Zacks Small-Cap Research

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Trinity Biotech (TRIB-NASDAQ)

TRIB: Q3 Results. No Surprises. Maintaining Target / Rec.

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	07/21/2011
Current Price (10/21/11)	$10.17
Target Price	**$11.50**

OUTLOOK

Expectations are high for the Premier instrument, just launching in Europe now and possibly in the U.S. by year-end. Development of several new POC tests is ongoing – the fruits of which should be realized in 2012. Share buybacks commenced and an initial dividend paid earlier this year. Cash balance is huge, growing and earning an impressive rate of interest, affording management lots of flexibility.

We are maintaining $11.50/share price target and Neutral recommendation.

SUMMARY DATA

52-Week High	**$11.00**
52-Week Low	**$6.75**
One-Year Return (%)	**52.21**
Beta	**1.52**
Average Daily Volume (sh)	**25,081**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$209**
Short Interest Ratio (days)	**7.41**
Institutional Ownership (%)	**45**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.10**
Dividend Yield (%)	**1.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-5.1**
Earnings Per Share (%)	**10.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**16.1**
P/E using 2011 Estimate	**13.9**
P/E using 2012 Estimate	**12.4**
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	$19.5 A	$19.8 A	$21.5 E	$79.4 E
2012					$86.6 E
2013					$93.9 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	$0.17 A	$0.18 A	$0.21 E	$0.73 E
2012					$0.82 E
2013					$0.91 E

Zacks Projected EPS Growth Rate - Next 5 Years % **12**

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WHAT'S NEW

Q3 RESULTS

Revenue
On October 20, 2011 Trinity Biotech reported financial results for the third quarter ending September 30, 2011. Revenue of $19.8 million was about 4% less than our $20.6 million estimate and represented y-o-y growth of just under 6%. This was the first quarter where the prior year period did not include any contribution from the clinical lab coagulation business which was divested during Q2 2010. Clinical lab segment revenue in the current quarter was $15.9 million (versus our $16.0 million estimate), up 9% y-o-y while point-of-care revenue came in at $3.9 million, down 6%.

Management again noted that the Fitzgerald (antibodies) portion of the clinical lab business, sales of which fell 6% y-o-y, continues to feel the effects of overstocking of flu inventories as a result of the swine flu. Following a similar trend from the previous two quarters this year, diabetes and infectious disease posted strong growth (13%) and were the catalysts driving growth of the clinical lab segment.

In the point-of-care segment, HIV sales were up 3% (from $1.8MM to $1.9MM) in the U.S. but fell 12% (from $2.4MM to $2.1MM) in Africa. Management noted that a large HIV order in Africa came in just after the end of the quarter and that had it come in a few days earlier, Q3 POC segment sales would have been much stronger. The order will be captured in Q4.

EPADR
EPADR came in at $0.177, compared to our $0.186 estimate. EPADR increased from $0.162 in Q3 2010. The difference between our estimate and actual EPADR was mostly a result of the lower revenue figure and less net interest income ($546k A vs. $705k E), partially offset by a very strong gross margin (51.7% A vs. 50.8%) and greater than expected further ratcheting down of SG&A ($5.5MM A vs. $5.7MM - although as a % of sales, actual and estimated SG&A were identical at 27.7%).

Cash
Trinity exited Q3 with $71.1 million in cash and equivalents, basically flat from the $71.4 million at Q2 2011 quarter-end. Cash generated from operations continues to be very robust and was $4.7 million in Q3 - and had it not been for inventory building in preparation for the Premier instrument launch, cash from operations would have been even greater. The reason for the slight sequential down-tick in cash balance was due to $2.1 million in CapEx and $3.0 million in stock repurchases. Management indicated on the call that they expect to continue to opportunistically buyback stock and currently have no potential acquisitions in their sights. We expect Trinity will continue to generate significant cash flow. The cash balance will further benefit from the final $11.25 million payment from Stago, due in April 2012. Cash continues to earn an impressive rate of interest - and averaged about 3.3% (annualized) over the past six months.

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. Premier is expected to be a major catalyst to revenue growth of Trinity's clinical lab business over the next several years and represents a significant portion of our modeled 8% revenue growth for this segment in 2012.

Premier launched in Europe in Q3 and generated ~$100k in sales. Management noted that Menarini, who is handling European distribution, just wrapped up final preparations for the roll-out of Premier and placed their first order for 20 units this week. As a reminder, in February 2011 Trinity announced a deal with Menarini for exclusive European distribution rights for Premier. Trinity has previously 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. 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.

Trinity filed Premier for 510k FDA clearance in June and expects to receive approval and possibly launch the instrument in the U.S. by year-end. Trinity had also been looking for a U.S. distribution partner and announced on the Q3 call that they signed an agreement with Fisher Scientific. Fisher, with a very capable distribution network which has handled U.S. sales of Trinity's earlier instruments, seems a logical choice and one we expect to bode well for the U.S. roll-out. Trinity also expects to hire their own U.S. sales force for Premier.

Trinity has also begun the registration process for Premier in China and Brazil 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 on the Q3 call that meaningful progress has been made with development of eight of these tests and expects to file with the FDA in November for the first of these products. Trinity's current timeline is for these tests to begin rolling out in the U.S. by late-Q1 / early Q2 2012. We expect these tests to be a big impetus to driving revenue growth in the POC segment beginning next year.

OUR 2011 / 2012 OUTLOOK

Revenue

We look for Trinity to post revenue of $79.5 million in 2011, implying growth from continuing operations of about 7.6% from 2010. We think clinical lab segment revenue grows to $62.4 million (+7.9% from continuing ops) and POC revenue comes in at $17.1 million (+6.4%).

We model total revenue of $86.6 million in 2012, implying growth of 9.0% with clinical lab up 8.0% to $67.4 million and POC up 12.5% to $19.3 million. Clinical lab should benefit from the introduction of Premier in Europe and the U.S. (late-2011/early-2012) with growth in POC coming from the launch of several new tests which are currently in late-stage development but should hit the market in Spring of 2012.

Net Income / EPADR

We continue to expect net income and EPADR to grow faster than the top-line as a result of incremental gross margin improvement, higher interest income and modest share repurchases. Gross margin is expected to benefit from faster growth of the higher margin POC segment, but this will be (at least partially) offset by the roll-out of Premier. We model little to no further leverage in operating expenses which could prove conservative as management has done an excellent job with purging excess costs over the last several quarters.

We model net income and EPADR of $16.1 million (+16.6% from 2010) and $0.734 (compared to $0.63 in 2010) in 2011, growing to $17.4 million (+20.0%) and $0.82 in 2012.

RECOMMENDATION / VALUATION

Comps in the diagnostic testing space are trading at a long-term average PEG of 1.12, based on estimated 2012 EPS. We look for TRIB to grow EPADR at a CAGR of 12.3% through 2014 and model 2012 EPADR of $0.82 which values the company at approximately $11.50 / share. As a result, we are maintaining both our $11.50/share price target and Neutral rec.

FINANCIAL MODEL

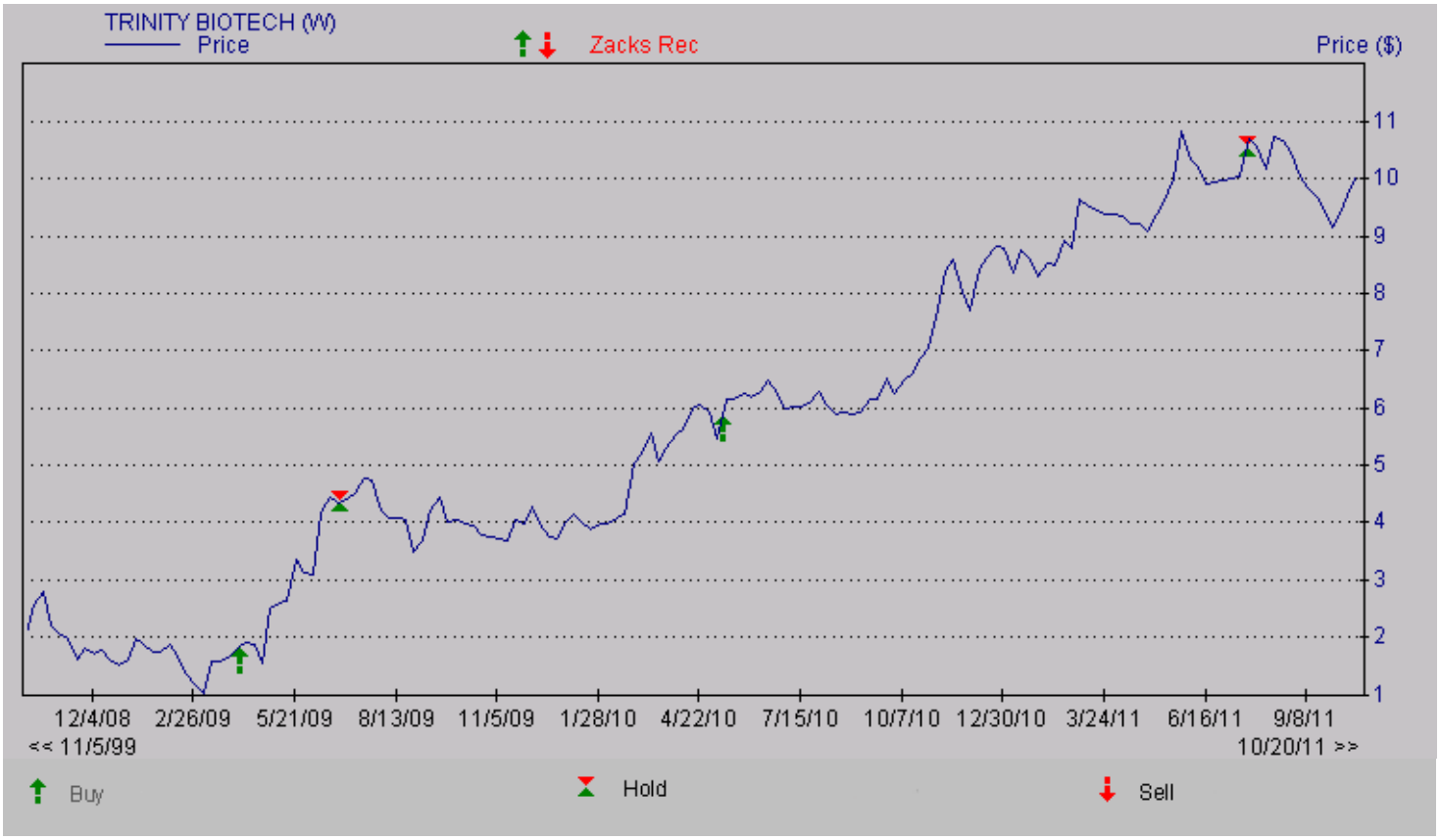
Trinity Biotech

	2010 A	Q1A	Q2A	Q3A	Q4E	2011 E	2012 E	2013 E	2014 E
Clinical Lab Revenue	**$73,553**	**$14,133**	**$15,298**	**$15,885**	**$17,037**	**$62,353**	**$67,348**	**$72,058**	**$76,677**
% of total revenue	*82.1%*	*75.8%*	*78.6%*	*80.1%*	*79.1%*	*78.5%*	*77.8%*	*76.7%*	*75.7%*
YOY Growth	*-31.8%*	*-42.7%*	*-17.8%*	*9.2%*	*8.2%*	*-15.2%*	*8.0%*	*7.0%*	*6.4%*
Point-of-Care Revenue	**$16,082**	**$4,521**	**$4,157**	**$3,941**	**$4,500**	**$17,119**	**$19,259**	**$21,840**	**$24,635**
% of total revenue	*17.9%*	*24.2%*	*21.4%*	*19.9%*	*20.9%*	*21.5%*	*22.2%*	*23.3%*	*24.3%*
YOY Growth	*-11.3%*	*3.6%*	*3.6%*	*-6.2%*	*28.3%*	*6.4%*	*12.5%*	*13.4%*	*12.8%*
Total Revenues	$89,635.0	$18,654.0	$19,455.0	$19,826.0	$21,537.0	$79,472.0	$86,606.5	$93,897.9	$101,312.1
YOY Growth	*-28.8%*	*-35.7%*	*-14.0%*	*5.7%*	*11.9%*	*-11.3%*	*9.0%*	*8.4%*	*7.9%*
Cost of Revenues	$45,690	$9,097	$9,451	$9,571	$10,510	$38,629	$41,485	$44,789	$48,022
Gross Income	$43,945	$9,557	$10,004	$10,255	$11,027	$40,843	$45,122	$49,109	$53,290
Gross Margin	*49.0%*	*51.2%*	*51.4%*	*51.7%*	*51.2%*	*51.4%*	*52.1%*	*52.3%*	*52.6%*
Research & Development	$4,603	$687	$800	$857	$825	$3,169	$3,464	$3,756	$4,052
% R&D	*5.1%*	*3.7%*	*4.1%*	*4.3%*	*3.8%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Selling General & Admin	$26,929	$5,468	$5,549	$5,489	$5,666	$22,172	$24,077	$26,104	$28,165
% SG&A	*30.0%*	*29.3%*	*28.5%*	*27.7%*	*26.3%*	*27.9%*	*27.8%*	*27.8%*	*27.8%*
Other Operating (Income)	($1,616)	($297)	($233)	($191)	($200)	($921)	($250)	($250)	($250)
Operating Income	$14,029	$3,699	$3,888	$4,100	$4,736	$16,423	$17,831	$19,499	$21,323
Operating Margin	*15.7%*	*19.8%*	*20.0%*	*20.7%*	*22.0%*	*20.7%*	*20.6%*	*20.8%*	*21.0%*
Interest income, net	$857	$638	$628	$546	$587	$2,399	$2,650	$2,900	$3,250
Pre-Tax Income	$14,886	$4,337	$4,516	$4,646	$5,323	$18,822	$20,481	$22,399	$24,573
Taxes	$1,296	$585	$654	$711	$809	$2,759	$3,134	$3,427	$3,760
Tax Rate	*8.7%*	*13.5%*	*14.5%*	*15.3%*	*15.2%*	*14.7%*	*15.3%*	*15.3%*	*15.3%*
Net Income	$13,590	$3,752	$3,862	$3,935	$4,514	$16,063	$17,348	$18,972	$20,813
YOY Growth	*14.9%*	*18.8%*	*18.2%*	*12.2%*	*23.3%*	*18.2%*	*431.0%*	*441.1%*	*468.7%*
Net Margin	*15.2%*	*20.1%*	*19.9%*	*19.8%*	*21.0%*	*20.2%*	*20.0%*	*20.2%*	*20.5%*
Adjusted EPADR	$0.630	$0.175	$0.173	$0.177	$0.209	$0.734	$0.820	$0.909	$1.001
YOY Growth	*11.5%*	*17.2%*	*14.2%*	*9.4%*	*25.9%*	*16.6%*	*11.7%*	*10.8%*	*10.1%*
Non-recurring adjustments	$46,828	$0	$0	$0	$0	$0	$0	$0	$0
IFRS EPADR	2.800					0.734	0.820	0.909	1.001
Weighted Avg. ADRs O/S	21,582	21,388	22,324	22,188	21,590	21,873	21,150	20,870	20,800

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