

NuVasive, Inc. (NUVA)

\$58.25 (As of 05/11/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

NuVasive reported earnings beat and revenues miss in the first quarter. The company witnessed a significant fall in elective procedure volumes in the first quarter, as a result of which, both the U.S. Spinal Hardware and U.S. Surgical Support businesses registered year-over-year sales decline. This is expected to intensify in second-quarter 2020. Given this scenario, NuVasive is currently adopting measures to control its expenses and overcome the situation. Weak solvency position and pricing pressure have been other dampeners. Over the past three months, NuVasive has underperformed its industry. On a positive note, strong sales figures in some of the key international markets buoy optimism. Continued momentum across several recently-launched products within the AMS portfolio is encouraging.

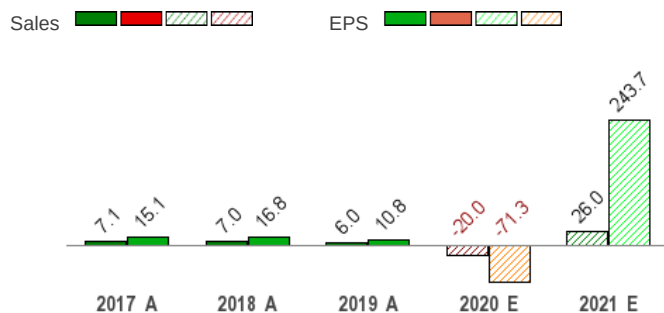
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.91 - \$28.55
20 Day Average Volume (sh)	749,669
Market Cap	\$3.0 B
YTD Price Change	-24.7%
Beta	1.44
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 22% (55 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	37.1%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-68.4%
Expected Report Date	08/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	282 E	303 E	307 E	328 E	1,177 E
2020	260 A	149 E	228 E	296 E	934 E
2019	275 A	292 A	291 A	310 A	1,168 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.55 E	\$0.61 E	\$0.71 E	\$2.44 E
2020	\$0.48 A	-\$0.57 E	\$0.19 E	\$0.71 E	\$0.71 E
2019	\$0.53 A	\$0.63 A	\$0.59 A	\$0.73 A	\$2.47 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 05/11/2020. The reports text is as of 05/12/2020.

Overview

Headquartered in San Diego, CA, NuVasive, Inc. is one of the leading global medical device companies in the global spine market, focused on developing minimally-disruptive surgical products and procedurally-integrated solutions for the spine. NuVasive's current product portfolio is focused on applications for spine fusion surgery.

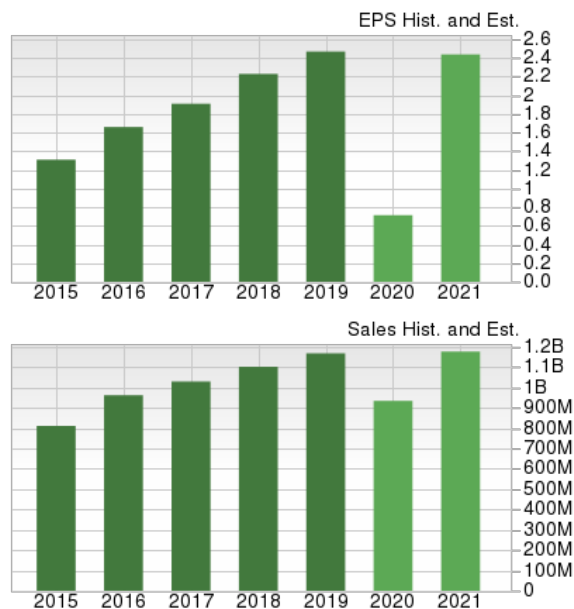
The principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (MAS). The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to enable safe and reproducible outcomes for the surgeon and the patient. The platform includes NuVasive's proprietary NVM5 and NVJJB, and Intra-Operative Monitoring (IOM) services and support; MaXcess, an integrated split-blade retractor system and a wide variety of specialized implants and biologics.

The **spine surgery** product line includes products for the thoracolumbar and the cervical spine.

The **biologic** product line used to aid the spinal fusion process or bone healing process include OsteoCel Plus and OsteoCel Pro allograft (donated human tissue) which are cellular matrix products containing viable mesenchymal stem cells (or MSCs), as well as other allograft offerings, FormaGraft – a collagen synthetic product and AttraX.

NuVasive also offers IOM services for insight into the nervous system during non-spine procedures. Post the closing of the acquisition of Ellipse Technologies in 2016, NuVasive has included its business under a newly created division called NuVasive Specialized Orthopedics (NSO).

Besides, with the acquisition of Biotronic NeuroNetwork (in Jul 2016), NuVasive has combined the service offerings of Biotronic with its Impulse Monitoring business to create NuVasive Clinical Services. The acquisition of SafePassage (in 2018), an intraoperative neurophysiological monitoring (IONM) services provider has helped NuVasive to fortify the NuVasive Clinical Services (NCS) position as the largest provider of outsourced IONM services in the United States.



Reasons To Sell:

▼ **Price Movement:** Over the past three months, NuVasive has underperformed its industry. The stock has lost 25.8%, in comparison with the industry's 5.5% loss. Worldwide supply disruption, economic stagnation and procedural deferrals amid the global outbreak of coronavirus have dragged the share price down. In the first quarter, NuVasive experienced substantial impact of the pandemic on its business. According to the company, a large portion of surgery cases the company undergoes were considered elective, and therefore were deferred during this period to focus on COVID-19-led health issues. NuVasive expects this elective procedure volumes decline to continue in second-quarter 2020, which is more concerning. Consistent pricing pressure and macro-economic headwinds have been dampeners as well.

Headwinds like Margin drag, pricing and payers pressure, reimbursement issues and competitive landscape are major downsides.

▼ **Coronavirus-led Procedural Deferrals Hurt Sales:** In the first quarter, the U.S. Spinal Hardware business revenues declined 6.3%. The company noted that, in the first two months of the quarter, NuVasive's X360 system was tracking to deliver solid year-over-year growth. However, starting in mid-March, the U.S. Spinal Hardware business witnessed significant deferrals in elective surgical procedures due to COVID-19. Further, revenues from the U.S. Surgical Support business were down 10.9% year over year. Here too, the business experienced a slowdown in volumes in mid-March due to the pandemic.

NuVasive expects deferral of elective procedures to continue to hurt sales through the rest of the year. However, the magnitude of the impact will vary with things intensifying in the second quarter and getting lessened from the third quarter.

▼ **Poor Solvency Structure:** NuVasive exited first-quarter 2020 with cash and cash equivalents of \$511.9 million compared with \$213 million at the end of 2019. Meanwhile, total debt came up to \$1.11 billion, a significant increase from the sequentially-last-reported figure of \$703 million. The reported quarter's total debt was much higher than the corresponding cash and cash equivalent level. Added to that, the company has current-year-payable debt of \$636 million on its balance sheet, pretty high compared to the current level of cash in hand. This is not good news in terms of the company's solvency position particularly during the year of global pandemic when NuVasive is suffering from huge business loss due to procedural delays. The quarter's current debt also marks the highest among the past several quarters, increasing investors' concern.

The quarter's total debt-to-capital of 55.7% stands at a high level right now. It represents a sequential rise from 43.4% in the fourth quarter and also stands highest over the past four quarters. On the other hand, the company's first-quarter interest coverage stands at a very low level of 3%, unchanged from the sequentially-last quarter.

▼ **Macro-economic Headwind May Hamper Growth:** Although the market for spine surgery procedures will continue to grow over the long term, this industry is highly susceptible to any change in economic, political and regulatory influences which may slow down the spine market's growth rate. These changes include pricing pressure from the continued consolidation of hospital customers and the expansion of group purchasing organizations, unfavorable third-party payer coverage, reimbursement policies, and new and proposed legislation and regulations designed to contain or reduce the cost of healthcare.

▼ **Pricing Pressure Continues to Persist:** Pricing continues to remain a major headwind for NuVasive as it experiences declining prices for its products due to increasing competition in the spine market; pricing pressure experienced by hospital customers from managed care organizations, insurance providers and other third-party payers; and increased market power of hospital customers as the medical device industry consolidates.

▼ **Tough Competitive Landscape:** The presence of a large number of players has made the medical devices market intensely competitive. The orthopedic industry, in particular, is highly competitive with the presence of bellwethers like Zimmer Holdings, Stryker, Johnson & Johnson's DePuy, Orthofix International N.V., Vyair Medical (formerly VIASYS Healthcare, a division of Becton, Dickinson and Company) and Medtronic.

Risks

- **Huge Scope of Growth in Spine Market:** According to a report by Mordor Intelligence, the market for Spinal Surgery Devices is expected to reach \$16.6 billion by 2021 at a CAGR of 5% during 2016 to 2021. Accordingly, NuVasive is currently leaving no stone unturned to capture this fast-growing spine market. The company is currently on track to launch more than a dozen new products this year, spanning from solutions in core implant and fixation product lines to enabling technologies to support the further adoption of minimally invasive surgery. As a major milestone in the field of enabling technology, in July, NuVasive announced the launch of the Pulse integrated technology platform.

Throughout 2019, the company witnessed continued momentum in its cohere porous PEEK implant as well as its Modulus surgical platform. The full commercialization of cohere XLIF and several key porous PEEK implants is well underway. The company is set to optimize 3D printed titanium alpha launches related to ALIF and TLIF. It also plans to launch a new cervical portfolio, comprising an anterior cervical plate to treat degeneration, trauma and deformity, and a new cervical fixation system to enhance posterior surgery.

- **International Business Flourishes:** According to NuVasive, the International region holds tremendous growth opportunity for the company. In the first quarter, despite all coronavirus-led market disasters, the company registered international revenue growth of 4.1% year-over-year growth at CER. This was driven by mid-double-digit growth in Asia-Pacific, led by Japan, where COVID-19 impact was nominal in this period. Europe too delivered low single-digit net sales growth. Other regions continued to experience decent volumes through March.

The company currently looks forward to continue expanding NuVasive spine, pediatric and specialized orthopedic portfolios in the region.

- **U.S. Surgical Support Prospect Strong:** Within the Surgical Support business, NuVasive acquired Safe Passage in 2019. With this acquisition, the company has solidified its leadership position as the largest provider of outsourced intraoperative neurophysiological monitoring services. Per management, the market is gradually experiencing greater adoption and increasing demand for its offering of surgical alternatives with less tissue disruption. NuVasive continues to focus on unique spine offerings. During the first quarter, case volumes tracked up year-over-year in January and February (before the pandemic-led economic slowdown) within this business.
 - **New Strategies Buoy Optimism:** NuVasive earlier highlighted four technological focus areas for 2020. These include lateral single-position surgery, surgical intelligence, advanced material science and complex spine, also known as deformity. In this regard, the company is seeing solid adoption of the lateral single-position surgery for short powered by Surgical Intelligence continues. The procedure has been launched internationally, with completed cases in the U.K., Italy and Switzerland.
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Last Earnings Report

NuVasive Q1 Sales Suffers From Deferred Procedures

NuVasive delivered first-quarter 2020 adjusted earnings per share (EPS) of 48 cents, reflecting a 9.4% decline from the year-ago quarter. However, the figure surpassed the Zacks Consensus Estimate by 37.1%. The one-time adjustments include expenses associated with certain ongoing litigation matters and amortization expenses among others.

On a reported basis, EPS came in at 10 cents, reflecting 44.4% decline from the year-ago number.

The year-over-year decline can be attributed to significantly lower revenues on a year-over-year basis due to the coronavirus outbreak.

Revenues in the first quarter totaled \$259.9 million, down 5.4% year over year on a reported basis (down 5.1% at constant exchange rate or CER). The top line also lagged the Zacks Consensus Estimate by 2.6%.

Geographical & Segmental Details

In the reported quarter, the U.S. Spinal Hardware business revenues declined 6.3% year over year to \$138.5 million. The company noted that in the first two months of the quarter, NuVasive's X360 system was tracking to deliver solid year-over-year growth. However, starting in mid-March, the U.S. Spinal Hardware business witnessed significant deferrals in elective surgical procedures due to COVID-19.

Revenues from the U.S. Surgical Support business were \$64.3 million in the first quarter, down 10.9% year over year. Here too, Case volumes tracked up year over year in January and February. The business experienced a slowdown in volumes in mid-March due to the pandemic.

In the March-end quarter, the company registered international revenues of \$57.1 million, reflecting 4.1% year-over-year growth at CER. This was driven by mid-double-digit growth in Asia-Pacific, led by Japan, where COVID-19 impact was nominal in this period.

Margin Details

In the reported quarter, gross profit declined 6.1% year over year to \$188 million. Gross margin contracted 54 basis points (bps) to 72.3%. Adjusted operating profit improved 5% from the year-ago period to \$39.5 million. Accordingly, adjusted operating margin expanded 151 bps to 15.2% in the January-March quarter.

Operational Update

The company exited the first quarter with cash and cash equivalents of \$511.9 million compared with \$213 million at the end of 2019. First-quarter net cash, provided by operating activities, totaled \$5.2 million compared with the prior year period's \$24.5 million.

Guidance for 2020

On Apr 14, 2020, while announcing its COVID-19 business update, NuVasive noted that it is currently unable to predict the time and rate of recovery of its elective surgery volumes. This compelled the company to withdraw its 2020 guidance.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	0.05%
EPS Surprise	37.14%
Quarterly EPS	0.48
Annual EPS (TTM)	2.43

Recent News

On **May 5, 2020**, NuVasive announced the expansion of its Advanced Materials Science (AMS) implant portfolio with the commercial launch of the Modulus XLIF Dual Sided Plate, and the receipt of 510(k) clearances from the FDA for Modulus ALIF and Cohere TLIF-O.

On **Mar 10, 2020**, randomized controlled trial results demonstrated efficacy of NuVasive Attrax Putty in posterolateral lumbar fusion.

Valuation

NuVasive shares are down 24.7% in the year-to-date period and down 3.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 3.8% while the Zacks Medical sector fell 2.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 5.7% and sector is up 5%.

The S&P 500 index is down 9.1% in the year-to-date period and up 3.9% in the past year.

The stock is currently trading at 42.2X Forward 12-months earnings, which compares to 32.5X for the Zacks sub-industry, 22.7X for the Zacks sector and 21.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.7X and as low as 12.3X, with a 5-year median 28.1X. Our Underperform recommendation indicates that the stock will perform below the market. Our \$54 price target reflects 39.1X forward 12-months earnings.

The table below shows summary valuation data for NUVA.

Valuation Multiples -NUVA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	42.2	32.5	22.72	21.15
	5-Year High	44.66	32.5	22.72	21.15
	5-Year Low	12.3	17.1	15.81	15.19
	5-Year Median	28.06	19.73	18.81	17.45
P/S F12M	Current	2.94	3.53	2.74	3.3
	5-Year High	3.68	3.99	3.84	3.44
	5-Year Low	1.37	2.88	2.24	2.54
	5-Year Median	2.81	3.22	2.96	3.02
P/B TTM	Current	3.36	3.24	3.78	3.85
	5-Year High	5.8	4.25	5.8	4.55
	5-Year Low	1.87	2.21	1.87	2.84
	5-Year Median	3.83	2.77	3.83	3.65

As of 05/11/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Globus Medical Inc (GMED)	Neutral	4
JohnsonJohnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
ORTHOFIX MEDICAL INC (OFIX)	Neutral	2
SmithNephew SNATS Inc (SNN)	Neutral	3
Stryker Corporation (SYK)	Neutral	4
CONMED Corporation (CNMD)	Underperform	3
Zimmer Biomet Holdings Inc (ZBH)	Underperform	4

Industry Comparison Industry: Medical - Products				Industry Peers		
	NUVA	X Industry	S&P 500	JNJ	MDT	SYK
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	F	-	-	C	B	D
Market Cap	2.99 B	304.53 M	19.55 B	392.84 B	132.33 B	72.58 B
# of Analysts	9	3	14	9	14	14
Dividend Yield	0.00%	0.00%	2.13%	2.55%	2.19%	1.19%
Value Score	F	-	-	C	B	F
Cash/Price	0.16	0.10	0.06	0.05	0.09	0.06
EV/EBITDA	10.70	0.08	11.85	16.23	15.64	23.33
PEG Ratio	6.83	4.26	2.60	3.24	2.53	3.39
Price/Book (P/B)	3.36	3.78	2.71	6.41	2.55	5.53
Price/Cash Flow (P/CF)	10.57	17.90	10.71	12.94	13.59	18.49
P/E (F1)	81.65	34.26	19.55	19.43	19.52	31.23
Price/Sales (P/S)	2.59	5.12	2.01	4.75	4.26	4.85
Earnings Yield	1.22%	0.14%	4.85%	5.15%	5.12%	3.20%
Debt/Equity	0.54	0.10	0.76	0.41	0.48	0.72
Cash Flow (\$/share)	5.51	-0.01	7.01	11.52	7.27	10.47
Growth Score	F	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	19.02%	12.07%	10.82%	9.40%	6.24%	12.22%
Proj. EPS Growth (F1/F0)	-71.08%	0.11%	-9.99%	-11.57%	-1.99%	-24.94%
Curr. Cash Flow Growth	7.60%	4.32%	5.83%	3.68%	6.26%	11.85%
Hist. Cash Flow Growth (3-5 yrs)	19.11%	7.74%	8.52%	7.62%	15.58%	12.35%
Current Ratio	1.35	2.73	1.27	1.31	2.75	2.58
Debt/Capital	35.04%	15.45%	44.41%	29.29%	32.25%	41.76%
Net Margin	5.30%	-23.95%	10.59%	24.47%	17.11%	14.47%
Return on Equity	14.42%	-9.03%	16.36%	39.71%	14.76%	24.90%
Sales/Assets	0.60	0.57	0.55	0.53	0.34	0.53
Proj. Sales Growth (F1/F0)	-20.02%	0.00%	-2.41%	-2.59%	0.30%	-8.43%
Momentum Score	D	-	-	B	C	F
Daily Price Chg	-4.18%	0.00%	-0.95%	0.28%	-0.29%	0.81%
1 Week Price Chg	3.84%	1.78%	3.23%	0.28%	4.09%	6.34%
4 Week Price Chg	5.45%	6.41%	4.49%	6.68%	-0.78%	12.53%
12 Week Price Chg	-26.54%	-10.90%	-20.09%	-0.68%	-15.84%	-12.59%
52 Week Price Chg	-3.85%	-3.85%	-7.00%	8.68%	13.06%	5.12%
20 Day Average Volume	749,669	236,852	2,530,553	9,347,331	5,395,571	1,777,787
(F1) EPS Est 1 week change	-41.92%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-68.44%	0.00%	-6.07%	-8.61%	-5.73%	-18.28%
(F1) EPS Est 12 week change	-72.56%	-14.05%	-15.69%	-15.03%	-16.09%	-31.90%
(Q1) EPS Est Mthly Chg	-270.64%	-3.39%	-12.45%	-12.00%	-12.87%	-51.72%

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	F
Momentum Score	D
VGM Score	F

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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