

Globus Medical, Inc.(GMED)

\$53.06 (As of 01/14/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

Summary

Globus Medical has outperformed its industry in the past six months. The company witnessed strength in the United States and the international regions as well as in the Musculoskeletal solutions and Enabling Technologies segments. Implant pull-through from ExcelsiusGPS placements and back-to-back record sales force recruiting years were the primary growth drivers. Globus Medical is on track to commercially market the ExcelsiusGPS platform along with the launch of the company's spine deformity solution in early fourth quarter. Internationally, spine business grew by 15% in the third quarter, ahead of the market in almost all significant geographies. It posted mixed third-quarter results with earnings meeting the Zacks Consensus Estimate and revenues beating the mark. However, the pricing scenario is persistently tough for Globus Medical.

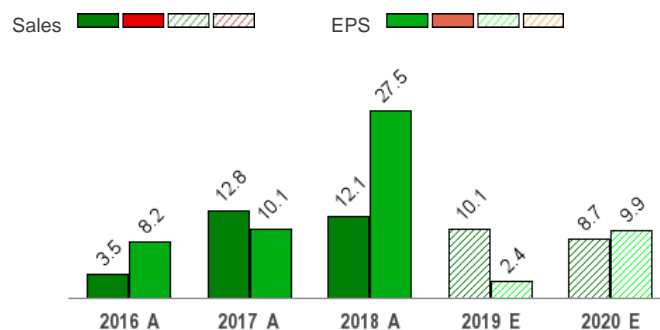
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.15 - \$38.37
20 Day Average Volume (sh)	472,052
Market Cap	\$5.3 B
YTD Price Change	-9.9%
Beta	0.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 45% (115 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	32.6
P/E F1	28.2
PEG F1	2.5
P/S TTM	6.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	200 E	210 E	208 E	234 E	853 E
2019	183 A	195 A	196 A	210 E	785 E
2018	174 A	173 A	169 A	196 A	713 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.43 E	\$0.45 E	\$0.45 E	\$0.55 E	\$1.88 E
2019	\$0.36 A	\$0.41 A	\$0.43 A	\$0.52 E	\$1.71 E
2018	\$0.41 A	\$0.44 A	\$0.39 A	\$0.43 A	\$1.67 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 01/14/2020. The reports text is as of 01/15/2020.

Overview

Headquartered in Audubon, Pennsylvania, 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 52 countries worldwide.

At present, Globus Medical has more than 190 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 (93.4% of 2018 Revenues; Up 6.6% from 2017)

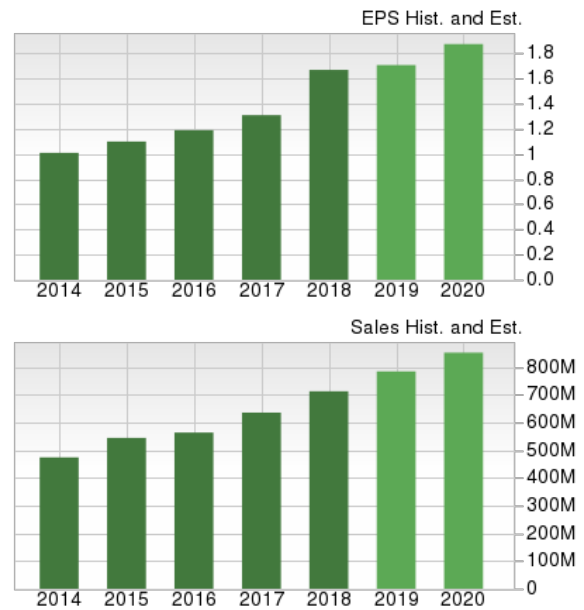
Musculoskeletal Solutions consist primarily of implantable devices, biologics, accessories, and unique surgical instruments, used in an expansive range of spinal, orthopedic and neurosurgical procedures.

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 (6.6%; Up 330%)

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 Buy:

▲ **Share Price Performance:** Over the past six months, shares of Globus Medical have outperformed the industry. The stock has surged 27.6% compared to 7.8% rise of the industry. During the third quarter, Musculoskeletal Solutions continued to perform exceptionally well. Within this, the U.S. Spine business continued to take significant market share driven by competitive representative recruiting and implant pull through from ExcelsiusGPS installations. The company expects to finish 2019 as the third consecutive year in competitive rep recruiting. Internationally, spine business grew by 15% in the third quarter, ahead of the market in almost all significant geographies. Enabling Technologies also registered strong growth on increasing adoption of the ExcelsiusGPS platform. Globus Medical is currently on track to commercially market this product along with the launch of the company's spine deformity solution in early fourth quarter. An increased sales outlook for 2019 is indicative of this bullish trend to continue through the remaining year.

Globus Medical continues to rein in surging demand for its Musculoskeletal Solutions products. Meanwhile, the company is expanding in the overseas markets through the expansion of direct and distributors sales force.

▲ **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. In the third quarter, the company launched a cadence of products including Autobahn Tibial Nailing, the ANTHEM Tibia Plating System and the ANTHEM Clavicle Plating System. Globus Medical is currently on track to commercially launch a set of new products including its line of 3D printed interbody spacer and next generation expandable TLIF device in fourth quarter 2019.

▲ **Strong International Foothold:** Globus Medical's international revenues currently account for 18% of the company's total sales. In the last-reported quarter, international business grew 11.3% on a constant currency basis. The international spine business grew by almost 15% in the third quarter, reporting above-market growth in almost all significant geographies. The growth driven by access to new technology, pull through from robotic placements, increased investments in peer-to-peer education and management changes in certain key markets in 2018.

The company is currently hopeful about registering strong turnaround in the international business in 2019, banking on robust international organic growth.

▲ **Spine Arm Grows Domestically:** Globus Medical's U.S. Spine business accelerated considerably in the third 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.

Reasons To Sell:

- ▼ **Pricing Pressure Persists:** The musculoskeletal devices industry is characterized intensifying competitive pricing pressure. Pricing continues to remain a major headwind for Globus Medical. Throughout 2018, 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. In 2019, full year pricing pressure is expected in the range of zero to negative 2%.
- ▼ **Escalating Expenses, a Downside:** In the third quarter of 2019, Globus Medical faced serious costs and expense pressure. Cost of goods sold were up 19.9% leading to 77 bps contraction in gross margin. SG&A expenses for the third quarter shot up 17.7%, reflecting the company's expansion of the U.S. Spine sales force, investments in international and robotics. All these are putting pressure on the company's bottom line.
- ▼ **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.

Last Earnings Report

Strong Musculoskeletal Solutions Sales Drive Globus Medical in Q3

Globus Medical reported third-quarter 2019 adjusted earnings per share of 43 cents, in line with the Zacks Consensus Estimate. However, the metric improved 10.3% from the year-ago figure.

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

Without the adjustments, the company registered GAAP earnings of 38 cents per share, reflecting an 8.6% rise from the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	5.16%
EPS Surprise	0.00%
Quarterly EPS	0.43
Annual EPS (TTM)	1.63

Revenue Details

Third-quarter 2019 worldwide sales summed \$196.2 million, up 15.9% (up 16% at constant exchange rate or CER) year over year. The figure also trumped the Zacks Consensus Estimate by 5.2%.

Sales generated in the United States including robotic improved 16.9% year over year on continued pull through from robotic placements in the reported period.

Meanwhile, international sales rose 11.2% from the year-earlier quarter (up 11.3% at CER).

Moreover, **Musculoskeletal Solutions** products generated revenues of \$182.3 million, up 11.8% year over year.

However, **Enabling Technologies** products revenues of \$13.9 million in the quarter represented a 125.2% surge from the prior-year figure of \$6.2 million.

Margin

Gross profit in the reported quarter rose 14.8% year over year to \$150.8 million. However, gross margin contracted 77 basis points (bps) to 76.9% on a 19.9% rise in cost of goods sold to \$45.4 million.

Selling, general and administrative expenses in the reported quarter were \$88.5 million, up 17.7% from the year-ago quarter. Research and development expenses, however, contracted 6.6% to \$14.5 million.

Operating profit grew 17.5% year over year to \$47.9 million while operating margin expanded 33 bps to 24.4% in the quarter under review.

Cash Position

Globus Medical exited the third quarter with cash and cash equivalents and short-term marketable securities of \$277.6 million compared with \$240.4 million at the end of the second quarter. Year to date, net cash provided by the operating activities was \$117.7 million compared with \$137.4 million a year ago.

2019 Guidance

The company reaffirmed its 2019 adjusted earnings per share guidance at \$1.72. The Zacks Consensus Estimate for the metric is pegged at \$1.71, which lies below the company's issued guidance.

The company, however, raised 2019 sales guidance to \$783 million from \$775 million. The Zacks Consensus Estimate for the same is pegged at \$776.4 million, above the company's projection.

Valuation

Globus Medical shares are up 27.6% in the six months period and up 24.7% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 7.8% and 6.4% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 16.6% and up 4.5%, respectively.

The S&P 500 index is up 10.1% in the six months period and up 24.8% in the past year.

The stock is currently trading at 28.2X Forward 12-months earnings, which compares to 34X for the Zacks sub-industry, 21.4X for the Zacks sector and 19X 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 23.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$56 price target reflects 29.7x 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	28.17	34.00	21.44	19.00
	5-Year High	35.97	34.00	21.44	19.34
	5-Year Low	16.20	23.22	15.88	15.17
	5-Year Median	23.70	27.40	18.95	17.44
P/S F12M	Current	6.16	3.64	2.82	3.52
	5-Year High	7.79	3.64	3.81	3.52
	5-Year Low	3.17	2.16	2.42	2.54
	5-Year Median	4.62	2.51	2.93	3.00
P/B TTM	Current	3.94	4.17	4.50	4.49
	5-Year High	5.43	4.21	5.02	4.49
	5-Year Low	2.44	2.54	3.42	2.85
	5-Year Median	3.69	3.29	4.28	3.61

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Top 45% (115 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	GMED Neutral	X Industry	S&P 500	NUVA Neutral	OFIX Neutral	ZBH Neutral
VGM Score	D	-	-	B	B	C
Market Cap	5.27 B	114.54 M	24.31 B	4.22 B	898.44 M	30.51 B
# of Analysts	7	2	13	10	2	16
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.65%
Value Score	C	-	-	C	C	B
Cash/Price	0.05	0.09	0.04	0.04	0.07	0.02
EV/EBITDA	21.55	-0.60	14.08	24.18	19.86	17.83
PEG Ratio	2.49	2.68	2.06	2.41	2.73	2.51
Price/Book (P/B)	3.94	4.49	3.33	4.82	2.90	2.52
Price/Cash Flow (P/CF)	24.59	23.75	13.62	15.66	15.37	8.44
P/E (F1)	28.37	30.05	18.86	31.16	27.33	17.88
Price/Sales (P/S)	6.85	3.30	2.65	3.68	1.96	3.85
Earnings Yield	3.54%	-0.66%	5.27%	3.20%	3.67%	5.60%
Debt/Equity	0.00	0.10	0.72	0.79	0.07	0.53
Cash Flow (\$/share)	2.16	-0.06	6.94	5.18	3.07	17.58
Growth Score	C	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	11.87%	13.24%	10.56%	25.76%	39.67%	4.62%
Proj. EPS Growth (F1/F0)	9.78%	20.44%	7.52%	9.64%	13.11%	5.91%
Curr. Cash Flow Growth	22.71%	9.84%	14.88%	10.27%	9.84%	18.33%
Hist. Cash Flow Growth (3-5 yrs)	14.92%	8.78%	9.00%	18.12%	-0.00%	21.63%
Current Ratio	6.71	2.68	1.23	3.68	2.69	1.17
Debt/Capital	0.00%	17.32%	42.99%	44.07%	6.35%	34.43%
Net Margin	19.03%	-15.15%	11.14%	4.15%	-6.81%	-1.14%
Return on Equity	13.09%	-17.95%	17.16%	14.93%	9.16%	13.71%
Sales/Assets	0.56	0.60	0.55	0.65	0.96	0.33
Proj. Sales Growth (F1/F0)	8.84%	11.73%	4.18%	6.03%	3.32%	2.50%
Momentum Score	D	-	-	F	D	D
Daily Price Chg	0.36%	0.00%	0.08%	0.47%	0.70%	-0.46%
1 Week Price Chg	-8.74%	0.68%	0.39%	3.36%	-0.73%	0.79%
4 Week Price Chg	-9.78%	2.57%	1.93%	5.98%	2.34%	-1.01%
12 Week Price Chg	6.33%	3.35%	6.50%	21.34%	-10.60%	10.03%
52 Week Price Chg	25.35%	-5.11%	22.56%	74.85%	-6.45%	42.40%
20 Day Average Volume	472,052	124,684	1,571,506	363,630	89,472	841,264
(F1) EPS Est 1 week change	-4.47%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.10%	0.00%	0.00%	0.07%	0.00%	-0.04%
(F1) EPS Est 12 week change	-3.60%	0.09%	-0.52%	1.90%	-18.25%	-0.26%
(Q1) EPS Est Mthly Chg	-2.73%	0.00%	0.00%	-2.03%	0.00%	-0.14%

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	C
Growth Score	C
Momentum Score	D
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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