

Globus Medical, Inc.(GMED)

\$54.92 (As of 06/08/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: C

Summary

Fall in Globus Medical's international sales due to COVID-19-led business disruption is deterring. Margin contractions too are worrying. Stiff competition and foreign-exchange impacts are other worries. Unstable macroeconomic conditions due to the pandemic and low demand for healthcare products are also deterring. 2020 guidance withdrawal due to uncertainties is concerning. Its first quarter of 2020 results were lower-than-expected. Over the past six months, shares of Globus Medical have underperformed the industry. Yet, both operating segments saw year-over-year growth in the quarter. Steady pace of product development buoys optimism. Strength in U.S. Spine arm and potential in international business instill confidence. Robust demand for the HEDRON product line is impressive. A strong liquidity, solvency and capital structure is a plus.

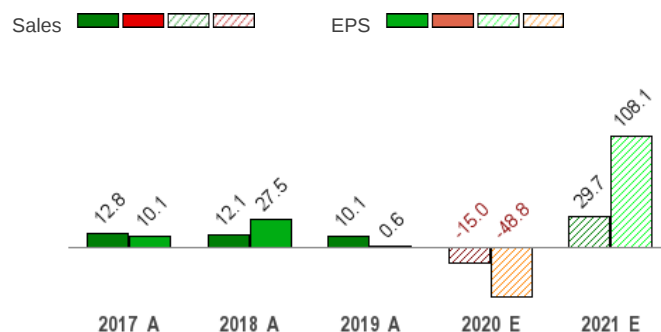
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.15 - \$33.41
20 Day Average Volume (sh)	1,462,337
Market Cap	\$5.4 B
YTD Price Change	-6.7%
Beta	1.01
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 34% (86 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-27.5%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	33.9
P/E F1	63.9
PEG F1	5.6
P/S TTM	6.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	208 E	221 E	219 E	246 E	865 E
2020	191 A	99 E	161 E	214 E	667 E
2019	183 A	195 A	196 A	212 A	785 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.39 E	\$0.43 E	\$0.43 E	\$0.52 E	\$1.79 E
2020	\$0.29 A	-\$0.10 E	\$0.21 E	\$0.46 E	\$0.86 E
2019	\$0.36 A	\$0.41 A	\$0.43 A	\$0.49 A	\$1.68 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/08/2020. The reports text is as of 06/09/2020.

Overview

Audubon, PA-based Globus Medical, Inc. is a medical device company that develops and commercializes healthcare solutions for patients with musculoskeletal disorders. The company currently has its sales operations distributed across 51 countries worldwide.

At present, Globus Medical has more than 200 products in the market. This extensive portfolio comprises advanced and differentiated technologies that are used to treat a variety of musculoskeletal conditions of the spine, extremities and pelvis.

The company has two major product categories:

Musculoskeletal Solutions (94.01% of 2019 Revenues; Up 10.9% from 2018)

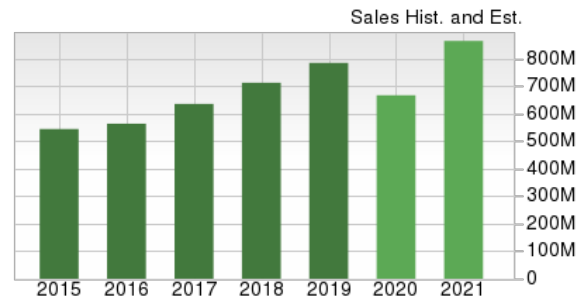
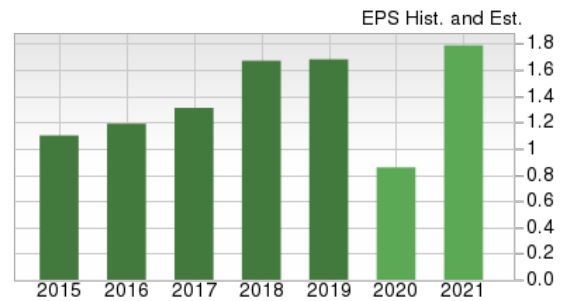
Musculoskeletal Solutions consist primarily of implantable devices, biologics, accessories, and unique surgical instruments, used in an expansive range of spinal, orthopedic and neurosurgical procedures.

The spine products address the vast majority of conditions affecting the spine including degenerative conditions, deformity, tumors and trauma.

The orthopedic trauma solutions are designed to treat a wide variety of orthopedic fracture patterns and patient anatomies in the upper and lower extremities as well as the hip.

Enabling Technologies (5.98%; Up 0.1%)

These are advanced computer-assisted intelligent systems, designed to enhance a surgeon's capabilities and streamline the complicated surgical procedures to be safer, less invasive, accurate and more reproducible to improve patient care and reduce radiation exposure for both patient and caregiver. The technology contains imaging, navigation and robotic (INR) assisted surgery solutions.



Reasons To Sell:

- ▼ **Share Price Performance:** Over the past six months, shares of Globus Medical have underperformed the industry. The stock has lost 3.4% against the 3.4% growth of the industry. Globus Medical exited the first quarter of 2020 with lower-than-expected results. Fall in international sales due to the COVID-19-led business disruption is concerning. Margin contractions too are concerning. Stiff competition and foreign-exchange impacts are other worries. Unstable macroeconomic conditions due to the coronavirus outbreak and low demand for healthcare products are also deterring. Last but not the least, the withdrawal of 2020 guidance over pandemic-led uncertainties is concerning.
- ▼ **Pricing Pressure Persists:** The musculoskeletal devices industry is characterized intensifying competitive pricing pressure. Pricing continues to remain a major headwind for Globus Medical. Throughout 2019 and till the first quarter of 2020, the company's top-line growth was partially dampened by continued pricing pressure. We remain concerned about the pricing scenario as it will be affected by cost containment efforts by governmental healthcare, local hospitals and health systems.
- ▼ **Escalating Expenses, a Downside:** Globus Medical has been facing serious cost and expense pressure over the past few quarters. Costs of goods sold were up 16.8%, whereas SG&A expenses for the first quarter of 2020 shot up 9%, reflecting expansion in the U.S. Spine sales force and investments in robotics infrastructures. All these are building pressure on its bottom line, leading to a 522-basis-point contraction in operating margin.
- ▼ **Competitive Landscape:** The presence of a large number of players made the musculoskeletal devices market intensely competitive. The orthopedic industry in particular is highly competitive with the presence of larger players like Zimmer Biomet, Stryker, Johnson & Johnson's DePuy, Smith & Nephew and Medtronic. Globus Medical needs to constantly introduce or acquire new products to withstand the competitive pressure and maintain its market share.
- ▼ **Lower Demand for Healthcare Products:** Globus Medical is persistently challenged by soft demand for health care products. Additionally, weak reimbursements for medical products and services may impose a downward pressure on the prices of the company's products, longer sales cycles and the slower adoption of new technologies, which will ultimately impact the top line.
- ▼ **Exposure to Currency Movement:** Globus Medical records 18% of its sales from the international market. A significant portion of the company's foreign revenues and expenses is generated in Japan, the Euro zone, the United Kingdom, Switzerland and Australia. This makes it highly vulnerable to currency fluctuations.

We are worried about challenging pricing scenario that continues to plague Globus Medical. Besides, rising costs are putting pressure on margins.

Risks

- **Industry Prospects Impressive:** The world demography is growing and aging. This population is more prone to musculoskeletal degeneration, traumatic fractures and challenging complications. Per Transparency Market Research, with a substantial increase in the prevalence of musculoskeletal disorders across the world, the global musculoskeletal diseases market has been witnessing a tremendous rise in its size as well as valuation.

A report by Industry ARC states that the Global Musculoskeletal Diseases market will witness a CAGR of almost 5.5% and post a modest revenue of \$79.4 billion by 2023. Needless to add that these trends are expected to generate higher demand for Globus Medical's core products.

- **Steady Pace of Product Development:** In line with the company's business strategy to focus on its integrated product development, Globus Medical is consistently making efforts to innovate plus research and develop. Per the company, its team-oriented approach, active surgeon input and demonstrated capabilities position it to maintain a rapid rate of product launches.

The company recorded robust demand for various products in the HEDRON line of 3D printed interbody spacers. The HEDRON is the most comprehensive portfolio of 3D printed spacers in the industry. Further, the company launched SABLE, which is the fourth-generation expandable MIS TLIF interbody spacer. It witnessed strong demand and favorable feedback from customers.

It is on track with the development of several enhancements to imaging, navigation and robotic (INR) portfolio of the Enabling Technologies business, including a cranial robotic application and an imaging system. Despite some delays in INR development efforts due to COVID-19, the company witnessed significant progress in the commercialization of various systems. It expects to roll out the interbody module in the second quarter of 2020. Further, the company is planning to submit the imaging system for the FDA's approval in the third quarter of 2020.

- **International Business Holds Potential:** Globus Medical's international revenues currently account for 17.5% of the company's total sales. Although international revenues were hurt by the pandemic, the business holds long-term potential and is expected to rebound post the crisis. Further, the company expects to not face the continuing challenges in the year-over-year comps internationally, which resulted from the placement of large distributor orders in the first half of last year.
- **Spine Arm Grows Domestically:** Globus Medical's U.S. Spine business accelerated considerably in the first quarter, showing a continued growth trend over the past few quarters. The company launched three new Spine products in the first quarter and two additional products in April.

Globus Medical's U.S. Spine business recorded strong recruiting, pull-through from robotics and traction from new products, boosting revenues despite the coronavirus-led crisis.

Further, the company is anticipating the FDA's clearance for the cranial module for ExcelsiusGPS in the third quarter of 2020.

- **Strong Liquidity, Solvency and Capital Structure:** Globus Medical is well capitalized having exited the first quarter of 2020 with cash and cash equivalents, and short-term marketable securities of \$277 million compared with \$311 million at the end of the fourth quarter of 2019. The company finished the quarter with no debt on its balance sheet.

The company's cash flow trends also remain robust. Net cash provided by operating activities at the end of the first quarter was \$42.3 million and free cash flow was \$19.9 million (after deducting net capital expenditures of approximately \$22.3 million). This compares with the year-ago operating cash flow of \$39.2 million and free cash flow of \$11 million (capital expenditure was \$28.2 million in the year-ago quarter).

During the first quarter of 2020, the company has spent \$73.9 million to repurchase its Class A common shares in connection with the previously authorized and announced share repurchase program. The company has spent an additional \$30.8 million to repurchase shares since the end of the first quarter and currently has approximately \$95 million remaining on its original \$200 million authorization. The company will fund the share repurchases with its operating cash flows and excess cash.

Last Earnings Report

Globus Medical Misses on Q1 Earnings and Revenues

Globus Medical reported first-quarter 2020 adjusted earnings per share of 29 cents, which missed the Zacks Consensus Estimate by 27.5%. The metric also declined 18.9% from the year-ago figure.

The adjusted earnings per share excludes certain non-recurring expenses like amortization of intangibles and acquisition-related costs.

Without the adjustments, the company registered GAAP earnings of 25 cents per share, reflecting 24.2% decline from the year-ago quarter.

First-quarter 2020 worldwide sales totaled \$190.6 million, up 4.2% (up 4.4% at constant exchange rate or CER) year on year. The reported figure, however, missed the Zacks Consensus Estimate by 4.7%.

The company had estimated around \$20 million of COVID-19-related adverse impact on the quarter's sales.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	-4.65%
EPS Surprise	-27.50%
Quarterly EPS	0.29
Annual EPS (TTM)	1.62

Quarterly Details

Sales generated in the United States, including robotic, improved 7.4% year over year on continued growth in Musculoskeletal business.

Meanwhile, international sales declined 9.3% from the year-earlier quarter (down 8.3% at CER).

Moreover, Musculoskeletal Solutions products generated revenues of \$182.5 million, up 3.8% year over year. Enabling Technologies product revenues of \$8.04 million in the quarter reflect an 11.8% improvement from the prior-year figure.

Margin

Gross profit in the reported quarter edged up 0.4% year over year to \$141.7 million. Gross margin however, contracted 277 basis points (bps) to 74.4% on a 16.8% rise in cost of goods sold to \$48.9 million.

Selling, general and administrative expenses in the reported quarter were \$93.5 million, up 9% from the year-ago quarter. Research and development expenses rose 7.5% to \$15.4 million.

Operating profit declined 20% year over year to \$32.8 million, while operating margin shrunk 522 bps to 17.2% in the quarter.

Cash Position

Globus Medical exited the first quarter with cash and cash equivalents, and short-term marketable securities of \$276.9 million compared with \$311.5 million at the end of 2019.

First-quarter net cash provided by operating activities was \$42.3 million compared with the year-ago period figure of \$39.2 million.

2020 Guidance

Globus Medical is currently unable to predict the specific extent or duration of the pandemic's impact on the company's financial and operating results. Accordingly, on Apr 16, Globus Medical withdrew its previously announced 2020 guidance.

Valuation

Globus Medical shares are down 6.7% in the year-to-date period and up 33.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 5.3% and up 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.8% and up 3.3%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and up 11.8% in the past year.

The stock is currently trading at 43.4X Forward 12-months earnings, which compares to 41.9X for the Zacks sub-industry, 23.3X for the Zacks sector and 23.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.2X and as low as 16.2X, with a 5-year median 23.9X. Our Underperform recommendation indicates that the stock will perform below with the market. Our \$46 price target reflects 36.9X forward 12-months earnings.

The table below shows summary valuation data for GMED

Valuation Multiples - GMED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	43.44	41.94	23.31	23.35
	5-Year High	45.23	41.94	23.31	23.35
	5-Year Low	16.20	23.42	15.94	15.23
	5-Year Median	23.95	28.25	19.04	17.49
P/S F12M	Current	7.11	4.22	2.82	3.63
	5-Year High	7.79	4.22	3.74	3.63
	5-Year Low	3.17	2.53	2.21	2.53
	5-Year Median	4.92	2.99	2.91	3.02
P/B TTM	Current	3.95	4.04	4.32	4.41
	5-Year High	5.43	4.69	5.05	4.56
	5-Year Low	2.44	2.71	2.92	2.83
	5-Year Median	3.57	3.82	4.28	3.65

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
JohnsonJohnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	3
RTI Surgical, Inc. (RTIX)	Neutral	3
SmithNephew SNATS, Inc. (SNN)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral	3
NuVasive, Inc. (NUVA)	Underperform	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	GMED	X Industry	S&P 500	NUVA	OFIX	ZBH
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	D	-	-	D	B	D
Market Cap	5.36 B	145.88 M	23.56 B	3.41 B	732.56 M	28.17 B
# of Analysts	6	2	14	9	1	14
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.00%	0.70%
Value Score	F	-	-	C	C	C
Cash/Price	0.05	0.08	0.06	0.15	0.08	0.09
EV/EBITDA	21.03	-1.38	13.19	12.25	449.52	15.15
PEG Ratio	5.51	4.20	3.18	6.95	NA	5.23
Price/Book (P/B)	3.95	3.48	3.19	3.85	2.05	2.37
Price/Cash Flow (P/CF)	24.59	23.46	12.52	12.09	12.75	10.39
P/E (F1)	62.84	47.82	23.31	93.21	NA	35.87
Price/Sales (P/S)	6.76	3.96	2.51	2.96	1.61	3.62
Earnings Yield	1.57%	-3.63%	4.15%	1.07%	-1.00%	2.79%
Debt/Equity	0.00	0.10	0.76	0.54	0.06	0.65
Cash Flow (\$/share)	2.23	-0.13	7.01	5.51	2.99	13.14
Growth Score	D	-	-	F	A	C
Hist. EPS Growth (3-5 yrs)	11.48%	13.32%	10.87%	19.02%	23.58%	2.50%
Proj. EPS Growth (F1/F0)	-49.01%	-1.26%	-10.76%	-71.08%	-125.85%	-51.65%
Curr. Cash Flow Growth	4.81%	4.95%	5.48%	7.60%	-0.14%	-24.63%
Hist. Cash Flow Growth (3-5 yrs)	13.08%	11.44%	8.55%	19.11%	9.20%	13.79%
Current Ratio	6.55	2.65	1.29	1.35	3.64	1.69
Debt/Capital	0.00%	14.04%	44.75%	35.04%	5.95%	39.40%
Net Margin	18.66%	-14.56%	10.59%	5.30%	-0.81%	4.84%
Return on Equity	12.21%	-14.83%	16.26%	14.42%	7.46%	13.29%
Sales/Assets	0.54	0.58	0.55	0.60	0.93	0.32
Proj. Sales Growth (F1/F0)	-15.01%	0.00%	-2.62%	-19.70%	-26.91%	-22.25%
Momentum Score	C	-	-	C	F	F
Daily Price Chg	-1.24%	0.00%	1.55%	0.73%	1.57%	-0.66%
1 Week Price Chg	1.76%	4.40%	7.51%	9.09%	10.21%	8.75%
4 Week Price Chg	13.59%	8.51%	15.61%	14.32%	7.53%	15.69%
12 Week Price Chg	56.65%	39.09%	38.10%	83.60%	58.96%	48.37%
52 Week Price Chg	33.76%	-8.24%	3.66%	12.44%	-27.69%	12.15%
20 Day Average Volume	1,462,337	203,273	2,648,536	1,014,012	160,545	1,385,108
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-137.26%	-6.48%
(F1) EPS Est 12 week change	-52.97%	-18.25%	-15.97%	-72.53%	-136.89%	-54.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-715.39%	-241.57%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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