



# WBB Securities, LLC

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## Given Imaging Ltd. (GIVN) (4/1/2010)

Downgrading from a Buy Rating to a Sell Rating with 12-Month Price Target of \$17.50



### Current Given Imaging Ltd. Share Pricing Model Suggests Overextension at \$23.61 Price Level

We are downgrading our rating on Given Imaging Ltd. (GIVN) based on a perceived disconnect between the current share price and 2010 revenue expectations. In our opinion, the share price of GIVN is overvalued in the current market.

GIVN is an Israeli-based medical device company specializing in endoscopy capsules for visual examination of the gastrointestinal (GI) tract. The company's PillCam capsules are disposable video capsules that are ingested by a patient in order to wirelessly transmit and display a video image for the gastroenterologist.

On February 16, 2010, GIVN announced Q4 and FY2009 results. The company reported a 13.3 percent increase in FY2009 revenues to \$141.8 million, compared to \$125.1 million in FY2008.

In our opinion, we see GIVN's revenues to continue to grow at a comparable rate. However, with the recent appreciation in the price of GIVN stock, we believe the current share price is not commensurate with projected revenue figures. We are therefore downgrading GIVN from a Buy rating to a Sell rating with a 12-month price target of \$17.50 per share.

#### Rating Legend:

- Strong Buy** – Should be aggressively purchased.
- Buy** - Should be purchased on market weakness.
- Hold** - Fairly valued.
- Sell** - Stock should be sold on market strength.
- Sell Short** - Should be aggressively sold.
- Speculative Buy** – For aggressive accounts only.

<b>Current Price</b>	\$23.61
<b>12-Month Trading Range</b>	\$6.76 – 24.00
<b>Market Capitalization (Mil)</b>	693.43
<b>Shares Outstanding (Mil)</b>	29.37
<b>Avg. Daily Volume</b>	135,387
<b>L. T. Debt (Mil)</b>	0.356
<b>Dividend/Yield</b>	N/A
<b>Book Value P/S</b>	5.196
<b>NASDAQ Composite</b>	2,397.96
<b>S&amp;P 500</b>	1,169.43
<b>12 Month Target Price</b>	\$17.50
Source: QUODD	

EPS	2008	2009	2010
Q1	0.03A	0.01A	
Q2	0.09A	0.16A	
Q3	0.07A	0.13A	
Q4	(0.07)A	0.17A	
Year	0.13A	0.47A	0.53E
P/E	181.6A	50.2A	44.5E
EPS Growth	(74)%A	262%A	13%E
FY Rev. (Mil)	125.1A	141.8A	160.3E
<b>FY:DEC</b>			

For management biographies see page 4

## Q4 and FY 2009 Results

GIVN's 13.3 percent revenue increase in FY2009 primarily is attributable to an incline in sales in the Americas region, which totaled \$89.7 million compared to \$75.6 million in 2008. Revenues in the European region increased 10.0 percent to \$38.4 million from \$34.9 million, and Asia-Pacific region revenue declined 6.7 percent to \$13.6 million.

Sales for the fourth quarter were up 18.5 percent year over year to \$40.0 million. Worldwide PillCam SB sales totaled 60,800 capsules in the fourth quarter, an increase of 9 percent over the fourth quarter of 2008. 38,400 capsules were sold in the Americas region, 15,900 capsules in the European region and 6,500 capsules in the Asia-Pacific region.

Revenue derived from the Bravo pH Monitoring System was \$4.4 million for the quarter and \$15.0 million for the year.

The company ended the year with \$95.2 million in cash and cash equivalents, short-term investments and marketable securities. For FY2010, GIVN expects total revenue to be between \$154 and \$160 million.

Based on our revenue modeling, we find projections that are consistent with GIVN's 2010 guidance. However, after discounting to present value, our model shows a lower per share valuation than the current price. In our opinion, the current share price is overstating our revenue expectations for the company.

## Product Line

### **Capsule Endoscopy Business**

GIVN's capsule endoscopy system, called the Given System, consists of three components: PillCam capsules, a data recorder and sensor array, and RAPID software. The PillCam capsules are disposable video cameras encased in plastic that are ingested by a patient. As the PillCam travels through the GI tract, the camera transmits the data to a wireless data recorder, which is worn on a belt around the patient's waist. The data recorder receives the data from an array of antennae which are attached to the patient's body. After recording the information, the data recorder is connected to a computer where the RAPID software processes the data and allows the physician to review the video and complete a report.

The PillCam SB was commercialized in August 2001 for the detection and diagnoses of disorders in the small bowel. The company's second generation PillCam SB 2 was cleared by the U.S. Food and Drug Administration in May 2007. Small intestine disorders include Crohn's disease, small bowel tumors, malabsorption disorders (such as celiac disease); GI injuries induced by extended NSAID use and suspected GI bleeding of the small bowel. It consists of a Complementary Metal Oxide Semiconductor (CMOS) which offers a 140° field of view at two frames per second for eight hours.

The PillCam ESO video capsule measures 11 mm x 26 mm and weighs less than four grams. It contains an imaging device and light source at both ends of the video capsule and takes up to 14 images per second as it passes down the esophagus during the procedure. PillCam ESO was

initially cleared by the FDA in November 2004. It was developed for patients suffering from esophageal disorders, such as esophageal varices, which can result in fatal bleeding, and Barrett's esophagus, which is an early indication for esophageal cancer. The second generation PillCam ESO 2 was cleared for marketing by the FDA in May 2007. It has a wider angle of view than the original PillCam ESO, automatic light control and an image capture rate of 18 frames per second.

PillCam COLON is the third capsule GIVN manufactures designed as an alternative to traditional colonoscopies. The device itself is slightly larger than the other PillCams, however, contains an imaging device and light source on both ends. The platform uses the same sensor array and data recorder as the other PillCams. The PillCam COLON is currently marketed in Europe and does not have FDA authorization for U.S. commercialization.

### **Bravo pH Business**

In December 2008, GIVN acquired the Bravo pH monitoring business from Medtronic, Inc. (MDT). The Bravo pH monitoring system uses a disposable capsule that is temporarily placed in the esophagus to wirelessly transmit pH level measurements to an external receiver. Ambulatory pH monitoring is considered the standard diagnostic procedure for Gastro-Esophageal Reflux Disease

### **Sierra Scientific Instruments Acquisition**

On March 22, 2010, GIVN announced a definitive agreement to acquire Sierra Scientific Instruments for \$35 million in cash. Sierra is a private company that specializes in providing diagnostic devices for the GI tract. Sierra will become a wholly-owned subsidiary of GIVN, and will better position GIVN in the esophageal diagnostic space.

## **Valuation**

Our valuation of GIVN is based on a FY2010E revenue model. Our FY2010E revenue projection is a little more than \$160 million, which is on the high side of GIVN's guidance. Employing a 4-times sales multiple and a 25 percent discount rate, we arrive at our 12-month price target of \$17.50. The model assumes 29.4 million shares outstanding.

## Management

**Nachum (Homi) Shamir - President and Chief Executive Officer** since April 2006. Prior to joining Given Imaging, Mr. Shamir held several senior management positions at Eastman Kodak Company. From 1994 – 2004 Mr. Shamir served in various management roles for Scitex Corporation (SCIX), where he served as President and Chief Executive Officer from June 2003 to January 2004. Mr. Shamir completed a B.Sc. from the Hebrew University of Jerusalem and an M.P.A. from Harvard University.

**Kevin Rubey – Chief Operations Officer** since June 2001. From 1998 to May 2001, Mr. Rubey worked at Eastman Kodak Company, where he led global manufacturing and operations for the Health Imaging Business Unit. From 1996 to 1998, Mr. Rubey was Manufacturing Director of the Medical Imaging Business Unit of Imation Corporation, a U.S. information technology company specializing in data storage and color image management. Prior to that, from 1977 to 1996, Mr. Rubey worked at the 3M Corporation in a variety of positions in the health, consumer and information technology businesses. Mr. Rubey holds a B.Sc. in mechanical engineering and an M.B.A. from the University of Minnesota.

**Yuval Yanai – Chief Financial Officer** since September 1, 2005. Prior to joining GIVN, he served as Senior Vice President and Chief Financial Officer of Koor Industries Ltd, and Senior Vice President and Chief Financial Officer of NICE Systems Ltd. He previously served as CFO of Elscint Ltd. Mr. Yunai also serves as a Director for several large corporations. He holds a B.Sc. in Accounting and Economics from the Tel Aviv University.

**Dr. Israel Raz – Senior Vice President and Chief Marketing Officer** since April 2008. Prior to joining Given Imaging, Dr. Raz worked at GE Healthcare since 2001, where he served as a Global Product Manager for the Cardiovascular Ultrasound business, and then as the GM of Global Marketing for the Molecular Imaging business portfolio. From 1986 to 2000, Dr. Raz worked at Bio-logic Systems Corp, a small Medical Device company, in several marketing positions leaving as the Director of Marketing. Mr. Raz holds a BA and MA in Audiology from Tel-Aviv University School of Medicine, a Ph.D. in Speech & Hearing Sciences from the University of Kansas, and an Executive MBA from The Kellogg Graduate School of Management, Northwestern University.

**Dr. David Mason – Senior Vice President and Chief Medical Officer** since November 2008. From 2008 to 2009, Dr. Mason was a founding partner and CMO at Percept BioSciences in Atlanta. In the years prior his positions included Global Head of Inflammation and VP of Clinical Research at UCB, from 2003-2008; Senior VP of Clinical Research and Regulatory Affairs at AVI BioPharma from 2000-2003; VP, Head of Medical Affairs at Elan Pharmaceuticals from 1994-2000; and senior roles at Somatogen, Lederle Laboratories and Ciba-Geigy pharmaceuticals. Dr. Mason holds a BA in Chemistry from Williams College and an MD from Duke University School of Medicine and completed postgraduate training at Duke University, the NIH, and the University of Michigan Medical Center, where he became Assistant Professor of Internal Medicine and Infectious Diseases.

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	<b>Percentage of Covered Securities</b>	<b>Percentage of Banking Clients</b>
Buy	70%	10%
Hold	4%	0%
Sell	26%	0%

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