



Wright Medical Calls Accumulate as M&A Activity Jumps in Medical Devices

Ticker/Price: WMGI (\$30.5)

Analysis:

Wright Medical (WMGI) with another 2,500 May \$32.50 calls bought today for \$1.40 to \$1.45 where over 3,000 have been bought last week. WMGI also had 1,000 August \$30 calls bought on Friday and still has 1,000 each of the \$27.50 and \$30 calls in open interest from buyers in December. Shares are back near a big weekly breakout above \$30.75 and the 2017 highs near \$31.50 with a long-term measured target to \$40. The \$3.76B company trades 4.6X sales and 5.4X cash and in the early stages of profitability with EPS expected to grow up to \$0.50/share by FY20. WMGI sees sales growth of 14.9% and 10.8% over the next two years driven by orthopedic leadership in the foot/ankle market and growing share in shoulder procedures. WMGI is expanding their global footprint through new products and expanded physician networks in the \$8B market which is growing 8-10% CAGR. Their Blueprint 3D planning / digital ecosystem is a big driver going forward as it aims to improve costs on the hospital-side and patient outcomes through better post-op monitoring and data analytics. New user growth hit a record in Q3 and 30% of cases are now being run through the system, up from 20% last quarter. Analysts have an average target for shares of \$32.50 with 13 buy ratings and 2 hold ratings. Piper out positive on 1/2. The firm thinks WMGI will continue taking share in healthy extremities end markets while sports medicine growth will be a tailwind for the group. CSFB starting at Outperform on 12/17 and a \$33 PT positive on their market-leading shoulder business, highly differentiated and expanding regenerative biologics product line in Augment, realigned lower-extremity distribution network showing signs of reacceleration, and a best-in-class management team. Short interest is 12.5%, down from over 15.5% in July. Institutional ownership rose 22% last quarter. On 12/11, a Director bought \$536K in stock at \$26.83, the largest open market buy in four years. M&A could be an emerging focus in the space with Smith & Nephew's reported interest in Nuvasive (NUVA) out over the weekend.

Hawk Vision:



Trading Strategy: WMGI has long screened as a viable M&A target and activity is surely interesting along with recent price momentum.

Confidence Ranking: \$\$