

Globus Medical

Preannounced Q4: Legacy GMED drives beat

Reiterate Rating: UNDERPERFORM | PO: 55.00 USD | Price: 54.40 USD

Q4 revenue 3% beat on legacy GMED strength

GMED preannounced Q4 revenue of \$616m, 3% better than the Street (\$601m). On a pro forma basis (includes NuVasive in prior year period), Q4 revenue growth was +6% y/y. Legacy GMED Q4 revenue was \$303m (+10%) another strong double-digit growth quarter although GMED did not talk about what drove the strong results. Implied legacy NuVasive Q4 revenue was \$313m, only +2% y/y, although GMED said that this sluggish growth was expected. GMED did not provide any detail below revenue. We adjust our model for the preannouncement.

2024 rev guidance inline; EPS slightly lower than Street

GMED established initial 2024 revenue guidance of \$2.450-2.475bn which was in line with consensus (\$2.470bn). We believe guidance implies only 2-3% revenue growth over GMED's 2023 pro forma revenue was \$2.392bn (GMED's previous pf estimate of \$2.377bn + \$15m Q4 beat). The guide likely assumes some level of net dis-synergies although GMED did not disclose. In the deal filings, we think GMED assumes \$70m in net dis-synergies in year 1 which represents a 3% headwind to growth.

Initial 2024 EPS guidance of \$2.68-2.70 was 2c below the Street (\$2.72), but higher than the \$2.59 we modeled. We think GMED's 2024 guidance may assume some deal accretion and/or could reflect a share buyback (GMED increased its buyback authorization to \$500m at deal close) but we likely will not know the details until mid-February. Our math suggests the EPS guide implies a ~29% EBITDA margin in 2024.

Integration to plan so far, but no change to our thesis

GMED's message is that the integration is on plan and possibly going a little better than expected. In our view, however, the integration is still at an early stage and uncertainty remains. It could be months before sales disruptions materialize as reps need time to digest new roles/territories/expectations as part of the combined organization. We do not expect GMED to have clarity/visibility until well into 2024. The discounted multiple and strong Q4 results likely limits downside for now but we continue to see risk to 2024 numbers until we feel comfortable that the sales organizations of the companies have been fully integrated and any disruptions fully captured in estimates. We reiterate our Underperform and our \$55 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.03	2.06	2.32	2.65	3.01
EPS Change (YoY)	41.0%	1.5%	12.6%	14.2%	13.6%
Consensus EPS (Bloomberg)			2.30	2.71	3.31
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.8x	26.4x	23.4x	20.5x	18.1x
EV / EBITDA*	24.1x	23.5x	17.2x	11.4x	10.1x
Free Cash Flow Yield*	2.9%	1.4%	1.6%	7.2%	6.7%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 10 January 2024 10:32PM EST

10 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	1,550.1	1,568.4
2024E Rev (m)	2,427.8	2,443.2
2025E Rev (m)	2,607.0	2,624.0
2023E EPS	2.30	2.32
2024E EPS	2.59	2.65
2025E EPS	2.99	3.01

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Stock Data

Price	54.40 USD
Price Objective	55.00 USD
Date Established	25-Oct-2023
Investment Opinion	B-3-9
52-Week Range	43.39 USD - 80.04 USD
Mrkt Val (mn) / Shares Out (mn)	7,670 USD / 141.0
Free Float	99.2%
Average Daily Value (mn)	66.51 USD
BofA Ticker / Exchange	GMED / NYS
Bloomberg / Reuters	GMED US / GMED.N
ROE (2023E)	8.7%
Net Dbt to Eqty (Dec-2022A)	-8.1%
ESGMeter TM	Medium

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iQprofileSM Globus Medical

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.3%	12.3%	8.4%	8.0%	8.3%
Return on Equity	13.0%	11.8%	8.7%	8.2%	8.4%
Operating Margin	26.0%	25.0%	20.8%	19.2%	20.5%
Free Cash Flow	219	104	122	555	516

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	0.8x	0.8x	1.8x	1.5x
Asset Replacement Ratio	0.8x	1.0x	0.8x	0.7x	0.7x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-11.1%	-8.1%	-7.5%	-19.3%	-27.7%
Interest Cover	27.0x	17.9x	12.2x	26.2x	29.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	958	1,023	1,568	2,443	2,624
% Change	21.4%	6.8%	53.3%	55.8%	7.4%
Gross Profit	720	760	1,095	1,628	1,774
% Change	26.0%	5.6%	44.0%	48.6%	9.0%
EBITDA	330	339	463	699	790
% Change	42.3%	2.9%	36.5%	51.1%	13.0%
Net Interest & Other Income	8	15	22	18	18
Net Income (Adjusted)	211	212	267	375	428
% Change	46.0%	0.4%	26.1%	40.4%	14.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	210	211	267	375	428
Depreciation & Amortization	71	76	117	182	195
Change in Working Capital	(17)	(105)	(159)	29	(75)
Deferred Taxation Charge	(18)	(22)	(46)	0	0
Other Adjustments, Net	30	18	33	104	112
Capital Expenditure	(57)	(74)	(90)	(134)	(144)
Free Cash Flow	219	104	122	555	516
% Change	62.3%	-52.4%	17.0%	354.2%	-7.0%
Share / Issue Repurchase	0	(144)	0	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)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	193	150	322	924	1,481
Trade Receivables	164	213	527	522	561
Other Current Assets	507	620	1,203	1,177	1,217
Property, Plant & Equipment	221	244	603	585	561
Other Non-Current Assets	872	849	2,818	2,763	2,708
Total Assets	1,957	2,076	5,472	5,971	6,527
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	140	159	434	431	435
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	76	71	740	740	740
Total Liabilities	216	230	1,174	1,171	1,175
Total Equity	1,741	1,846	4,299	4,800	5,352
Total Equity & Liabilities	1,957	2,076	5,472	5,971	6,527

* For full definitions of iQmethodSM measures, see page 5.

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 1,222,520

Quarterly Earnings Estimates

	2022	2023
Q1	0.42A	0.53A
Q2	0.56A	0.63A
Q3	0.50A	0.57A
Q4	0.59A	0.59E



Price objective basis & risk

Globus Medical (GMED)

Our PO of \$55 is based on 9.5x 2024 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.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	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
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embeca	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

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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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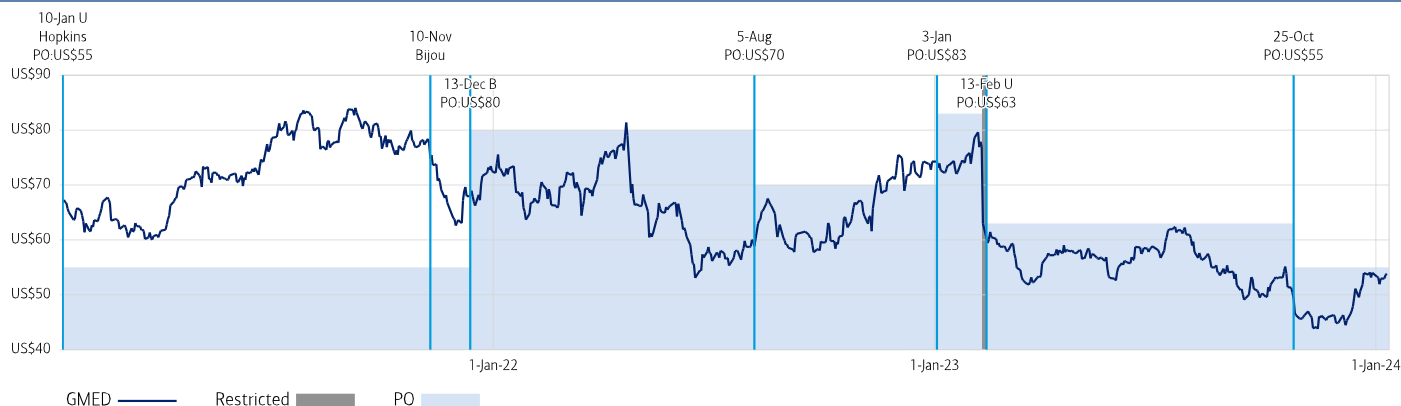
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Globus Medical (GMED) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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