

## Globus Medical

## Integration still the focus; positive EBITDA surprise for 2024

Reiterate Rating: UNDERPERFORM | PO: 55.00 USD | Price: 54.16 USD

## Q4 rev slightly ahead of preannounce; EPS 3% beat

GMED's Q4 revenue of \$616.5m came in slightly ahead of its preannounced range. Q4 EPS of \$0.60 beat the Street by 2c or 3%. GMED reaffirmed its 2024 revenue (\$2.450-2.475bn) and EPS (\$2.68-2.70) guidance. The guide implies ~\$730m of EBITDA (29-30% of sales) in 2024, ~5% better than the Street (\$696m) which should be viewed as a positive surprise. The NuVasive integration appears to be progressing well, but GMED acknowledged that it's still early days and steady state will not come until 2H24. Importantly, we learned that GMED's sales guidance includes \$150m of revenue dis-synergies a step up from the \$100m year 1 dis-synergies discussed in the S-4. Given the early stage of the integration, the increased revenue dis-synergies and full visibility not likely until 2H, we continue to see risk to 2024 numbers. That said, GMED's discounted valuation multiple and the \$275m left on its share buyback authorization may help limit downside. We reiterate our Underperform as we expect GMED to underperform peers in the near-term. We maintain our \$55 PO but roll forward our multiple to 10x 2025E EV/EBITDA (9.5x 2024E EV/EBITDA previously) as sector valuations have moved higher.

## GMED expects \$150m of rev dis-synergies in 2024

GMED's 2024 revenue guide implies 2-3% growth over 2023 pro forma GMED/NuVasive revenue of \$2.396bn. Included in guidance is \$150m of revenue dis-synergies. Adjusting for the \$150m, pro forma 2024 growth would be ~9%. It is hard to know if GMED is simply being conservative or if management saw something early in the integration. GMED expects to offset a portion of the \$150m with cross-selling synergies or other potential growth, but management did not quantify or provide any other detail.

## Other 2024 P&amp;L guidance

Other 2024 P&L guidance includes: GM in mid to upper 60s higher than Q4 (65.5%) lower freight and warehousing expenses; SG&A as a percentage of sales is expected to be 100-200bps better than 40.9% in 2023; and R&D is expected to be 7.5%-8.0%. Interest expense is expected to be \$12-15m, a big swing from \$20m of interest income in 2023 due to less cash and convert interest. Diluted shares should be ~140 million in 2024 which we believe assumes some level of share buyback. GMED bought back \$226m of stock (~4m shares) in Q4 at an average price of \$52.11 per share. We raise our 2024 revenue to \$2.448bn (from \$2.443bn) and EPS to \$2.69 (from \$2.65).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.06	2.32	2.69	3.10	3.46
EPS Change (YoY)	1.5%	12.6%	15.9%	15.2%	11.6%
Consensus EPS (Bloomberg)			2.69	3.31	4.11
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.3x	23.3x	20.1x	17.5x	15.7x
EV / EBITDA*	17.4x	12.7x	8.2x	7.2x	6.5x
Free Cash Flow Yield*	1.6%	2.6%	9.3%	8.6%	10.2%

\* For full definitions of *IQmethod™* measures, see page 4.

21 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,443.2	2,447.4
2025E Rev (m)	2,624.0	2,615.6
2026E Rev (m)	NA	2,788.1
2024E EPS	2.65	2.69
2025E EPS	3.01	3.10
2026E EPS	NA	3.46

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## Stock Data

Price	54.16 USD
Price Objective	55.00 USD
Date Established	25-Oct-2023
Investment Opinion	B-3-9
52-Week Range	43.39 USD - 62.88 USD
Mrkt Val (mn) / Shares Out (mn)	6,400 USD / 118.2
Free Float	99.2%
Average Daily Value (mn)	65.15 USD
BofA Ticker / Exchange	GMED / NYS
Bloomberg / Reuters	GMED US / GMED.N
ROE (2024E)	8.9%
Net Dbt to Eqty (Dec-2023A)	-11.7%
ESGMeter™	Medium

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Timestamp: 21 February 2024 03:43AM EST

# iQprofile<sup>SM</sup> Globus Medical

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.3%	8.9%	9.2%	9.6%	9.7%
Return on Equity	11.8%	9.1%	8.9%	9.2%	9.2%
Operating Margin	25.0%	20.8%	20.5%	22.2%	23.3%
Free Cash Flow	104	165	598	553	655

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	0.9x	1.9x	1.5x	1.6x
Asset Replacement Ratio	1.0x	0.7x	0.6x	0.6x	0.6x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-8.1%	-11.7%	-24.5%	-33.6%	-42.2%
Interest Cover	17.9x	16.2x	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,023	1,568	2,447	2,616	2,788
% Change	6.8%	53.3%	56.0%	6.9%	6.6%
Gross Profit	760	1,092	1,660	1,786	1,913
% Change	5.6%	43.6%	52.0%	7.6%	7.1%
EBITDA	339	464	720	820	912
% Change	2.9%	36.8%	55.2%	13.9%	11.2%
Net Interest & Other Income	15	19	(13)	(13)	(13)
<b>Net Income (Adjusted)</b>	<b>212</b>	<b>267</b>	<b>376</b>	<b>436</b>	<b>489</b>
<b>% Change</b>	<b>0.4%</b>	<b>26.0%</b>	<b>41.2%</b>	<b>15.8%</b>	<b>12.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	211	266	376	436	489
Depreciation & Amortization	76	117	182	195	207
Change in Working Capital	(105)	(117)	2	(118)	(85)
Deferred Taxation Charge	(22)	(58)	0	0	0
Other Adjustments, Net	18	35	149	158	169
Capital Expenditure	(74)	(78)	(110)	(118)	(125)
<b>Free Cash Flow</b>	<b>104</b>	<b>165</b>	<b>598</b>	<b>553</b>	<b>655</b>
<b>% Change</b>	<b>-52.4%</b>	<b>58.2%</b>	<b>262.1%</b>	<b>-7.6%</b>	<b>18.5%</b>
Share / Issue Repurchase	(144)	(226)	(50)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	150	467	1,096	1,689	2,384
Trade Receivables	213	503	529	564	602
Other Current Assets	620	945	925	1,015	1,066
Property, Plant & Equipment	244	587	553	508	453
Other Non-Current Assets	849	2,584	2,471	2,359	2,246
<b>Total Assets</b>	<b>2,076</b>	<b>5,086</b>	<b>5,574</b>	<b>6,135</b>	<b>6,751</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	159	392	400	407	411
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	71	696	696	696	696
<b>Total Liabilities</b>	<b>230</b>	<b>1,088</b>	<b>1,096</b>	<b>1,103</b>	<b>1,107</b>
<b>Total Equity</b>	<b>1,846</b>	<b>3,998</b>	<b>4,478</b>	<b>5,032</b>	<b>5,644</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,076</b>	<b>5,086</b>	<b>5,574</b>	<b>6,135</b>	<b>6,751</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Medical Technology

## Company Description

Globus is a rapidly growing medical device company focused exclusively on the development and commercialization of products for the treatment of spine disorders

## Investment Rationale

We see risk to GMED's sales estimates based on potential dis-synergies from the NUVA acquisition. We see limited upside potential in the stock until we get more details on GMED's integration plan and we expect shares to underperform relative to our coverage universe.

## Stock Data

Average Daily Volume 1,203,002

## Quarterly Earnings Estimates

	2023	2024
Q1	0.53A	0.55E
Q2	0.63A	0.63E
Q3	0.57A	0.69E
Q4	0.60A	0.82E

## Price objective basis & risk

### Globus Medical (GMED)

Our PO of \$55 is based on 10x 2025 EV/EBITDA which is a discount to SMID cap peers. We believe GMED should trade at a discount to peers because of the potential of sales disruption from the integration of the acquisition of NuVasive. Upside risks to our PO would be less disruptive integration, more cost synergies than expected or better than expected cross selling. Downside risks include sales disruption from the NuVasive integration, increased competition in the spine market and less than expected annual margin expansion.

## Analyst Certification

I, Craig Bijou, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
<b>NEUTRAL</b>				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
<b>UNDERPERFORM</b>				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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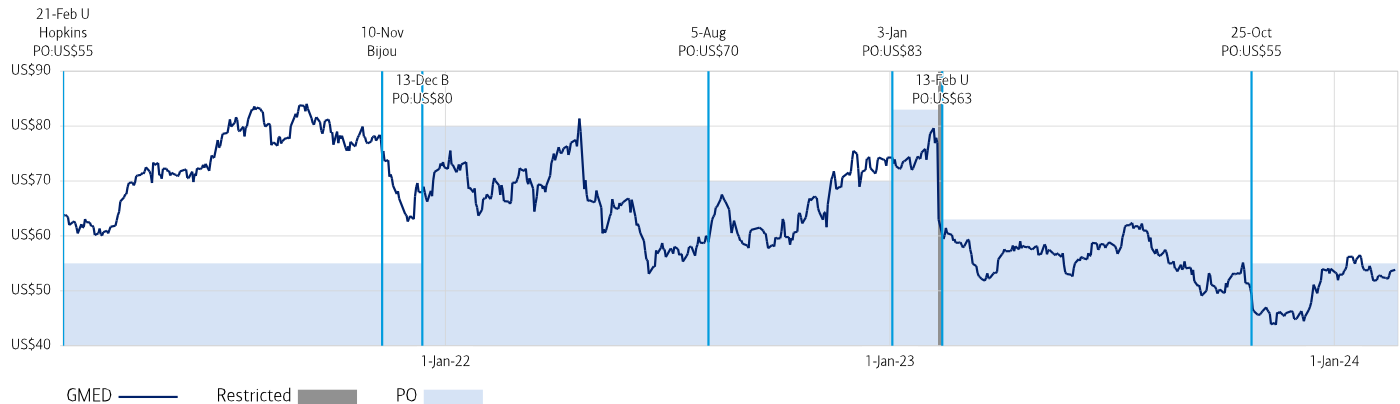
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### Globus Medical (GMED) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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