

NuVasive, Inc. (NUVA)

\$78.10 (As of 01/17/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Over the past six months, NuVasive has outperformed its industry. We are encouraged to note that NuVasive witnessed solid revenue growth across its U.S. Spinal Hardware business, driven by increased surgeon adoption of lateral single-position surgery and X360 system. Robust sales figures in some of the key international markets, especially in the EMEA region, buoy optimism. We are upbeat about the raised earnings per share guidance for 2019. Continued momentum across several recently-launched products within AMS portfolio is encouraging. Solid adoption of lateral single-position surgery buoy optimism. NuVasive put up a robust third quarter performance, with earnings and revenues beating estimates. However, the revenue decline within the U.S. Surgical Support and Biologics segments and contraction in adjusted operating margin were disappointing.

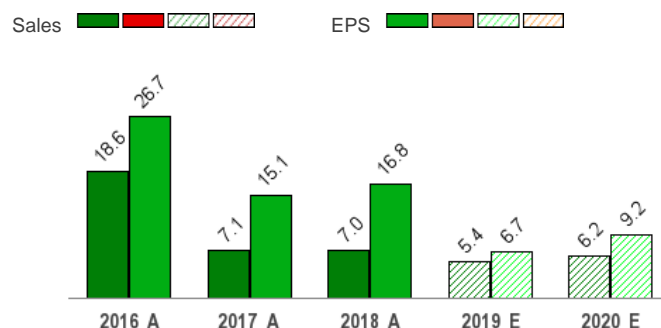
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.91 - \$46.79
20 Day Average Volume (sh)	396,567
Market Cap	\$4.1 B
YTD Price Change	1.0%
Beta	1.19
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.3%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/19/2020
Earnings ESP	0.9%
P/E TTM	32.0
P/E F1	30.0
PEG F1	2.5
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	291 E	310 E	307 E	325 E	1,233 E
2019	275 A	292 A	291 A		1,161 E
2018	261 A	282 A	271 A	288 A	1,102 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.58 E	\$0.67 E	\$0.64 E	\$0.71 E	\$2.60 E
2019	\$0.53 A	\$0.63 A	\$0.59 A	\$0.63 E	\$2.38 E
2018	\$0.39 A	\$0.58 A	\$0.56 A	\$0.69 A	\$2.23 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 01/17/2020. The reports text is as of 01/20/2020.

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.

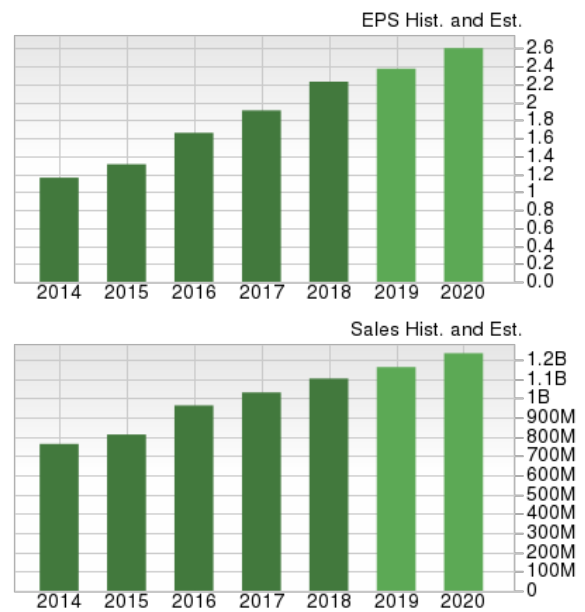
The principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (MAS). The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to 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 Osteoecel Plus and Osteoecel 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 Buy:

- ▲ **Price Movement:** Over the past six months, NuVasive has outperformed its industry. The stock has increased 33.4%, in comparison with the industry's 3.7% rise. NuVasive registered solid top-line performance in the third quarter on strong contributions from the U.S. spinal hardware and clinical services business. Within the U.S. Spinal Hardware business, strong increase in case volume and tangible growth in the XLIF and ALIF franchises, driven by continued adoption of NuVasive's X360 system, are major positives. Within the Surgical Support arm, the company witnessed continued momentum in the NuVasive clinical services business, primarily driven by another quarter of strong billings and collections and solid growth in procedure volume. Continued momentum across several recently-launched products like Modulus XLIF also contributed to the rally in share price. In terms of new product launch, the company is 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.
- NuVasive's huge scope in Spine market, strong international and U.S. sales contributed to the overall growth.
- ▲ **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. In the third quarter, the company expanded its advanced material science (AMS) business with products like Modulus TLIF-O, a coarse titanium spine implant engineered for TLIF, the most commonly-performed surgical procedure in the spine industry. Also, NuVasive continued registering solid momentum across other products within the portfolio viz Modulus XLIF, TLIF-A and Cohere XLIF, the first of its kind lateral PEEK implant for XLIF in lateral single position surgery. As a major milestone in the field of enabling technology, in July, NuVasive announced the launch of the Pulse integrated technology platform. The company anticipates gaining CE Mark for this platform later in 2019.
- ▲ **International Business Flourishes:** According to NuVasive, the International region holds tremendous growth opportunity for the company. In the third quarter, the company registered international revenues of \$59 million, reflecting 13.4% year-over-year growth at CER. The EMEA region witnessed a solid uptick, driven by substantial contribution from the United Kingdom and Spain. In Asia Pacific, despite several near-term challenges, Japan delivered strong top line growth.
- ▲ **Robust Performance by U.S. Surgical Support Business:** Within the Surgical Support business, NuVasive completed the acquisition of Safe Passage at the end of the first quarter. 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 third quarter, despite witnessing a 1% revenue decline within the segment, the company witnessed continued momentum in its clinical services business, primarily driven by strong billings and collections and solid growth in procedure volumes.
- ▲ **New Strategies Buoy Optimism:** NuVasive has highlighted four technological focus areas for 2019. 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.
- ▲ **Stable Liquidity Position:** The company exited the third quarter of 2019 with cash and cash equivalents of \$163.4 million, compared with \$128.4 million at the end of the second quarter. Year to date, net cash provided by operating activities totaled \$160.6 million compared with \$150.5 million a year ago.
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Reasons To Sell:

- ▼ **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, Vyaire Medical (formerly VIASYS Healthcare, a division of Becton, Dickinson and Company) and Medtronic.

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

Last Earnings Report

NuVasive Earnings and Revenues Beat Estimates in Q3

NuVasive delivered third-quarter 2019 adjusted earnings per share of 59 cents, reflecting a 5.4% rise from the year-ago quarter. The figure also surpassed the Zacks Consensus Estimate by 9.3%. On a GAAP basis, earnings per share came in at 21 cents, highlighting a 30% decline from the year-ago number.

Revenues in the third quarter totaled \$290.8 million, up 7.2% on a reported basis (up 7.5% at constant exchange rate or CER) year over year. The top line also beat the Zacks Consensus Estimate by 2.4%.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	2.54%
EPS Surprise	9.26%
Quarterly EPS	0.59
Annual EPS (TTM)	2.44

Geographical & Segmental Details

In the quarter under review, revenues at the U.S. Spinal Hardware business increased 9.5% year over year to \$160 million. The upside was driven by solid uptick in case volume and tangible growth in both the XLIF and ALIF franchises, led by continued adoption of NuVasive's X360 system.

Revenues in the U.S. Surgical Support business were \$71.9 million in the third quarter, down nearly 1% year over year. Within the Biologics segment, there was a 1% revenue decline from the year-ago quarter.

In the third quarter, the company registered international revenues of \$59 million, reflecting 13.4% year-over-year growth at CER. The EMEA region witnessed a solid uptick, driven by substantial contribution from the United Kingdom and Spain. This was offset by sluggish growth in Asia Pacific and Latin America.

Margin Details

In the reported quarter, gross profit improved 8.5% year over year to \$213.8 million. Gross profit margin expanded 85 basis points (bps) to 73.5%. Adjusted operating profit fell 2.8% from the year-ago period to \$14 million. Accordingly, adjusted operating margin contracted 50 bps to 4.8% in the quarter under review.

Operational Update

The company exited the third quarter of 2019 with cash and cash equivalents of \$163.4 million, compared with \$128.4 million at the end of the second quarter. Year to date, net cash provided by operating activities totaled \$160.6 million, compared with \$150.5 million a year ago.

Guidance for 2019

NuVasive currently projects revenues for 2019 at the high end of the previously-projected range of \$1.14-\$1.16 billion. The Zacks Consensus Estimate for 2019 revenues is pegged at \$1.15 billion, below the company's guidance. However, the company raised its 2019 adjusted earnings to \$2.35 to \$2.40, compared with the prior guidance of \$2.25 to \$2.35. The Zacks Consensus Estimate for this metric stands at \$2.32, below the guided range.

Recent News

On **Nov 21, 2019**, NuVasive attained U.S. Food and Drug Administration (FDA) 510(k) clearance for expanded indications for the CoRoent Small Interlock system.

Valuation

NuVasive shares are up 33.4% and up 62.6% in the past-six-month period and the trailing 12-month periods, respectively. Stocks in the Zacks subindustry are up 3.7% while the Zacks Medical sector is up 8.8% in the past six- month period. Over the past year, the subindustry is up 15.4% and sector is up 4.5%.

The S&P 500 index is up 12.3% in the past-six-month period and up 23.8% in the past year.

The stock is currently trading at 29.8X Forward 12-months earnings, which compares to 25.5X for the Zacks sub-industry, 21.8X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.3X and as low as 18X, with a 5-year median 29.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82 price target reflects 31.30x 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 F12M	Current	29.81	25.51	21.79	19.20
	5Year High	45.30	25.51	21.79	19.34
	5-Year Low	18.00	17.00	15.85	15.17
	5-Year Median	29.47	19.52	18.91	17.44
P/S F12M	Current	3.29	4.04	2.88	3.57
	5-Year High	3.68	4.04	3.82	3.57
	5-Year Low	1.95	2.87	2.43	2.54
	5-Year Median	2.78	3.21	2.94	3.00
P/B TTM	Current	4.64	3.19	4.58	4.50
	5-Year High	5.80	4.30	5.02	4.50
	5-Year Low	2.66	2.21	3.42	2.85
	5-Year Median	3.80	2.77	4.28	3.61

As of 1/17/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

CONMED Corporation (CNMD)	Neutral
Globus Medical, Inc. (GMED)	Neutral
Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	Neutral
ORTHOFIX MEDICAL INC. (OFIX)	Neutral
Smith & Nephew SNATS, Inc. (SNN)	Neutral
Stryker Corporation (SYK)	Neutral
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral

Industry Comparison Industry: Medical - Products				Industry Peers		
	NUVA Neutral	X Industry	S&P 500	JNJ Neutral	MDT Neutral	SYK Neutral
VGM Score	A	-	-	B	B	B
Market Cap	4.06 B	295.18 M	24.65 B	392.60 B	159.55 B	79.37 B
# of Analysts	10	2	13	8	13	16
Dividend Yield	0.00%	0.00%	1.73%	2.55%	1.81%	1.08%
Value Score	C	-	-	B	B	C
Cash/Price	0.04	0.08	0.04	0.05	0.07	0.03
EV/EBITDA	23.38	0.13	14.11	15.48	18.70	27.68
PEG Ratio	2.51	2.71	2.08	2.40	2.89	2.37
Price/Book (P/B)	4.64	4.26	3.39	6.74	3.15	6.45
Price/Cash Flow (P/CF)	15.07	20.43	13.81	13.68	16.38	22.67
P/E (F1)	30.04	26.43	19.19	16.42	21.25	23.50
Price/Sales (P/S)	3.55	5.46	2.69	4.80	5.16	5.46
Earnings Yield	3.33%	0.15%	5.21%	6.09%	4.70%	4.26%
Debt/Equity	0.79	0.10	0.72	0.46	0.49	0.64
Cash Flow (\$/share)	5.18	-0.00	6.94	10.90	7.27	9.36
Growth Score	A	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	25.76%	10.04%	10.56%	9.06%	6.06%	12.08%
Proj. EPS Growth (F1/F0)	9.64%	13.60%	7.57%	4.83%	7.30%	9.71%
Curr. Cash Flow Growth	10.27%	5.21%	14.73%	13.87%	6.26%	12.71%
Hist. Cash Flow Growth (3-5 yrs)	18.12%	9.81%	9.00%	7.92%	15.58%	12.74%
Current Ratio	3.68	2.78	1.24	1.26	2.77	2.18
Debt/Capital	44.07%	13.16%	42.99%	31.62%	32.80%	39.05%
Net Margin	4.15%	-15.64%	11.14%	21.09%	15.11%	23.55%
Return on Equity	14.93%	-6.74%	17.16%	39.81%	14.52%	25.33%
Sales/Assets	0.65	0.64	0.55	0.53	0.34	0.55
Proj. Sales Growth (F1/F0)	6.03%	11.86%	4.16%	4.28%	3.17%	7.07%
Momentum Score	A	-	-	B	B	A
Daily Price Chg	-1.59%	0.00%	0.27%	0.65%	0.14%	1.29%
1 Week Price Chg	3.36%	0.00%	0.39%	0.54%	4.18%	0.03%
4 Week Price Chg	2.24%	3.03%	2.95%	2.63%	4.88%	1.97%
12 Week Price Chg	18.32%	9.32%	7.76%	17.00%	13.05%	0.36%
52 Week Price Chg	66.60%	0.00%	22.29%	15.56%	35.88%	29.05%
20 Day Average Volume	396,567	131,322	1,536,375	5,324,063	3,533,057	1,128,271
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.20%	0.00%	0.00%	0.05%	0.00%	-0.04%
(F1) EPS Est 12 week change	1.90%	-1.59%	-0.40%	-0.43%	0.69%	0.11%
(Q1) EPS Est Mthly Chg	-0.34%	0.00%	0.00%	0.00%	-0.03%	0.26%

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	A
Momentum Score	A
VGM Score	A

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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