA1C (blood sugar) testing instrument, is on the verge of launch in Europe. Launch in the U.S. should also happen during the current year. PDX is expected to be a major catalyst to revenue growth (and margin growth) of Trinity's clinical lab business over the next several years – some of which we expect to see in 2011.

In February 2011 Trinity announced a deal with Menarini for exclusive European distribution rights for PDX. Trinity noted that Menarini, a large European pharma and diagnostics company, is "the market leader in HbA1C measurement in Europe" with about 40% share of that market. Trinity expects PDX to be very well received upon launch and management is clearly ecstatic to have a distributor of Meranini's caliber on board. They peg the European market for PDX at roughly $120 million – of which they believe they can gain a meaningful portion of within a few years after launch.

PDX is currently undergoing clinical trials – which are expected to be completed in April of this year. PDX will be CE Marked and launched in Europe at conclusion of the trials. At that time Trinity will also make a 510(k) filing for U.S. marketing clearance.

The U.S. launch would happen following marketing clearance by FDA – which we estimate could come towards the end of summer this year. Trinity noted on the Q4 call that they are in late stage discussions with a U.S. distributor "who is just about to be signed up." Trinity will supplement U.S. marketing of PDX with its own sales force.

Trinity also expects to begin the registration process for PDX in China and Brazil during the current year although launch in either country will not happen in 2011 due to longer regulatory procedures (i.e. Brazil ~ 9 months, China up to 18 months).

Tri-STAT

Trinity's CLIA waiver application for Tri-STAT, the company's next generation A1C instrument for the POC setting, has been hung up at the FDA since Trinity's July 2009 submittal. In October 2009 FDA responded requesting more details on the calibration of the individual lots of reagents and had a statistical question on data provided in the CLIA data. Trinity responded shortly afterwards. Management again met with FDA (January) and are again waiting to hear back from the agency. On the Q4 call management could provide no further insight into when they may hear back from FDA regarding the CLIA waiver for Tri-STAT. They did note, however, that they continue to pursue the registration process for the instrument in China and look for a distribution partner for it in Europe.

POC – Infectious Disease

Trinity's new infectious disease products are expected to be a big driver of the company's POC segment revenues over the next several years. The company is working on new POC tests for sexually transmitted diseases, specifically HSV (herpes) typing, syphilis, HIV p24 (HIV antigen test) and Chlamydia. In the enterics area development is underway on tests for giardia, clostridium difficile and cryptosporidiosis. Trinity also expects to develop a variety of flu tests on the POC platform. Management noted on the Q4 call that progress is being made on development of several of these tests and expects to begin filing for FDA approval in late 2011.

Stock Buyback

Within the last few weeks Trinity was given the green light by Irish courts to begin buying back its stock. Trinity expects to commence buybacks during Q1 2011 (i.e. – immediately). Per SEC rules, Trinity is allowed to purchase a daily limit of 25% of the average daily volume over the previous four weeks of trading. As of 3/4/2011 that limit would equate to approximately 12k shares per day.

Dividend

Trinity also expects to return some of its cash to shareholders through an annual $0.10 per ADR dividend. The proposal needs shareholder approval and will be submitted for vote at the company's next shareholder meeting in May 2011.

OUR 2011 OUTLOOK

Revenue
We look for Trinity to post revenue of $81.4 million in 2011, implying growth from continuing operations of about 10.2%. We think clinical lab segment revenue grows to $64.3 million (+11.2% from continuing ops), aided by the incremental revenue from the Phoenix Biotech acquisition and launch of PDX (Europe and U.S.). We model POC segment sales to grow 6% in 2011 to $17.1 million.

Net Income / EPADR
We expect net income and EPADR to grow slightly faster than the top-line, mostly as a result of incremental gross margin improvement and greater interest income from the growing cash balance (interest income should continue to grow despite share buybacks and dividends). We expect operating expenses throughout 2011 to remain largely in-line that of Q4 2010.

We model Trinity to generate net income of $15.4 million and EPADR of $0.719 in 2011, which implies annual growth of 13% and 14%, respectively. Our EPADR estimate assumes a modest amount of share repurchasing throughout the year. The income tax rate will creep up towards 15% by year-end 2011 as remaining NOLs are exhausted.

Cash
Although we expect Trinity to begin share buybacks and start paying an annual dividend during 2011, these will not likely consume significant amounts of cash (relative to Trinity's already large cash balance, operating cash flow and $11.25MM installment payment from Stago expected in Q2 2011). Based on our model, we believe Trinity could easily have as much as $75 million in cash on their balance sheet by year-end 2011.

Trinity will receive their final $11.25MM installment payment from Stago in Q2 2012 and should continue to be generating copious amounts of free cash. As the current share buyback program and $0.10 per ADR dividend will likely only skim off a relatively modest portion of this cash balance, we expect management will be actively exploring additional opportunities to put their cash to work (although we note Trinity has been earning an impressive ~3.3% annual interest on its cash – which is likely better than the return from its divested clinical lab coag business).

RECOMMENDATION / VALUATION

TRIB's share price is up over 70% since we initiated on the company in May 2010 (at $5.64) but we continue to believe the shares remain undervalued.

We continue to value TRIB using 15x 2011 estimated EPADR but are raising our price target based on our revised 2011 EPADR estimate (from $0.662 previously to $0.719 currently). Our target price has moved from $9.90 to $10.80. We are maintaining our Outperform recommendation on Trinity.

FINANCIAL MODEL

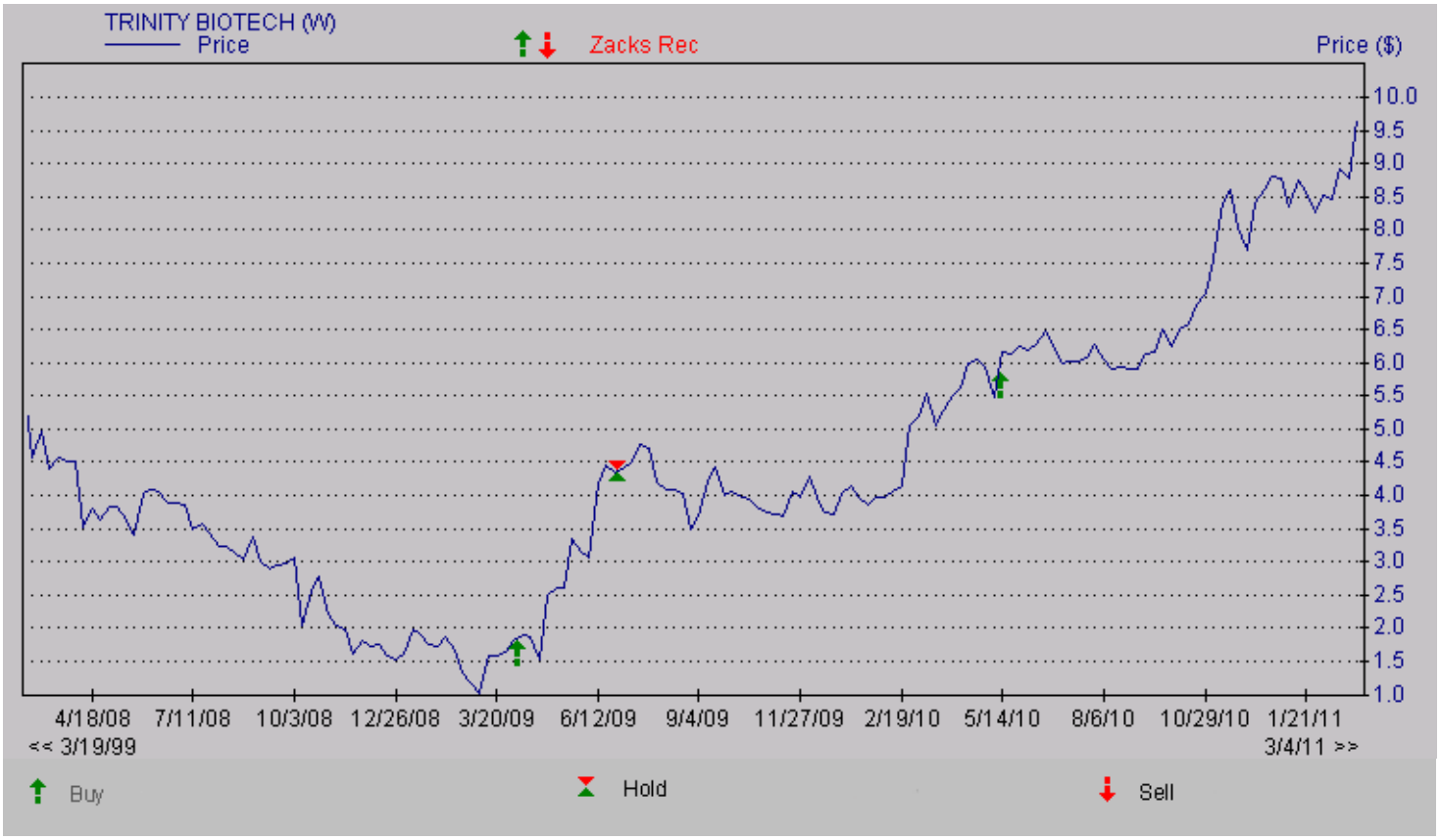
Trinity Biotech

	2010 A	Q1E	Q2E	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Clinical Lab Revenue	**$73,553**	**$14,400**	**$15,657**	**$16,390**	**$17,891**	**$64,338**	**$69,485**	**$74,349**	**$79,182**
% of total revenue	*82.1%*	*76.1%*	*78.6%*	*79.3%*	*81.8%*	*79.1%*	*78.0%*	*76.0%*	*74.6%*
YOY Growth	*-31.8%*	*-41.6%*	*-15.9%*	*12.7%*	*13.7%*	*-12.5%*	*8.0%*	*7.0%*	*6.5%*
Point-of-Care Revenue	**$16,082**	**$4,521**	**$4,254**	**$4,291**	**$3,984**	**$17,050**	**$19,642**	**$23,452**	**$26,900**
% of total revenue	*17.9%*	*23.9%*	*21.4%*	*20.7%*	*18.2%*	*20.9%*	*22.0%*	*24.0%*	*25.4%*
YOY Growth	*-11.3%*	*3.6%*	*6.1%*	*2.1%*	*13.6%*	*6.0%*	*15.2%*	*19.4%*	*14.7%*
Total Revenues	$89,635.0	$18,921.0	$19,911.0	$20,681.0	$21,875.0	$81,388.0	$89,126.6	$97,801.1	$106,081.5
YOY Growth	*-28.8%*					*-9.2%*	*9.5%*	*9.7%*	*8.5%*
Cost of Revenues	$45,690	$9,233	$9,896	$10,175	$10,609	$39,914	$41,890	$45,477	$49,116
Gross Income	$43,945	$9,688	$10,015	$10,506	$11,266	$41,474	$47,237	$52,324	$56,966
Gross Margin	*49.0%*	*51.2%*	*50.3%*	*50.8%*	*51.5%*	*51.0%*	*53.0%*	*53.5%*	*53.7%*
Research & Development	$4,603	$844	$862	$821	$781	$3,308	$4,100	$4,401	$4,774
% R&D	*5.1%*	*4.5%*	*4.3%*	*4.0%*	*3.6%*	*4.1%*	*4.6%*	*4.5%*	*4.5%*
Selling General & Admin	$26,929	$5,711	$5,792	$5,691	$5,704	$22,898	$25,312	$27,678	$30,021
% SG&A	*30.0%*	*30.2%*	*29.1%*	*27.5%*	*26.1%*	*28.1%*	*28.4%*	*28.3%*	*28.3%*
Other Operating (Income)	($1,616)	($100)	($65)	($50)	($50)	($265)	($200)	($200)	($150)
Operating Income	$14,029	$3,233	$3,426	$4,044	$4,831	$15,533	$18,025	$20,445	$22,321
Operating Margin	*15.7%*	*17.1%*	*17.2%*	*19.6%*	*22.1%*	*19.1%*	*20.2%*	*20.9%*	*21.0%*
Interest income, net	$857	$501	$570	$605	$622	$2,298	$2,650	$3,000	$3,350
Pre-Tax Income	$14,886	$3,733	$3,996	$4,649	$5,453	$17,831	$20,675	$23,445	$25,671
Taxes	$1,296	$448	$496	$628	$818	$2,389	$3,101	$3,517	$3,851
Tax Rate	*8.7%*	*12.0%*	*12.4%*	*13.5%*	*15.0%*	*13.4%*	*15.0%*	*15.0%*	*15.0%*
Net Income	$13,590	$3,285	$3,501	$4,021	$4,635	$15,442	$17,574	$19,928	$21,820
YOY Growth	*14.9%*	*4.1%*	*7.2%*	*14.7%*	*26.6%*	*13.6%*	*437.9%*	*468.4%*	*496.2%*
Net Margin	*15.2%*	*17.4%*	*17.6%*	*19.4%*	*21.2%*	*19.0%*	*19.7%*	*20.4%*	*20.6%*
Adjusted EPADR	$0.630	$0.151	$0.162	$0.188	$0.219	$0.719	$0.863	$1.021	$1.124
YOY Growth	*11.5%*	*0.6%*	*7.0%*	*15.8%*	*32.1%*	*14.1%*	*20.1%*	*18.3%*	*10.1%*
Weighted Avg. ADRs O/S	21,582	21,815	21,591	21,410	21,140	21,489	20,360	19,520	19,410

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