

Globus Medical

(NYSE:GMED)

Recommendation: Buy

COMPANY DATA

Price: \$53.74

Market Cap: \$5.25 B

Price/Earnings: 47.00x

Price Target: \$67.82

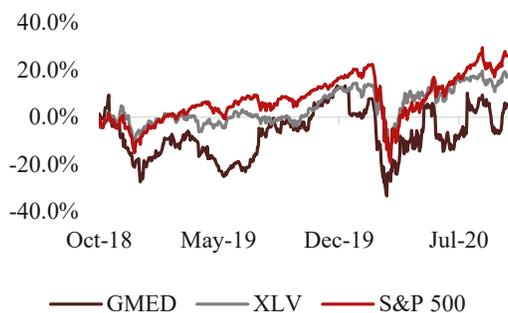
Upside: 26.20%

EV/EBITDA: 29.70x

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Two Year Relative Performance



Investment Thesis

We recommend a buy on Globus Medical (GMED) with a price target of \$67.82. Due to its placement in a niche industry, moat in surgical technologies, and newly diversified core business, we believe the company is an attractive investment and would be a strong addition to the portfolio.

Business Overview

Globus Medical is a United States based medical device company that focuses on musculoskeletal solutions. GMED sells directly to hospitals, ambulatory care centers, and physician offices. The company operates in two main segments, Musculoskeletal Solutions and Enabling Technologies. Musculoskeletal Solutions provides implantable devices, biologics, surgical instruments and more used in a variety of treatments., and the business primarily focuses on spinal products, with an increasing emphasis on trauma. These products have applications in minimally invasive surgeries (MIS) as well as open surgeries, resulting in many use cases. The second segment of the business is its Enabling Technologies division, with focus on advanced computer assisted systems designed to enhance surgeon capabilities. Their key product in this space is the ExcelsiusGPS platform, a robotic guidance and navigation process aiding in open and MIS surgeries. The company operates in 51 foreign countries whose combined sales made up 17.5% of total sales in 2019.

End Market Overview

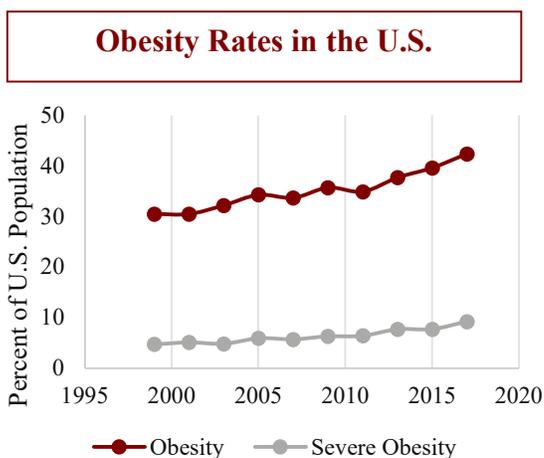
Globus’s primary end market consists of hospital systems worldwide. At a higher level, hospitals have drastically underperformed throughout the Coronavirus pandemic. With all resources diverted towards combating the virus and treating those that were ill, revenues have plummeted 67%, with the industry estimated to have lost over 35 billion dollars. Hospitals, which make up the majority of their revenue through elective procedures, have seen top-lines struggle as consumers have delayed or cancelled unnecessary procedures due to safety concerns and capacity constraints. However, as the United States and the rest of the world return to some resemblance of normalcy, patients have begun returning for elective procedures. Patient inflow rates in these areas have returned to approximately 85%, with a further pickup in demand expected as cancelled procedures are rescheduled for the latter half of the year.

Looking at the Musculoskeletal and surgery technology segments within healthcare, both industries are expected to

grow rapidly, with rates of 6.7% and 16.6% respectively. Musculoskeletal growth is driven primarily by an aging population, attractive surgery options, and earlier intervention leading to a larger patient population. Growth in surgical technology can be attributed to a demand for minimally invasive technology by consumers, the integration of modern technologies in hospitals and a desire from both hospitals and consumers to reduce patient and hospital costs in the long run.

Favorable Position in Niche Market Provides Competitive Advantage

The rate of adults with obesity has continued to increase over the past decade, with 1.9 billion adults classifying as overweight in 2018. Specifically within the U.S, the prevalence of obesity was 42.4% between 2017 and 2018. Furthermore, the COVID-19 pandemic has contributed to global food insecurity, which is expected to be a driver for increased obesity rates and chronic diseases. Obesity results in biomechanical changes that damage the spine and contribute to a range of spinal diseases. Approximately 25% of people show evidence of these biomechanical changes before the age of 40, and more than 60% of people show evidence of biomechanical changes, specifically disc degeneration between spinal vertebrae, beyond the age of 40. With these factors in mind, the increasing number of people requiring spinal implants and other operations creates a larger addressable market for Globus.



Key Players in Spinal Segment

Company	Artificial Disc	Fusion	MIS	Vertebroplasty/ Kyphoplasty	3D	Interbody Fusion	Robotics	Navigation
Aesculap	Y	Y	Y			Y		
Alphatec Spine		Y	Y			Y		
DePuy Synthes	Y	Y	Y	Y	Y	Y		Y
Globus Medical Pvt. Ltd.	Y	Y	Y	Y		Y	Y	Y
K2M	Y	Y	Y		Y	Y		
Medtronic	Y	Y	Y	Y	Y	Y	Y	Y
NuVasive	Y	Y	Y		Y	Y		Y
Orthofix	Y	Y	Y			Y		
Stryker		Y	Y	Y	Y	Y		Y
Zimmer Biomet	Y	Y	Y	Y	Y	Y	Y	

Globus Medical has entered the 3D spinal implants segment, allowing for the company to capture a larger market share.

These industry trends position the spinal implants and surgical devices market for long term growth. Globus Medical is expected to capture a large portion of this growth as it is highly specialized in the growing spinal implants and procedural devices market. Globus Medical has further increased revenue by expanding into the spinal navigation market with its ExcelsiusGPS. The new technology acts as a robotic surgical device that enhances precision with implants, allows for greater mobility, and enhanced imaging abilities. Complementing this, with the rise of the geriatric population, the number of patients with degenerative diseases will continue to rise, which drives further top line growth in this higher margin business segment.

On a hospital front, there has been a rise in the popularity of minimally invasive surgery, which allows for reduced recovery time for patients and decreased operating time for physicians. Globus’s specialization in the spinal and musculoskeletal market allows the company to gain a competitive advantage in comparison to more diversified competitors. The global spinal implants and surgical devices market is projected to reach \$13.8 billion by 2025 from \$10.3 billion in 2019, growing at a

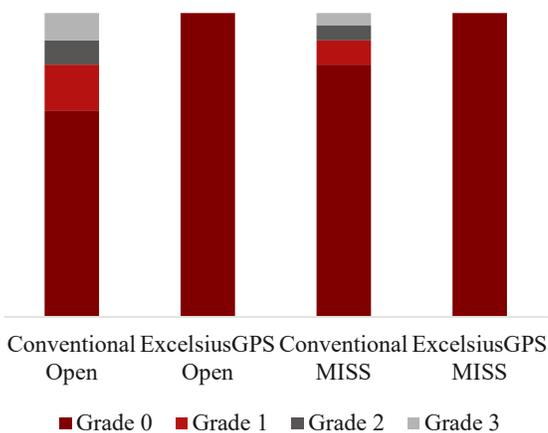
CAGR of 5%. Furthermore, the introduction of 3D printed, and custom fit spinal implants also offer large growth opportunities as the demand for technologically advanced products is increasing.

The global market for 3D printed surgical and medical instruments is expected to grow to \$5.7 billion by 2023 at a CAGR of 18.4% over the forecast period of 2018 to 2023. Specifically, the 3D printed orthotic and prosthetics market is predicted to reach \$264 million by 2023 at a CAGR of 11.8% over the forecast period. Globus Medical has entered the 3D implants segment with the production of spinal implants, such as the HEDRON IA, which is used for patients with degenerative disc disease and was recently used in its first surgical procedure. Globus’ emphasis on specialization in the market will allow the company to position itself as a leader in the segment and capitalize on growth opportunities.

Robust Footprint in Emerging Technologies Allows for Organic Growth Opportunities

Minimally invasive spine surgery is associated with limited dissection as compared to open surgical procedures and can result in decreased visualization; therefore, intraoperative fluoroscopy is essential for spinal surgeries. During surgery, an X-ray is placed in the body that transmits an image to a monitor so movement within the body can be seen in detail. However, the use of intraoperative fluoroscopy and other intraoperative imaging technologies are associated with the risk of significant radiation exposure to the patient and surgical staff. Radiation exposure can result in burns to the underlying skin and tissue as well as cancers. Although patients aren’t exposed for prolonged periods of time, those who require multiple surgeries are at greater risk, similarly, surgical staff that have continued exposure over their working life are more likely to see symptoms. In terms of procedures, fluoroscopy is used for 10 to 12 times longer in spinal surgery in contrast to non-spine orthopedic procedures. Thus, the adoption of robotic navigation in terms of minimally invasive surgeries is essential in the spinal segment.

Breaches by Technique



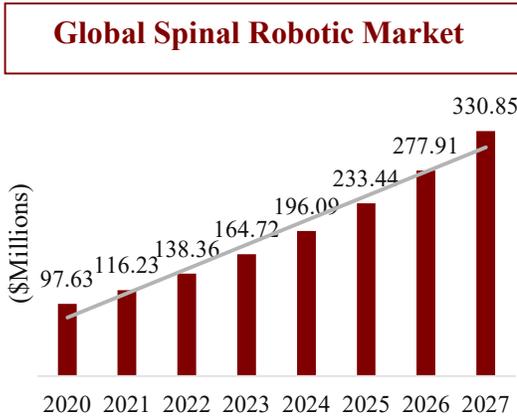
Grading System:

- Grade 0:** screw within cortex of pedicle of spine
- Grade 1:** screw thread breach of wall of pedicle of spine, less than 2 mm
- Grade 2:** significant breach, larger than 2 mm, with no neurological damage
- Grade 3:** complication including pedicle fracture, anterior breach with neuro-vascular compromise, and lateral or medial breach with neurological injury

Globus Medical has positioned itself to capture a large portion of market share with its ExcelsiusGPS, which is a robotic navigation system. Eliminating the need for fluorescence imaging during spinal procedures. Robotic surgeries provide benefit to the patient as they see faster recovery times. Likewise, surgical staff can perform a greater number of procedures in a day due to decreased operating time and increased efficiency in comparison to conventional open

procedures. This serves as an incentive for hospital investment in technology surrounding robotic surgery. Globus Medical’s ExcelsiusGPS allows surgeons to import CT images onto the device, predetermine the size and placement of spinal screws, and upload a surgical plan to the device revolving around specific patient anatomy and needs. During the procedure, the ExcelsiusGPS will guide a robotic arm along the predetermined plan allowing the surgeon to accurately place implants with minimal error. Additionally, the arm can be monitored with real time imaging throughout the span of the procedure.

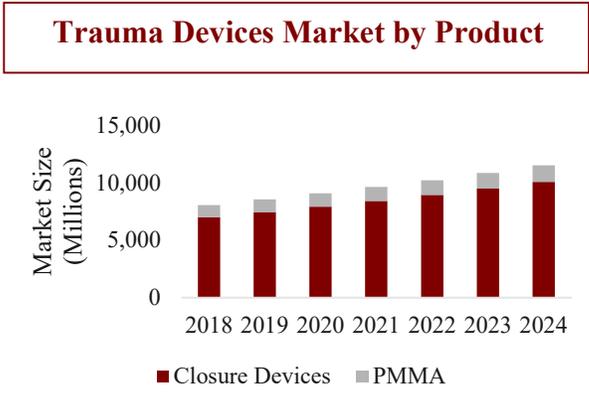
The minimally invasive tool allows for shorter hospital stays for the patients, less tissue damage, and smaller incisions. The ExcelsiusGPS eliminates the need for fluoroscopic imaging, thus eliminating radiation exposure during minimally invasive spinal surgery. The new technology offers a competitive advantage to hospitals that implement it and provides an incentive for surgeons to learn it. As robotic navigation is adopted by surgeons and implemented in teachings it will continue gaining traction. Furthermore, the surgical robotic technology market is expected to grow at a CAGR of 16% over the forecast period of 2020 to 2027. Globus Medical will see an increase in top-line growth, as radiation awareness rises, robotic navigation is implemented in teaching, and trends in minimally invasive surgery push for non-radiation imaging technology.



Entering Trauma Market to Diversify Business Model

When first incorporated, Globus’ primary focus was providing musculoskeletal solutions with an emphasis on spinal treatment. In 2018, the company began to build out its trauma solutions portfolio, looking to capitalize off the \$8 billion industry growing at a 6.2% CAGR. Since then, the company has been able to establish itself as a serious name in the largely segmented market, with growth rates of 400%, 150%, and 179% over the last three quarters.

Trauma solutions are designed to treat a wide variety of orthopedic fracture patterns across the body. Globus provides a diversified group of products focused on fracturing and nailing systems across extremities, hips, and other bony anatomy. In the span of a year and a half, the company has already developed products in the four largest segments of the industry and is expected to release another three products by years end in complementary business lines. The company primarily builds “closure devices”, which includes wires, nails, plates and more. Globus’ development of these closure devices



provides it with most of its exposure in the fastest growing trauma segment by product, growing at a rate of 6.6%. This is attributable to the higher product usage in treatments. The company plans on continuing to develop this segment and penetrate the market, while releasing new products in the PMMA (bone cement) segment as well to diversify their business model and further capitalize on higher margin implants.

Trauma Devices Market by Region			
Region	2018	2023	CAGR% 2018-2023
North America	2,709	3,602	5.9%
Europe	2,431	3,296	6.3%
Asia-Pacific	2,155	2,970	6.6%
Rest of the World	818	1,075	5.6%
Total	8,113	10,943	6.2%

Globus has been able to further differentiate itself from competitors by putting emphasis on building the international segment of this business, especially in Europe. The company acquired Synoste, a Finnish company with a focus on limb lengthening, while also hiring salespeople at a record pace to complement existing products and new products expected to be commercialized by the end of the year. Similarly, to the United States, the European trauma market is driven by an aging population, higher incidence of orthopedic disease, and increases in road accidents. With a CAGR of 6.3% its growth slightly outpaces the U.S but provides marginally more potential for market penetration as many of the large medical device companies have not truly entrenched themselves. Globus looks to continue gaining market share both domestically and abroad by leveraging relationships through its spinal treatment business and continuing to build a multifaceted portfolio in a new business segment. Its sales footprint has doubled from a year ago and is expected to double again by 2021.

Catalysts

Globus is set to benefit significantly from continued product line expansion, especially within its Enabling Technologies businesses as well as Trauma. If a large product development was announced and approved by the FDA in either of these areas, the company would be able to capitalize off its existing presence and strong brand name. Additionally, Globus produces medical devices in a niche market. Therefore, if the company announces patents on an array of new medical devices, it would be able to expand sales revenue due to an advantage against diversified competitors in the industry. Furthermore, much of the learning curve with innovative technological solutions would be overcome with the incorporation of new technologies in traditional medical curriculums. If medical training programs were to implement robotic navigation systems into their curriculums, Globus would see a growth in ExcelsiusGPS sales as surgeons are equipped with knowledge on device usage, increasing the incentive for hospital investment in the technology.

Risks

1. Pricing Pressure from Competitors

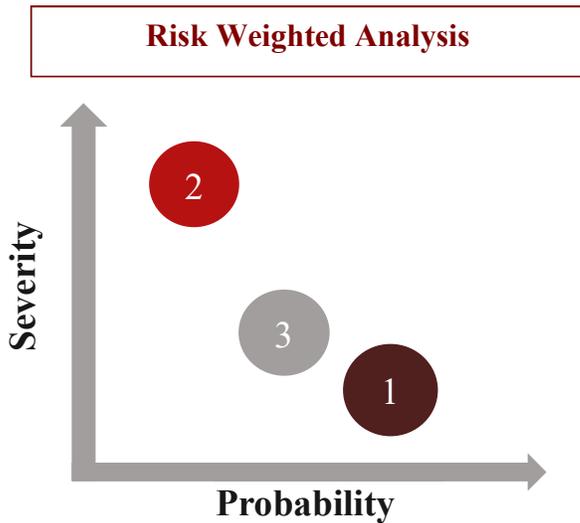
Pricing Pressure Brought on by Competitors: While operating in a distinct segment of the orthopedic market, there exists competitive pricing pressure from the large medical device manufacturers. Should these companies begin to develop products in Globus’s niche industry, the company will likely be forced to lower prices to compete with the new industry players.

2. Resistance to New Technologies

With surgeons and other higher-level healthcare professionals requiring extensive years of training, the distribution of ages for physicians is skewed to the right. With this older age could come a reliance on older systems and less technologically innovative practices. This includes both GMED’s Enabling Technologies business, as well as minimally invasive surgery techniques. If these surgeons and healthcare workers are less prone to adopting new technology and practices, Globus could see an impact on its top line growth.

3. Renewal of the Affordable Care Act Medical Device Tax

Implemented in 2010, the ACA medical device tax imposed an excise tax on manufacturers and distributors based on the selling price of the device. As a result of the initial implementation, prices on devices rose while R&D declined, ultimately impacting sales and the development of new technologies. Since the tax went on hold, we have seen a reversal of these trends, but if the tax were to be reinstated, margins could potentially compress, and prices return to an elevated level. The bill is up for debate in both the house and senate, with a verdict coming potentially after the election.



Legend:

- 1. Pricing Pressure from Competitors
- 2. Resistance to New Technologies
- 3. Renewal of the Affordable Care Act Medical Device Tax

Competitors

Company Name	Market Cap	P/E	EV/EBITDA	Net Debt/EBITDA	ROIC	ROE	Gross Margin
Globus Medical	5.36B	41.72x	25.91x	-4.06x	5.67%	6.78%	75.26%
Nuvasive Inc	2.69B	208.42x	17.62x	2.68x	2.31%	-0.44%	72.10%
Wright Medical Grou	3.96B	N/A	78.55x	17.43x	-2.88%	-15.35%	79.70%
Orthofix Medical Inc	0.66B	N/A	N/A	N/A	-4.12%	-6.23%	76.68%
Tier 1 Competitors	2.44B	208.42x	48.09x	10.06x	-1.56%	-7.34%	76.16%
Medtronic PLC	145.84B	33.45x	21.31x	2.30x	5.92%	8.77%	67.45%
Stryker Corp	82.97B	30.46x	20.21x	1.82x	7.32%	12.97%	65.16%
Zimmer Biomet Hold	29.40B	34.64x	31.93x	7.44x	0.93%	0.32%	71.19%
Smith & Nephew PLU	16.94B	N/A	N/A	2.50x	5.85%	7.89%	73.67%
Integra Life Sciences	4.03B	37.8x	24.12x	5.97x	0.58%	-0.25%	68.06%
Intuitive Surgical Inc	86.53B	87.55x	45.11x	-3.20x	10.75%	12.35%	70.03%
Alphatec Holdings In	0.77B	N/A	N/A	N/A	-57.28%	-413.09%	71.78%
Tier 2 Mean	52.35B	44.78x	28.54x	2.81x	5.23%	7.01%	69.62%

Valuation

Free Cash Flow Buildup	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/29/20	12/28/21	12/27/22	12/26/23	12/24/24
EBIT	154	162	169	172	28	135	190	227	252
Income Tax Expense	53	63	32	35	4	26	38	45	51
EBIAT	101	99	137	137	24	109	152	181	201
Add: Depreciation and Amortization	39	42	42	53	52	49	54	64	76
Less: Changes in Working Capital	35	3	37	79	(8)	(2)	20	19	42
Less: Capital Expenditures	41	51	60	71	62	74	84	94	105
Unlevered Free Cash Flow	64	87	82	40	7	82	102	133	130
Time Until Cash Flow					0.50	1.50	2.50	3.50	4.50
Present Value of FCF					7	71	80	96	85

Exit EBITDA multiple approach	
Terminal year EBITDA	328
Terminal value EBITDA multiple	29.70x
Terminal value	9,730
Present value of terminal value	6,385
Present value of stage 1 cash flows	339
Enterprise value	6,725

Valuation	
Enterprise Value	6,725
Less: Net Debt	(193)
Equity Value	6,918
Diluted Shares Outstanding	102
Equity Value Per Share	\$ 67.83
Implied Upside	26.2%

WACC	
WACC	9.8%
Beta	0.98
Risk Free Rate	0.8%
ERM	10.0%
Market Value of Equity	5,481
Weight of Equity	100.0%
Cost of Equity	9.8%
WA Interest rate	3.4%
Tax Rate	21%
Value of Debt	2
Weight of Debt	0.0%
Cost of Debt	2.7%
Calculated WACC	9.8%
Bloomberg WACC	7.6%

Sensitivity Tab

EV Multiple Approach

	27.0x	27.5x	28.0x	28.5x	29.0x	29.5x	30.0x	30.5x	31.0x	31.5x	32.0x	32.5x	33.0x
9.0%	19%	21%	23%	25%	27%	29%	32%	34%	36%	38%	40%	42%	44%
9.2%	18%	20%	22%	24%	26%	28%	30%	33%	35%	37%	39%	41%	43%
9.4%	17%	19%	21%	23%	25%	27%	29%	31%	33%	35%	37%	39%	41%
9.6%	17%	19%	21%	23%	24%	26%	28%	30%	32%	34%	36%	38%	40%
9.8%	16%	18%	20%	22%	24%	25%	27%	29%	31%	33%	35%	37%	39%
10.0%	15%	17%	19%	21%	23%	25%	26%	28%	30%	32%	34%	36%	38%
10.2%	14%	16%	18%	20%	22%	24%	25%	27%	29%	31%	33%	35%	37%
10.4%	13%	15%	17%	19%	21%	23%	24%	26%	28%	30%	32%	34%	36%
10.6%	12%	14%	16%	18%	20%	22%	24%	25%	27%	29%	31%	33%	35%