

NuVasive, Inc. (NUVA)

\$49.85 (As of 03/30/20)

Price Target (6-12 Months): **\$52.00**

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:B

Value: B

Growth: A

Momentum: F

Summary

NuVasive witnessed solid revenue growth across its U.S. Spinal Hardware business on increased surgeon adoption of lateral single-position surgery and the X360 system. NuVasive is also gaining traction with the X360 system internationally. Robust sales figures in some of the key international markets buoy optimism. Continued momentum across several recently-launched products within the AMS portfolio is encouraging. Expansion of both margins also raises optimism. Revenue growth within U.S. Surgical Support and Biologics segments are also impressive. NuVasive put up a robust performance in the fourth quarter of 2019 with better-than-expected results. However, macroeconomic headwinds, pricing pressure and coronavirus outbreak have been dampeners. Over the past six months, NuVasive has underperformed its industry.

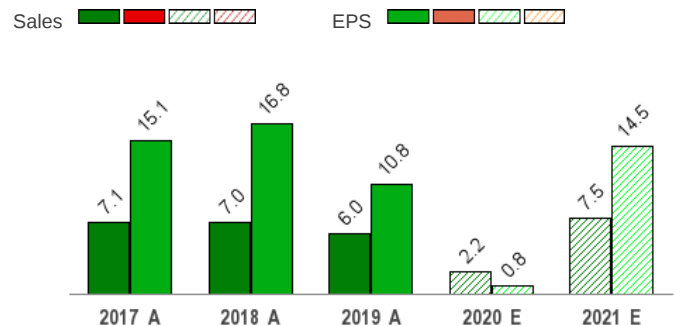
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.91 - \$28.55
20 Day Average Volume (sh)	1,567,053
Market Cap	\$2.6 B
YTD Price Change	-35.5%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 20% (52 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-4.3%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	20.1
P/E F1	20.0
PEG F1	1.7
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	305 E	325 E	322 E	344 E	1,284 E
2020	287 E	309 E	306 E	327 E	1,194 E
2019	275 A	292 A	291 A	310 A	1,168 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.77 E	\$0.59 E	\$0.66 E	\$0.68 E	\$2.85 E
2020	\$0.64 E	\$0.54 E	\$0.52 E	\$0.61 E	\$2.49 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 03/30/2020. The reports text is as of 03/31/2020.

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.

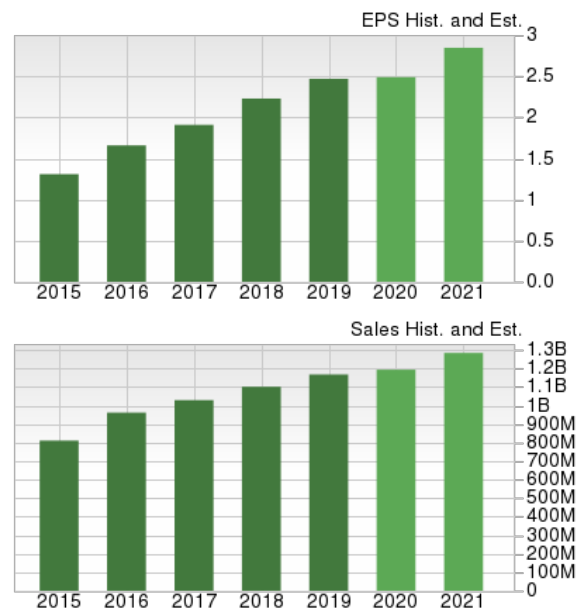
The principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (MAS). The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to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

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

Throughout the fourth quarter, 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 fourth quarter, the company's strong international performance was driven by revenues from Europe registering more than 20% year-over-year growth on a constant currency basis, backed by contributions across all geographies. The company also looks forward to continue expanding NuVasive spine, pediatric and specialized orthopedic portfolios in the region. The Asia-Pacific's performance met expectations, witnessing growth in high-single digits. On a constant currency basis, Latin America grew in mid-double digits, primarily led by strong growth in Brazil and Mexico.

▲ **Robust Performance by U.S. Surgical Support Business:** 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 fourth quarter, revenues from US Surgical Support climbed 2.7% year over year. This was attributed to NuVasive Clinical Service's billing and collections normalizing, leading to low-single-digit growth that met expectations.

▲ **New Strategies Buoy Optimism:** NuVasive has 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.

▲ **Stable Liquidity Position:** The company exited 2019 with cash and cash equivalents of \$213 million compared with the \$117.8 million at the end of 2018. Full-year net cash, provided by operating activities totaled \$235.3 million compared with the prior year's \$219.2 million.

Reasons To Sell:

- ▼ **Price Movement:** Over the past six months, NuVasive has underperformed its industry. The stock has lost 18.2%, in comparison with the industry's 14.5% loss. Consistent pricing pressure and macro-economic headwinds have been dampeners. Worldwide supply disruption and economic stagnation amid the global outbreak of coronavirus have driven the share price down.
- ▼ **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.

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 Q4

NuVasive delivered fourth-quarter 2019 adjusted earnings per share of 73 cents, reflecting a 5.8% improvement from the year-ago quarter. The figure also surpassed the Zacks Consensus Estimate by 15.9%. On a reported basis, earnings per share came in at 55 cents, highlighting a 139.1% surge from the year-ago number.

Full-year adjusted earnings came in at \$2.47, reflecting a 10.8% increase from the year-ago period. The figure exceeded the Zacks Consensus Estimate by 3.8%.

Revenues in the fourth quarter totaled \$310.4 million, up 7.6% on a reported basis (up 7.8% at constant exchange rate or CER), year on year. The top line also beat the Zacks Consensus Estimate by 2.1%.

Full-year revenues came in at \$1.17 billion, reflecting a 6% increase from the year-ago period (up 6.6% at CER), beating the Zacks Consensus Estimate of \$1.16 billion by a close margin.

Geographical & Segmental Details

In the reported quarter, the U.S. Spinal Hardware business revenues increased 7.9% year over year to \$268.9 million. This upside was driven by continued surgeon adoption of differentiated X360 system and Advanced Materials Science implants.

Revenues in the U.S. Surgical Support business were \$77.3 million in the fourth quarter, up 2.7% year over year. The Biologics business returned to growth in the fourth quarter, up 5% year over year.

In the December-end quarter, the company registered international revenues of \$64.1 million, reflecting 14.3% year-over-year growth at CER.

Margin Details

In the reported quarter, gross profit improved 12.3% year over year to \$227.1 million. Gross profit margin expanded 305 basis points (bps) to 73.2%. Adjusted operating profit improved 11% from the year-ago period to \$47.6 million. Accordingly, adjusted operating margin expanded 47 bps to 15.3% in the October-December quarter.

Operational Update

The company exited 2019 with cash and cash equivalents of \$213 million compared with the \$117.8 million at the end of 2018. Full-year net cash, provided by operating activities, totaled \$235.3 million compared with the prior year's \$219.2 million.

Guidance for 2020

NuVasive has issued its 2020 full-year guidance.

The company projects revenues to be up 4-6%. The Zacks Consensus Estimate for 2020 revenues is pegged at \$1.23 billion.

Adjusted earnings are expected in the band of \$2.55 to \$2.65. The Zacks Consensus Estimate for this metric stands at \$2.60.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	NA
EPS Surprise	15.87%
Quarterly EPS	0.73
Annual EPS (TTM)	2.48

Recent News

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

Valuation

NuVasive shares are down 35.5% in the year-to date period and down 10.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 16.6% while the Zacks Medical sector fell 12.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 14% and sector is down 12.3%.

The S&P 500 index is down 21.1% in the year-to-date period and fell 11.8% in the past year.

The stock is currently trading at 18.6X Forward 12-months earnings, which compares to 21.3X for the Zacks sub-industry, 18.2X for the Zacks sector and 15.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.7X and as low as 12.3X, with a 5-year median 28.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 19.4X 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	18.60	21.32	18.18	15.48
	5-Year High	43.70	25.36	21.09	19.34
	5-Year Low	12.30	17.01	15.81	15.18
	5-Year Median	28.56	19.63	18.70	17.44
P/S F12M	Current	2.08	3.34	2.44	2.75
	5-Year High	3.68	3.98	3.84	3.43
	5-Year Low	1.37	2.88	2.44	2.54
	5-Year Median	2.81	3.22	2.97	3.00
P/B TTM	Current	2.84	2.70	3.36	3.42
	5-Year High	5.80	4.30	5.05	4.55
	5-Year Low	1.87	2.18	2.84	2.85
	5-Year Median	3.83	2.77	4.30	3.63

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Top 20% (52 out of 254)



Top Peers

CONMED Corporation (CNMD)	Neutral
Globus Medical, Inc. (GMED)	Neutral
Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	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 - Products				Industry Peers		
	NUVA Neutral	X Industry	S&P 500	JNJ Neutral	MDT Neutral	SYK Neutral
VGM Score	B	-	-	C	C	D
Market Cap	2.60 B	284.95 M	18.21 B	350.66 B	123.36 B	61.08 B
# of Analysts	10	2	13	9	14	16
Dividend Yield	0.00%	0.00%	2.3%	2.86%	2.35%	1.41%
Value Score	B	-	-	C	C	C
Cash/Price	0.09	0.11	0.06	0.06	0.10	0.07
EV/EBITDA	11.17	0.56	11.22	14.52	14.67	20.03
PEG Ratio	1.70	2.53	1.74	2.24	2.32	2.31
Price/Book (P/B)	2.83	2.91	2.41	5.89	2.37	4.76
Price/Cash Flow (P/CF)	9.05	16.16	9.70	11.55	12.66	15.56
P/E (F1)	20.33	23.22	15.12	14.88	16.46	18.89
Price/Sales (P/S)	2.23	4.33	1.96	4.27	3.97	4.10
Earnings Yield	4.99%	0.00%	6.55%	6.72%	6.07%	5.30%
Debt/Equity	0.76	0.12	0.70	0.45	0.48	0.80
Cash Flow (\$/share)	5.51	-0.00	7.01	11.52	7.27	10.47
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	22.31%	11.68%	10.89%	9.27%	6.24%	12.31%
Proj. EPS Growth (F1/F0)	0.81%	7.78%	1.80%	2.97%	7.13%	4.43%
Curr. Cash Flow Growth	7.60%	3.15%	5.93%	3.68%	6.26%	11.85%
Hist. Cash Flow Growth (3-5 yrs)	19.11%	7.38%	8.55%	7.62%	15.58%	12.35%
Current Ratio	3.69	2.62	1.23	1.26	2.75	2.58
Debt/Capital	43.21%	15.45%	42.57%	30.82%	32.25%	44.41%
Net Margin	5.58%	-19.28%	11.64%	22.18%	17.11%	13.99%
Return on Equity	14.86%	-10.96%	16.74%	39.27%	14.76%	25.75%
Sales/Assets	0.64	0.62	0.54	0.53	0.34	0.55
Proj. Sales Growth (F1/F0)	2.20%	4.27%	2.08%	3.45%	2.15%	2.04%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	6.22%	0.94%	2.63%	8.00%	2.40%	2.35%
1 Week Price Chg	19.23%	9.24%	12.32%	2.73%	16.05%	14.23%
4 Week Price Chg	-24.04%	-15.59%	-18.22%	-5.01%	-10.30%	-17.37%
12 Week Price Chg	-35.47%	-18.44%	-23.36%	-7.70%	-19.88%	-23.21%
52 Week Price Chg	-10.84%	-19.40%	-17.22%	-4.30%	1.50%	-16.90%
20 Day Average Volume	1,567,053	232,882	4,211,236	16,433,990	10,274,407	3,693,135
(F1) EPS Est 1 week change	-4.27%	0.00%	-0.19%	-1.02%	-0.76%	-5.28%
(F1) EPS Est 4 week change	-4.27%	-0.06%	-3.07%	-1.02%	-0.76%	-5.27%
(F1) EPS Est 12 week change	-4.39%	-4.39%	-4.15%	-1.55%	-0.14%	-4.45%
(Q1) EPS Est Mthly Chg	-0.41%	0.00%	-2.28%	-0.37%	-2.89%	-5.19%

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	A
Momentum Score	F
VGM Score	B

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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