



Zimmer Bio Bulls Extend Position Another Month

Ticker/Price: ZBH (\$138.45)

Analysis:

Zimmer Bio (ZBH) with 1,500 September \$135 calls opening late yesterday at \$6.60 as some August positions adjusted, a name that has also seeing 1,000 December \$120 and 700 March \$140 short puts open as well as some call buying with 1,120 September \$125 calls in open interest and 850 September \$140 calls from 7/26. Shares are showing relative strength and looking to move out of a post-earnings consolidation above \$138.50 which targets \$147. ZBH recently cleared a three-year consolidation to new highs which targets \$175. The \$28.5B company trades 16.7X earnings, 3.6X sales, and 27.28X FCF with a 0.69% yield. They're targeting 6.1% and 7.5% EPS growth the next two years with 2.6% and 2.9% revenue growth, up from 0.3% growth in FY19. Zimmer is coming off a strong quarter with their best rate in knees in three years driven by strength in Asia and improvements in EMEA. The company has undergone a multi-year process to ramp up sales staff and fix operational issues and execution is improving driving better results. . It noted in the latest call "Inside of these new product introductions, we are executing against our strategy to deliver an ecosystem of customer-centric solutions, including our ROSA Robotics platform; and mymobility, a digital health platform developed in partnership with Apple; and our flagship Persona Knee System, offering a more personalized solution for our patients." Its dental business saw its best quarter since the Zimmer Biomet merger four years ago. The company launched their much-anticipated Rosa robotics system recently and early returns are promising as they look to expand into new indications. Placements in Q2 were modest but expected to become a bigger part of the overall mix moving forward as demand grows. Analysts have an average target for shares of \$141.50 with 15 buy ratings, 6 hold, and 1 sell. Argus upgraded shares to Buy on 8-12 and Baird upgrading to Outperform on 7-29 with a \$154 PT citing the improving revenue trends and confidence in management's ability to deliver mid-single digit+ earnings and improved free cash flow over coming years. Needham upgrading to Strong Buy in April noting ZBH has addressed supply issues and should benefit from the launches of its new knee products and Rosa knee and spine/brain robots. ZBH may also pursue acquisitions to boost its organic growth and diversify its products. Short interest is 1% and down to its lowest level since 2010. Hedge Fund ownership rose 63.5% in Q2 filings driven by new stakes by Millennium Management, Healthcor, and Viking Global. Jana Partners remains the top holder with 1.86M shares. Ceredex Value, a top concentrated holder, in its Q2 filing noted "We took the opportunity to add to our position given the firm's strong earnings, attractive fundamentals, and compelling growth prospects with its ROSA products for robotically assisted knee replacement and spinal surgeries." ZBH has seen a lot of insider buying this year with over \$2.5M bought between eleven individuals from \$117.50 and \$125.

Hawk Vision:



Hawk's Perspective: ZBH is seeing a major turnaround and impressive relative strength recently, back on the radar among medical device plays.

Confidence Ranking: \$\$