

NuVasive, Inc. (NUVA)

\$52.48 (As of 08/20/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

NuVasive exited second-quarter 2020 with narrower-than-expected loss per share. The X360 system's potential buoys optimism. NuVasive's plans to maintain its levels of R&D investment instills investor confidence. Product launches and FDA clearances for its products bode well. High potential in the spine market and potential in international business look impressive. Yet, lower-than-expected revenues and a significant fall in elective procedure volumes in the quarter due to the pandemic are concerning. Performance across geographies and segments were disappointing as well. Gross margin contraction and operating loss are also worrying. The company's inability to provide any annual guidance raises apprehensions. Weak solvency and pricing pressure are other dampeners. Over the past six months, NuVasive has underperformed its industry.

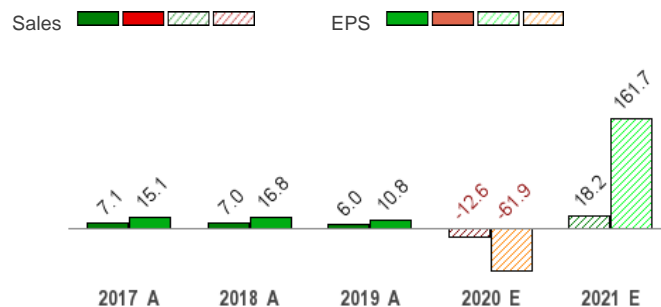
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.91 - \$28.55
20 Day Average Volume (sh)	848,852
Market Cap	\$2.7 B
YTD Price Change	-32.1%
Beta	1.36
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Bottom 27% (185 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.4%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	31.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	37.5
P/E F1	55.8
PEG F1	4.7
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	285 E	305 E	311 E	334 E	1,207 E
2020	260 A	204 A	256 E	299 E	1,021 E
2019	275 A	292 A	291 A	310 A	1,168 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.62 E	\$0.68 E	\$0.79 E	\$2.46 E
2020	\$0.48 A	-\$0.40 A	\$0.26 E	\$0.61 E	\$0.94 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 08/20/2020. The reports text is as of 08/21/2020.

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.

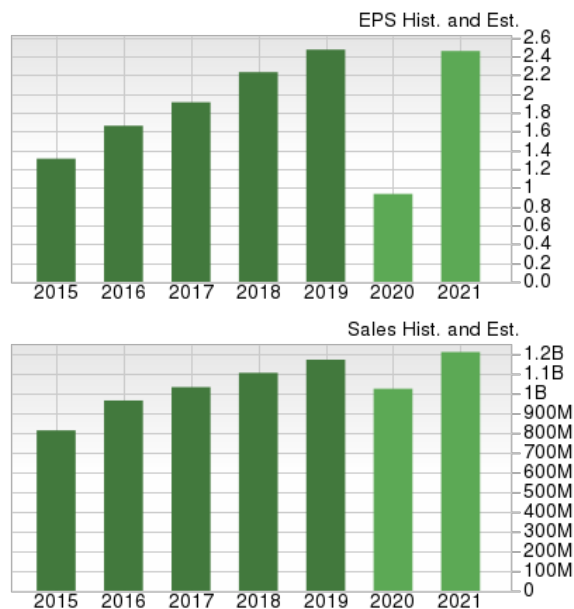
The principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (MAS). The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to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

- ▲ **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.

NuVasive's huge scope in Spine market, strong international and U.S. sales contributed to the overall growth.

The company, in July, launched its Time to Evolve campaign to help provide less invasive surgical techniques. NuVasive also expanded its complex spine portfolio with the global commercial availability of Reline 3D (a posterior fixation system for patients suffering from pediatric spinal deformities) in June.

In May, NuVasive's LessRay radiation reduction and workflow enhancement platform received a MedTech Breakthrough award. In the same month, the company announced the expansion of its Advanced Materials Science implant portfolio with the commercial launch of the Modulus XLIF Dual Sided Plate. NuVasive also received the FDA's 510(k) clearances for Modulus ALIF and Cohere transforaminal lumbar interbody fusion (TLIF)-O.

It is also on track to commercially launch an anterior cervical plate and posterior cervical fixation system to help treat degenerative trauma and deformity pathologies by the end of the year. Additionally, NuVasive will continue its momentum in transforming the TLIF market by entering into alpha launches for coherent TLIF O and TLIF A.

- ▲ **International Business Holds Potential:** According to NuVasive, the International region holds tremendous growth opportunity for the company. Despite the pandemic dragging down the international revenues in the reported quarter, the company registered solid performance in Australia, New Zealand, and parts of Northern Europe and Japan throughout the quarter.

Further, NuVasive's global operations continue to execute well. The company's efforts to address European Medical Device Regulation readiness included a pilot launch of a sterile packaging deployment process and obtaining an important regulatory certification.

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. . Despite the pandemic-led business debacle, the company witnessed volume improvement throughout the second quarter. Additionally, NuVasive Clinical Services continued to drive business and operational efficiencies during this time.

- ▲ **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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Reasons To Sell:

▼ **Share Price Movement:** Over the past six months, NuVasive has underperformed its industry. The stock has lost 28.4% compared with the industry's 4% loss. NuVasive exited the second quarter of 2020 with lower-than-expected revenues. NuVasive witnessed a significant fall in elective procedure volumes in the second quarter due to the pandemic. The company noted that the fall in procedure volumes in April (the hardest-hit month in the quarter), was in line with its expectation. The company performed disappointingly across geographies and segments.

The contraction in gross margin and operating loss is concerning as well. The company is unable to provide any annual guidance, which raises apprehensions. Consistent pricing pressure and a poor solvency structure are also discouraging. Macro-economic headwinds and a stiff competitive landscape 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 second quarter, U.S. Spinal Hardware business revenues declined 29% year over year. Revenues from the U.S. Surgical Support business were \$47.2 million in the second quarter year over year. In the quarter, the company's international revenues declined 25.7% at CER.

The company noted that it registered a temporary but significant impact on its business due to the pandemic as the major part of the company's business are considered elective. April was the hardest hit month, which was in line with the company's expectations. Further, new patient clinical volumes continue to be suppressed, creating uncertainty in the level of future volumes.

▼ **Poor Solvency Structure:** NuVasive exited second-quarter 2020 with cash and cash equivalents, and short-term marketable securities of \$927 million compared with \$512 million at the end of the first quarter of 2020. Meanwhile, total debt came up to \$1.55 billion, a significant increase from the sequentially-last-reported figure of \$1.11 billion. The reported quarter's total debt was much higher than the corresponding cash and cash equivalent, and short-term marketable securities level. However, if we go by the company's current-year debt level of \$647 million, this comes pretty low compared to the cash in hand. This is good news in terms of solvency position of the company, at least during the year of economic downturn, implying that the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, favorable as industry's total debt of \$9.81 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital ratio of 0.64 stands at a moderately high level right now. It represents a sequential rise from 0.56 in the first quarter and also stands highest over the past four quarters. This compares unfavorably with the total debt-to-capital ratio of the industry, which stands at a lower level of 0.37. The overall data concludes that in terms of solvency level of the company, the picture is quite discouraging.

On the other hand, the company's second-quarter interest coverage stands at a very low level of 0.9%, down from the sequentially-last quarter's 3%. This, also, compares unfavorably with the times interest earned for the industry which stands at a higher level (4.8%).

▼ **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.

Last Earnings Report

NuVasive's Q2 Earnings Beat Estimates, Revenues Miss

NuVasive delivered second-quarter 2020 adjusted loss per share of 40 cents, slipping from the year-ago earnings per share of 63 cents. However, the figure was narrower than the Zacks Consensus Estimate of a loss of 49 cents per share.

The one-time adjustments include expenses associated with certain ongoing litigation matters and amortization expenses.

GAAP loss per share came in at 98 cents, down from the year-ago earnings per share of 29 cents.

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

Total Revenues

Revenues in the second quarter totaled \$203.6 million, down 30.3% year over year on a reported basis (down 30.2% at CER). The top line lagged the Zacks Consensus Estimate by 0.3%.

Notably, total revenues were within the company's projection indicated in the preliminary results announced in July. The company noted that net sales exceeded the company's expectations due to an uptick in monthly volumes in June.

Geographical & Segmental Details

In the reported quarter, U.S. Spinal Hardware business revenues declined 29% year over year to \$113.8 million. The company noted that despite disappointing performance by the segment, its X360 system has been a key growth driver.

Revenues from the U.S. Surgical Support business were \$47.2 million in the second quarter, down 36.2% year over year. The business experienced a slowdown in volumes due to the pandemic and NuVasive clinical services payer mix dynamics.

In the quarter, the company registered international revenues of \$42.6 million, reflecting a 26.4% year-over-year fall on a reported basis and 25.7% fall at CER. This resulted from non-uniform impact of and recovery from the pandemic across geographies based on local response to the pandemic.

Margin Details

In the reported quarter, gross profit declined 42.6% year over year to \$123.1 million. Gross margin contracted 1298 basis points (bps) to 60.5%.

Selling, general and administrative expenses declined 17.3% year over year to \$126.4 million, whereas research and development expenses climbed 10.6% year over year to \$19.4 million.

Adjusted operating loss was \$22.7 million against the year-ago operating income of \$44.1 million.

Operational Update

The company exited the second quarter with cash and cash equivalents, and short-term marketable securities of \$926.8 million compared with \$511.9 million at the end of the first quarter.

Cumulative net cash provided by operating activities at the end of the second quarter was \$33.1 million compared with the prior-year period's \$93.4 million.

Guidance

NuVasive noted that it is currently not reinstituting its financial guidance for the year as the scope for spine surgery volumes for the remainder of the year continues to be limited. The company is also currently unable to predict the pace and time of recovery of the elective surgery volumes.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	-0.31%
EPS Surprise	18.37%
Quarterly EPS	-0.40
Annual EPS (TTM)	1.40

Recent News

NuVasive Launches Campaign to Enhance Patient Care in Spine Surgery: Jul 22, 2020

NuVasive launched its Time to Evolve campaign to equip surgeons and hospital systems with tools and resources to support their evolution to less invasive surgical techniques. This enhancement to patient care can be done in spine surgery by adopting NuVasive's less invasive approaches, training and comprehensive procedural portfolio.

NuVasive Expands Spine Portfolio: Jun 18, 2020

On Jun 18, 2020, NuVasive announced the expansion of its spine portfolio with the global commercial availability of Reline 3D, which is a posterior fixation system for patients suffering from pediatric spinal deformities.

Valuation

NuVasive shares are down 32.1% in the year-to date period and down 19.7% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 4.5% while the Zacks Medical sector rose 0.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.2% and sector is up 8.5%.

The S&P 500 index is up 5.1% in the year-to-date period and up 16.1% in the past year.

The stock is currently trading at 27.5X Forward 12-months earnings, which compares to 28.8X for the Zacks sub-industry, 22.3X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.2X and as low as 12.3X, with a 5-year median 28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 28.9X 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	27.54	28.80	22.28	22.83
	5-Year High	46.23	31.01	23.17	22.83
	5-Year Low	12.30	17.09	15.89	15.25
	5-Year Median	28.03	20.27	18.97	17.58
P/S F12M	Current	2.36	3.84	2.81	3.71
	5-Year High	3.68	3.92	3.41	3.71
	5-Year Low	1.37	2.90	2.22	2.53
	5-Year Median	2.79	3.29	2.89	3.05
P/B TTM	Current	3.01	3.06	3.77	4.55
	5-Year High	5.80	3.48	5.07	4.56
	5-Year Low	1.87	2.20	2.94	2.83
	5-Year Median	3.82	2.82	4.28	3.75

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 252)



Top Peers

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	NUVA	X Industry	S&P 500	JNJ	MDT	SYK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	C	C
Market Cap	2.69 B	328.44 M	23.46 B	398.66 B	134.71 B	70.42 B
# of Analysts	10	3	14	9	13	14
Dividend Yield	0.00%	0.00%	1.65%	2.67%	2.31%	1.22%
Value Score	B	-	-	B	C	C
Cash/Price	0.34	0.12	0.07	0.05	0.08	0.09
EV/EBITDA	9.67	-0.29	13.34	16.41	18.67	22.64
PEG Ratio	4.69	4.13	3.00	3.36	3.68	3.23
Price/Book (P/B)	3.01	3.36	3.12	6.33	2.64	5.52
Price/Cash Flow (P/CF)	9.53	17.94	12.60	13.14	15.15	17.94
P/E (F1)	56.03	38.87	21.61	19.29	28.48	29.87
Price/Sales (P/S)	2.53	5.28	2.44	4.95	4.66	5.00
Earnings Yield	1.79%	-1.33%	4.43%	5.18%	3.51%	3.35%
Debt/Equity	1.01	0.14	0.76	0.40	0.43	0.93
Cash Flow (\$/share)	5.51	-0.00	6.93	11.52	6.62	10.47
Growth Score	D	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	12.99%	10.79%	10.44%	8.66%	5.13%	10.79%
Proj. EPS Growth (F1/F0)	-62.15%	7.84%	-5.53%	-9.55%	-23.29%	-23.87%
Curr. Cash Flow Growth	7.60%	4.10%	5.20%	3.68%	-9.02%	11.85%
Hist. Cash Flow Growth (3-5 yrs)	19.11%	7.71%	8.52%	7.62%	7.68%	12.35%
Current Ratio	1.84	3.00	1.33	1.25	2.13	2.91
Debt/Capital	50.32%	14.85%	44.50%	28.47%	30.21%	48.08%
Net Margin	-0.36%	-25.78%	10.13%	22.69%	16.56%	11.38%
Return on Equity	8.33%	-15.62%	14.67%	35.21%	12.17%	20.53%
Sales/Assets	0.50	0.51	0.51	0.51	0.32	0.48
Proj. Sales Growth (F1/F0)	-12.55%	0.00%	-1.54%	-1.46%	-4.77%	-6.64%
Momentum Score	D	-	-	D	C	C
Daily Price Chg	-2.44%	0.00%	-0.59%	0.68%	-0.54%	0.95%
1 Week Price Chg	-1.06%	0.00%	1.09%	-0.24%	0.66%	-1.66%
4 Week Price Chg	-9.39%	-2.34%	1.91%	1.21%	3.84%	-3.74%
12 Week Price Chg	-14.53%	2.10%	6.82%	3.03%	2.18%	-3.83%
52 Week Price Chg	-19.66%	4.81%	1.47%	15.35%	-7.00%	-13.93%
20 Day Average Volume	848,852	269,494	1,873,576	5,162,891	4,165,135	1,181,435
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	3.11%	0.00%
(F1) EPS Est 4 week change	30.95%	1.30%	1.79%	0.00%	3.23%	0.65%
(F1) EPS Est 12 week change	30.87%	1.66%	3.35%	2.29%	-9.04%	1.43%
(Q1) EPS Est Mthly Chg	30.04%	0.00%	0.42%	0.00%	0.00%	-2.36%

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	B
Growth Score	D
Momentum Score	D
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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