



Adjustment in STAAR Surgical Stays Bullish, Expects Record Highs

Ticker/Price: STAA (\$41.65)

Analysis:

STAAR Surgical (STAA) with a large trade on 1/15 that opened 3000 September \$50/\$34 bull risk reversals at a \$0.60 debit as June \$40/\$25 risk reversals adjusted a trade from 12/13. STAA also has 2900 March \$35/\$25 stock collars in open interest from a trade on 10/31, but otherwise very little notable positioning. STAA shares made a huge move April-September 2018 peaking near \$50 before pulling back to \$23 in May 2019. Shares worked out of its pullback trend in November 2019 and on a strong move this week after guiding Q4 revenues above the Street while the FY20 view came in a bit light and it also received CE Mark approval for use of its ICL as a supplemental lens in post-cataract IOL surgery patients. The move out of this \$23/\$39 long weekly bottoming pattern measures to an upside target of \$55. The company announced in December that its CFO plans to retire in 2020 and it is searching an external search. The \$1.86B med-tech company is disrupting the vision correction industry with implantable lenses. STAA shares trade at 11.7X EV/Sales with revenues growing 37% in 2018 and set to 20.6% growth in 2019. Forecasts see 20%+ growth sustaining the next few years while profitability is also expected to ramp higher. STAA saw a strong jump in FCF margins to 8.5% in FY18 and R&D as a percentage of Sales is high at 17.8%. Gross Margins have steadily risen to near 75% and operating margins inflected positive in 2018 and hit 8.5% in 2019. The company is forecasting 25% revenue CAGR through 2022 and 35% ICL unit growth CAGR with continued profitability improvements, cash flow generation and a strengthening balance sheet. Refractive Surgery is the future and quickly replacing LASIK and STAA is targeting two large markets in Myopia and Presbyopia. The number of cases of each is quickly rising and the Refractive market TAM seen at \$6B which compares to a \$16B Contact Lens market and \$48B Eyeglass market. ICL has just a 1% market share in the US compared to 23% in Japan and 14% in China. Today, refractive surgery really encompasses about 4 million eye procedures, but the opportunity is far greater. There are 35 million myopes who really pass all of the criteria in terms of interest, age, ability to pay, demographics, and even more in presbyopia. There are over 55 million presbyopes. So STAAR has a huge opportunity with this wave to lens-based technology. Analysts have an average target near \$50 while short interest at 9% of the float continued to climb to near five-year highs, rising 23% Q/Q. BTIG started coverage in December at Buy with a \$46 target expecting upside to growth targets with increased penetration of existing markets, entry into new markets, new products and new indications.. Canaccord raised its target to \$45 in November calling STAA a rare growth opportunity in Med-Tech. Hedge Fund ownership fell 4.8% in Q3 filings.

Hawk Vision:



Hawk's Perspective: STAA has been a favorite discovery since it is under \$15 and near-term this wild move needs to settle but still a favorite med-tech small cap growth name to own.

Confidence Ranking: \$\$