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Zacks Small-Cap Research

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Trinity Biotech (TRIB-NASDAQ)

TRIB: Another Upside Surprise. Raising Target Price - Again.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	05/11/2010
Current Price (05/06/11)	$9.40
Target Price	**$11.30**

OUTLOOK

The stodgy coag business was shed one year ago and it looks like it was a great move for TRIB. Focus has turned to faster growing segments. Expectations are high for the Premier 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. Share buybacks have commenced and initial dividend is on the horizon. Cash balance is huge, growing and earning an impressive rate of interest, affording management lots of flexibility.

We are maintaining our Outperform rating. Our price target has moved from $10.80 to $11.30.

SUMMARY DATA

52-Week High	**$9.88**
52-Week Low	**$5.49**
One-Year Return (%)	**71.22**
Beta	**1.56**
Average Daily Volume (sh)	**37,946**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$195**
Short Interest Ratio (days)	**7.23**
Institutional Ownership (%)	**43**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-5.1**
Earnings Per Share (%)	**10.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**14.9**
P/E using 2011 Estimate	**12.5**
P/E using 2012 Estimate	**10.7**
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	$18.7 A	$19.6 E	$20.6 E	$21.8 E	$80.6 E
2012					$88.3 E
2013					$96.2 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	$0.17 A	$0.16 E	$0.19 E	$0.23 E	$0.75 E
2012					$0.88 E
2013					$1.02 E

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

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Q1 RESULTS

Revenue
On May 5, 2011 Trinity Biotech reported financial results for the first quarter ending March 31, 2011. Revenue of $18.7 million was about 1% less than our $18.9 million estimate and represented y-o-y organic (ex-coag) growth of 6%. Clinical lab segment revenue was $14.1 million (versus our $14.4MM estimate) and was up 7% (ex-coag) y-o-y. Point of care revenues came in at $4.5 million (dead-on with our estimate), up 4% y-o-y.

The Fitzgerald (antibody sales) portion of the clinical lab segment continues to be sluggish as a result of swine flu inventories remaining high and a slow flu season. Trinity is gearing up to begin targeting the research focused market instead of the diagnostics markets which have accounted for the bulk of the Fitzgeralds' business in the past. Management noted that the other major components of the clinical lab business, diabetes and infectious disease (including the newly acquired Phoenix Biotech syphilis tests), both performed strongly in Q1.

In the point of care segment, U.S. HIV sales increased 20% on both a y-o-y and sequential basis. HIV sales in Africa came in flat y-o-y but were up 20% from Q4 2010. This is despite sales to the credit-issue problem customer in Africa completely drying up. Management indicated that new product update launches in certain parts of Africa could be a significant driver of POC segment sales throughout the remainder of 2011.

EPADR
EPADR came in at $0.175, compared to our $0.151 estimate. EPADR increased by $0.025 from Q1 2010 despite 36% less ($10.4MM) revenue in the current period as a result of the divestiture of the legacy coagulation business (which was sold in May 2010 and contributed $11.4MM in revenue in Q1 2010). The difference between our estimate and actual EPADR was mostly a result of operating expenses coming in $400k (6%) lower than where we had them modeled ($6,155k A versus $6,555k E), partially offset by a higher than estimated income tax rate (13.5% vs 12%). We (perhaps conservatively) have modeled no further reduction in operating expenses.

Gross margin has inched up sequentially every quarter since Q4 2009 and came in at 51.2% in the most recent period (in-line with our estimate). Management noted on the call that they expect to be able to maintain GM around this level throughout the remainder of 2011.

Cash
Trinity exited Q1 2011 with $59.8 million in cash and equivalents, compared to $58 million at fiscal 2010 year-end. Pro forma for the $11.25 million Stago payment in May 2011, cash balance was $71 million. Cash flow from operations and free cash flow were $5.8MM and $3.9MM in the most recent quarter (free cash flow includes $1MM payment related to Phoenix acquisition and $1.1MM spent on share buybacks).

Trinity continues to generate significant amounts of cash and despite the recently implemented buyback program and expected dividend distribution, will continue to see its cash balance grow. Management noted on the Q1 call that they are not actively seeking any acquisitions. Given the tremendous rate of interest they are earning on their cash (4%+), we see no reason to rush to reinvest through acquisitions. Trinity earned $638k (or about $552k after-tax, equal to ~ $0.026 per share) in net interest income in Q1 2011.

BUSINESS UPDATE

Premier Hb9210
Premier (aka PDX), Trinity's next generation clinical lab HbA1C (blood sugar) testing instrument, received CE Marking in early May 2011. The official launch is expected to happen within the next few weeks. Premier 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 Premier. 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 Premier to be very well received upon launch. Management pegs the reachable worldwide market for Premier at about $300MM, with roughly one-third of this represented by Europe (another 1/3 in the U.S. and the other 1/3 in ROW including Japan). Trinity believes that with Menarini now onboard, that they can gain a meaningful portion of the European market within a few years after launch.

Management believes they will be ready to file for 510(k) FDA clearance within the next few weeks and are very close to closing a deal for third party distribution in the U.S. Trinity also expects to hire its own U.S. sales force for Premier. If all goes well, the instrument could launch in the U.S. before year-end 2011.

Trinity also expects to begin the registration process for Premier 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).

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 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
Trinity began buying back its shares in early March 2011. Through March 31, 112k shares had been repurchased (at total cost of $1.07MM). Management expects to continue to buyback stock. 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.

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.

Stago Installment
In early May 2011 Trinity received its scheduled $11.25MM installment payment from Stago related to the coagulation business sale. The final payment (another $11.25MM) is due in May 2012.

OUR 2011 OUTLOOK

Revenue
We look for Trinity to post revenue of $80.6 million in 2011, implying growth from continuing operations of about 9.2% compared to 2010. We think clinical lab segment revenue grows to $62.5 million (+8.1% from continuing ops), aided by the incremental revenue from the Phoenix Biotech acquisition and launch of Premier (mostly Europe and some U.S.). We model POC segment sales to grow 12.8% in 2011 to $18.1 million on continued strong U.S. HIV sales along with sales in Africa firming up as the year progresses.

Net Income / EPADR
We expect net income and EPADR to grow faster than the top-line, mostly as a result of incremental gross margin improvement, greater interest income from the growing cash balance and lower share count from continued share repurchasing. We model operating expenses throughout the remainder of 2011 to edge up moderately from that in Q1.

We model Trinity to generate net income of $15.9 million and EPADR of $0.754 in 2011, which implies annual growth of 17% and 20%, respectively.

RECOMMENDATION / VALUATION

We continue to value TRIB using 15x 2011 estimated EPADR but (again) are raising our price target based on our revised (again upwards) 2011 EPADR estimate (from $0.719 previously to $0.754 currently). Our target price has moved from $10.80 to $11.30. We are maintaining our Outperform recommendation on Trinity.

FINANCIAL MODEL

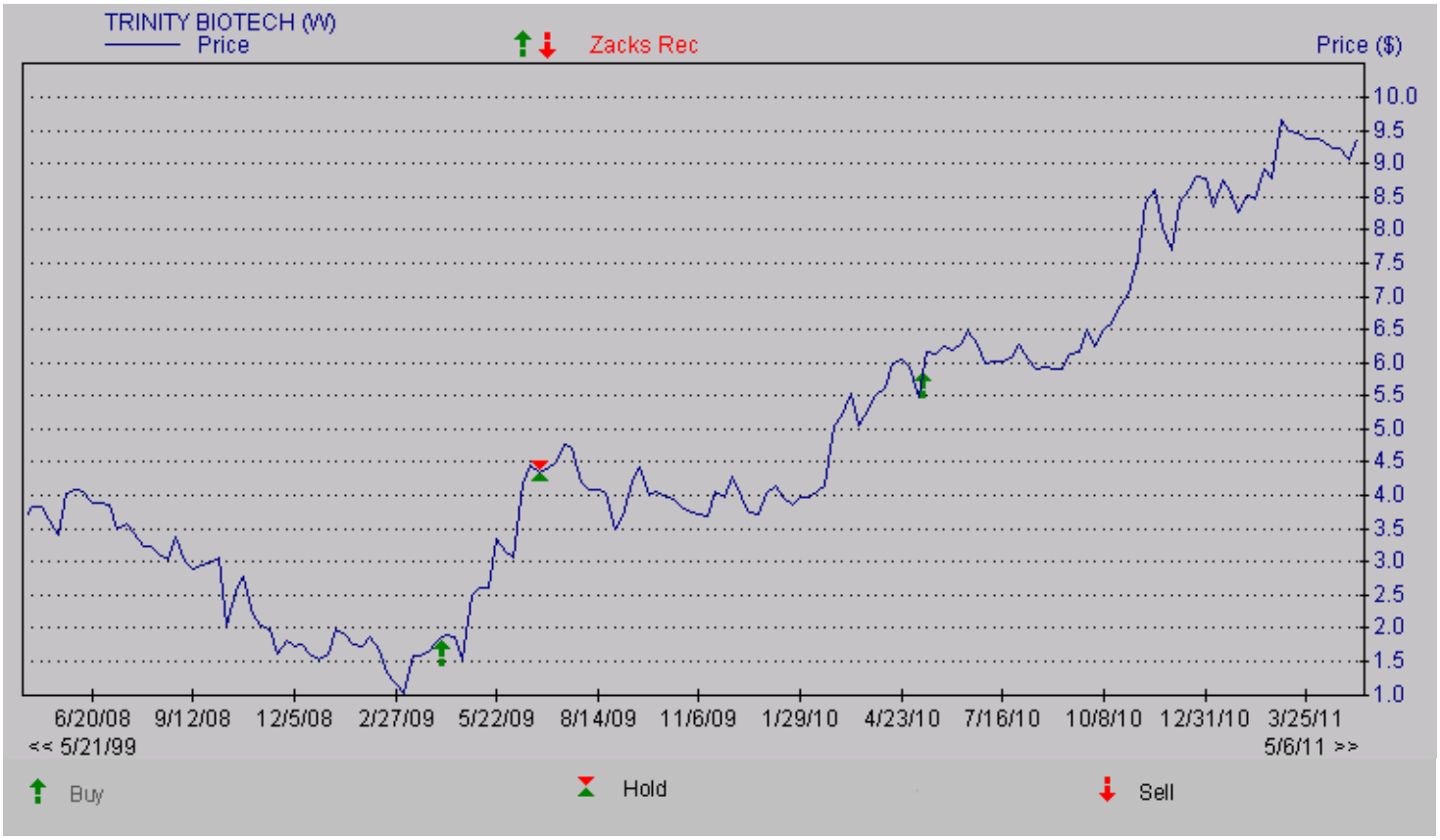
Trinity Biotech

	2010 A	Q1A	Q2E	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Clinical Lab Revenue	**$73,553**	**$14,133**	**$15,076**	**$16,002**	**$17,254**	**$62,465**	**$67,720**	**$72,657**	**$77,530**
% of total revenue	*82.1%*	*75.8%*	*76.8%*	*77.8%*	*79.3%*	*77.5%*	*76.7%*	*75.5%*	*74.3%*
YOY Growth	*-31.8%*	*-42.7%*	*-19.0%*	*10.0%*	*9.6%*	*-15.1%*	*8.4%*	*7.3%*	*6.7%*
Point-of-Care Revenue	**$16,082**	**$4,521**	**$4,555**	**$4,568**	**$4,500**	**$18,144**	**$20,612**	**$23,538**	**$26,787**
% of total revenue	*17.9%*	*24.2%*	*23.2%*	*22.2%*	*20.7%*	*22.5%*	*23.3%*	*24.5%*	*25.7%*
YOY Growth	*-11.3%*	*3.6%*	*13.6%*	*8.7%*	*28.3%*	*12.8%*	*13.6%*	*14.2%*	*13.8%*
Total Revenues	$89,635.0	$18,654.0	$19,631.0	$20,570.0	$21,754.0	$80,609.0	$88,331.8	$96,195.9	$104,316.9
YOY Growth	*-28.8%*	*-35.7%*	*-13.2%*	*9.7%*	*13.0%*	*-10.1%*	*9.6%*	*8.9%*	*8.4%*
Cost of Revenues	$45,690	$9,097	$9,658	$10,120	$10,616	$39,492	$41,781	$45,212	$48,820
Gross Income	$43,945	$9,557	$9,973	$10,450	$11,138	$41,117	$46,551	$50,984	$55,497
Gross Margin	*49.0%*	*51.2%*	*50.8%*	*50.8%*	*51.2%*	*51.0%*	*52.7%*	*53.0%*	*53.2%*
Research & Development	$4,603	$687	$862	$821	$791	$3,161	$3,710	$4,040	$4,381
% R&D	*5.1%*	*3.7%*	*4.4%*	*4.0%*	*3.6%*	*3.9%*	*4.2%*	*4.2%*	*4.2%*
Selling General & Admin	$26,929	$5,468	$5,792	$5,802	$5,602	$22,664	$25,086	$27,223	$29,522
% SG&A	*30.0%*	*29.3%*	*29.5%*	*28.2%*	*25.8%*	*28.1%*	*28.4%*	*28.3%*	*28.3%*
Other Operating (Income)	($1,616)	($297)	($100)	($100)	($100)	($597)	($200)	($200)	($150)
Operating Income	$14,029	$3,699	$3,419	$3,927	$4,845	$15,889	$17,955	$19,920	$21,744
Operating Margin	*15.7%*	*19.8%*	*17.4%*	*19.1%*	*22.3%*	*19.7%*	*20.3%*	*20.7%*	*20.8%*
Interest income, net	$857	$638	$690	$705	$710	$2,743	$3,000	$3,250	$3,600
Pre-Tax Income	$14,886	$4,337	$4,109	$4,632	$5,555	$18,632	$20,955	$23,170	$25,344
Taxes	$1,296	$585	$616	$695	$833	$2,729	$3,143	$3,476	$3,802
Tax Rate	*8.7%*	*13.5%*	*15.0%*	*15.0%*	*15.0%*	*14.6%*	*15.0%*	*15.0%*	*15.0%*
Net Income	$13,590	$3,752	$3,492	$3,937	$4,722	$15,903	$17,811	$19,695	$21,542
YOY Growth	*14.9%*	*18.8%*	*6.9%*	*12.3%*	*29.0%*	*17.0%*	*445.2%*	*461.7%*	*488.6%*
Net Margin	*15.2%*	*20.1%*	*17.8%*	*19.1%*	*21.7%*	*19.7%*	*20.2%*	*20.5%*	*20.7%*
Adjusted EPADR	$0.630	$0.175	$0.165	$0.188	$0.227	$0.754	$0.878	$1.017	$1.118
YOY Growth	*11.5%*	*17.2%*	*8.8%*	*15.7%*	*36.8%*	*19.8%*	*16.5%*	*15.8%*	*9.9%*
Weighted Avg. ADRs O/S	21,582	21,388	21,188	20,988	20,788	21,088	20,280	19,360	19,270

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