

Globus Medical, Inc.(GMED)

\$39.17 (As of 03/09/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Globus Medical exited the fourth quarter with earnings missing the Zacks Consensus Estimate. Its Enabling Technologies' revenues were marginally down year over year. A stiff competitive landscape, shrinking operating margin, rising expenses and foreign-exchange impacts are other headwinds. On a positive note, fourth-quarter revenues beat the consensus mark. Year-over-year growth of Musculoskeletal Solutions and the global spine business was stellar, led by strength in U.S. Spine. This resulted from continued benefits from record recruiting of competitive representatives as well as implant pull-through from accounts, using ExcelsiusGPS systems. It is also optimistic about maintaining the upside in implant sales, with ExcelsiusGPS. Gross-margin expansion also buoys optimism. Overall, the company outperformed its industry in the past six months.

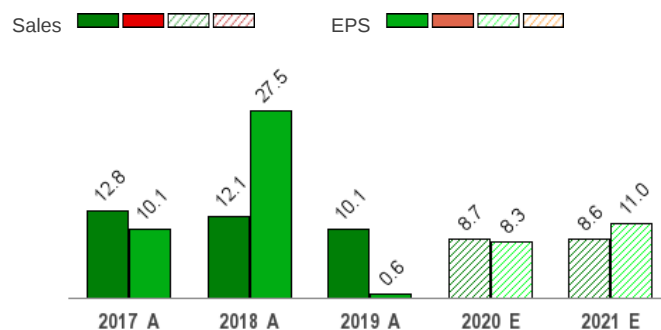
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.15 - \$36.04
20 Day Average Volume (sh)	770,716
Market Cap	\$3.9 B
YTD Price Change	-33.5%
Beta	1.08
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 28% (71 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	05/07/2020
Earnings ESP	-0.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	215 E	221 E	224 E	256 E	926 E
2020	200 E	207 E	208 E	237 E	853 E
2019	183 A	195 A	196 A	212 A	785 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.50 E	\$0.50 E	\$0.54 E	\$2.02 E
2020	\$0.41 E	\$0.43 E	\$0.44 E	\$0.53 E	\$1.82 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.

P/E TTM	23.2
P/E F1	21.5
PEG F1	1.9
P/S TTM	5.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

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)

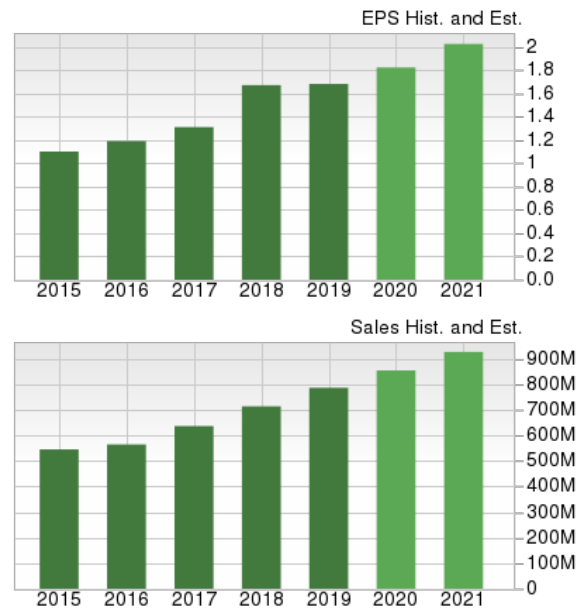
Musculoskeletal Solutions consist primarily of implantable devices, biologics, accessories, and unique surgical instruments, used in an expansive range of spinal, orthopedic and neurosurgical procedures.

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 declined 24.2% compared with the 6.3% fall of the industry. Globus Medical exited the fourth quarter with earnings missing the Zacks Consensus Estimate. Its Enabling Technologies' revenues were marginally down year over year. A stiff competitive landscape, shrinking operating margin, escalating expenses and foreign-exchange impacts are other headwinds currently trailing the company. Compared with the prior-year quarter, it also witnessed fewer selling days in Japan.
- ▼ **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, 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:** In the fourth quarter of 2019, Globus Medical faced serious cost and expense pressure. Costs of goods sold were up 6.1%, whereas SG&A expenses for the fourth quarter shot up 10.2%, reflecting the company's expansion of the U.S. Spine sales force, investments in international and robotics. All these are putting pressure on its bottom line, thus leading to a 72-basis-point contraction in the 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. Globus Medical launched three spine products from the Musculoskeletal Solutions business — first of the company's HEDRON of 3D printed interbody spacers, HEDRON and HEDRON IA — in the reported quarter, taking the total count for the year to 11. These products received positive feedbacks from early clinical users. The company plans to roll out the remainder of the HEDRON line in 2020, given that the product is the most comprehensive portfolio of 3D printed interbody spacers currently available in the market. In the trauma segment of the Musculoskeletal Solutions business, the company launched six new systems.

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.

- **Strong International Foothold:** Globus Medical's international revenues currently account for 17.5% of the company's total sales. In the fourth quarter, international business grew 6.4% on a constant currency basis. The international spine business grew by 5% in the fourth quarter. Over the past few quarters, the company has been registering strong growth in the international spine business, driven by access to new technology, pull-through from robotic placements and increased investments in peer-to-peer education.
 - **Spine Arm Grows Domestically:** Globus Medical's U.S. Spine business accelerated considerably in the fourth quarter showing a continued accelerating growth trend over the past few quarters. Implant pull-through from ExcelsiusGPS placements and contributions from competitive recruiting were the primary growth drivers. These two factors combined with a robust product release denote consistent growth through the 2019.
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Last Earnings Report

Globus Medical Q4 Earnings Lag, Revenues Beat Estimates

Globus Medical reported fourth-quarter 2019 adjusted earnings per share of 49 cents, missing the Zacks Consensus Estimate by 5.8%. However, the metric improved 13.9% from the year-ago figure.

The adjusted earnings per share excluded certain non-recurring expenses like litigation-related charges, amortization of intangibles and acquisition-related costs.

Without the adjustments, the company registered GAAP earnings of 44 cents per share, reflecting a 22.2% jump from the year-ago quarter.

The full-year adjusted earnings per share of \$1.68 also lagged the Zacks Consensus Estimate by 1.2%. However, it was a penny higher than the year-ago figure.

The fourth-quarter 2019 worldwide sales summed \$211.7 million, up 8.1% (constant currency impacts are immaterial) year over year. Revenues increased 8.2% on a day adjusted basis, with fewer selling days in Japan compared with the prior-year quarter. The reported figure also outpaced the Zacks Consensus Estimate by 0.3%.

For 2019, revenues were \$785.4 million, representing a 10.2% increase from that reported in 2018. Also, the revenue figure surpassed the Zacks Consensus Estimate of \$784.7 million.

Q4 Revenue Details

Sales generated in the United States, including robotic, improved 8.3% year over year on continued growth in the Musculoskeletal business, led by strength in U.S. Spine, which has been benefiting from record recruiting of competitive representatives as well as the implant pull-through from accounts utilizing ExcelsiusGPS systems.

Meanwhile, international sales rose 6.4% from the year-earlier quarter (same at CER).

Moreover, **Musculoskeletal Solutions'** products generated revenues of \$197.8 million, up 8.9% year over year. However, **Enabling Technologies'** product revenues of \$13.9 million in the quarter reflected a 2.7% decline from the prior-year figure.

Margin

Gross profit in the reported quarter climbed 8.6% year over year to \$162.9 million. Gross margin expanded 42 basis points (bps) to 76.9% despite a 6.1% rise in cost of goods sold to \$48.8 million.

Selling, general and administrative expenses in the reported quarter were \$92.1 million, flaring up 10.2% from the year-ago quarter. Research and development expenses rose 12.6% to \$15.5 million.

Operating profit grew 5.1% year over year to \$55.3 million, while operating margin shrunk 72 bps to 26.1% in the quarter.

Cash Position

Globus Medical exited the year with cash and cash equivalents, and short-term marketable securities of \$311.5 million compared with \$339.7 million at the end of 2018. Full-year net cash provided by the operating activities was \$171.9 million compared with the prior year's \$181.6 million.

2020 Guidance

The company reaffirmed its 2020 adjusted earnings per share guidance at \$1.82. The Zacks Consensus Estimate for the metric is pegged at \$1.88. The current-year revenue guidance has been reiterated at \$850 million. The Zacks Consensus Estimate for the same is pegged at \$853. million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	0.32%
EPS Surprise	-5.77%
Quarterly EPS	0.49
Annual EPS (TTM)	1.69

Recent News

On **Feb 4, 2020**, Globus Medical announced the first case with Next Generation 3D Printed Spine Implant.

Valuation

Globus Medical shares are down 33.5% in the year-to-date period and down 15.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 3.3% and 4.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.9% and down 1.4%, respectively.

The S&P 500 index is down 7.5% in the year-to-date period and up 7.9% in the past year.

The stock is currently trading at 21.1X Forward 12-months earnings, which compares to 30.8X for the Zacks sub-industry, 18.7X for the Zacks sector and 15.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.9X and as low as 16.2X, with a 5-year median 23.8X. Our Underperform recommendation indicates that the stock will perform below the market. Our \$33 price target reflects 17.8X 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	21.06	30.82	18.73	15.75
	5-Year High	35.97	33.84	21.08	19.34
	5-Year Low	16.20	23.20	15.82	15.18
	5-Year Median	23.77	27.58	18.74	17.42
P/S F12M	Current	4.51	3.47	2.68	3.14
	5-Year High	7.79	3.63	3.84	3.44
	5-Year Low	3.17	2.16	2.46	2.54
	5-Year Median	4.74	2.55	2.96	3.01
P/B TTM	Current	2.79	2.86	4.13	3.69
	5-Year High	5.43	4.20	5.05	4.56
	5-Year Low	2.44	2.54	3.44	2.85
	5-Year Median	3.68	3.29	4.32	3.63

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 253)



Top Peers

Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	Neutral
NuVasive, Inc. (NUVA)	Neutral
RTI Surgical, Inc. (RTIX)	Neutral
Smith & Nephew SNATS, Inc. (SNN)	Neutral
Stryker Corporation (SYK)	Neutral
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral
ORTHOFIX MEDICAL INC. (OFIX)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	GMED Underperform	X Industry	S&P 500	NUVA Neutral	OFIX Underperform	ZBH Neutral
VGM Score	C	-	-	A	C	C
Market Cap	3.91 B	89.76 M	19.13 B	2.76 B	571.92 M	22.96 B
# of Analysts	7	2	13	10	2	16
Dividend Yield	0.00%	0.00%	2.26%	0.00%	0.00%	0.86%
Value Score	D	-	-	B	D	B
Cash/Price	0.07	0.09	0.05	0.07	0.11	0.02
EV/EBITDA	14.90	-0.27	11.99	11.76	336.88	13.16
PEG Ratio	1.94	2.35	1.68	1.48	NA	2.00
Price/Book (P/B)	2.79	3.64	2.64	3.01	1.73	1.85
Price/Cash Flow (P/CF)	17.54	20.56	10.70	9.61	9.97	8.47
P/E (F1)	22.08	29.00	15.44	20.35	28.95	13.37
Price/Sales (P/S)	4.98	3.10	2.05	2.36	1.24	2.88
Earnings Yield	4.65%	0.01%	6.47%	4.91%	3.45%	7.48%
Debt/Equity	0.00	0.09	0.70	0.76	0.06	0.54
Cash Flow (\$/share)	2.23	-0.06	7.01	5.51	2.99	13.14
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	11.92%	13.45%	10.85%	22.31%	36.86%	3.66%
Proj. EPS Growth (F1/F0)	8.42%	17.43%	6.25%	5.30%	-29.93%	5.73%
Curr. Cash Flow Growth	4.81%	5.04%	6.09%	7.60%	-0.14%	-24.63%
Hist. Cash Flow Growth (3-5 yrs)	13.08%	10.99%	8.52%	19.11%	9.20%	13.79%
Current Ratio	6.17	2.78	1.24	3.69	3.07	1.37
Debt/Capital	0.00%	15.34%	42.57%	43.21%	5.93%	35.16%
Net Margin	0.00%	-14.12%	11.69%	5.58%	-6.19%	14.18%
Return on Equity	19.76%	-23.03%	16.74%	14.86%	8.58%	13.64%
Sales/Assets	13.01%	0.58	0.54	0.64	0.95	0.33
Proj. Sales Growth (F1/F0)	0.55	9.56%	3.76%	5.32%	2.29%	2.97%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	-8.40%	-5.33%	-7.65%	-10.18%	-9.14%	-10.35%
1 Week Price Chg	-4.40%	-0.29%	-0.67%	-10.45%	-7.13%	-8.85%
4 Week Price Chg	-28.12%	-14.14%	-19.26%	-31.08%	-31.04%	-29.68%
12 Week Price Chg	-33.18%	-6.48%	-17.26%	-31.02%	-34.66%	-25.83%
52 Week Price Chg	-15.85%	-25.49%	-6.83%	-9.85%	-46.34%	-8.36%
20 Day Average Volume	770,716	155,758	2,684,709	1,066,794	157,729	1,482,509
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.47%	0.00%	-0.06%	-0.12%	-40.29%	0.00%
(F1) EPS Est 12 week change	-4.55%	0.00%	-0.46%	0.17%	-40.29%	0.28%
(Q1) EPS Est Mthly Chg	-3.43%	0.00%	-0.40%	-7.28%	-62.07%	0.00%

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	D
Growth Score	C
Momentum Score	A
VGM Score	C

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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