

**Exactech, Inc.**  
NASDAQ:EXAC

**Analyst:** Audrey Barrucand  
**Sector:** Healthcare

**BUY**

Price Target: \$32

## Key Statistics as of 12/02/16

Market Price: \$25.40  
Industry: Orthopedic Devices  
Market Cap: \$357.1 M  
52-Week Range: \$16.59 - \$28.66  
Beta: 0.72

## Catalysts:

- **Short-term:** currently pending FDA approvals
- **Mid and Long-term:** new product launches and increase in current inventory levels and sales

## Company Description:

Exactech develops, manufactures, markets, distributes, and sells orthopedic devices used in the reconstruction or replacement of joints, deteriorated by injuries or diseases such as arthritis. Leading products include devices used for knees, hips, shoulders, spines, and various extremities. Additionally, Exactech provides biologic allograft services to physicians and hospitals in the United States and the rest of the world. Exactech was founded in 1985 by orthopedic surgeon Bill Petty, MD, his wife Betty Petty, and biomedical engineer Gary Miller, PhD.



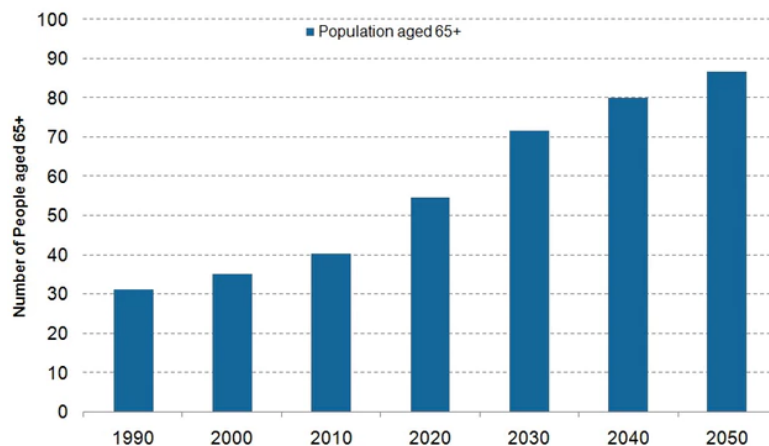
## Thesis

- The orthopedic industry is expected to grow significantly in the next 8 years.
- Exactech has been experiencing double digit sales growth for a few years.
- Exactech is launching new products expected to reach the market in 2017, and is using its cash to support the launches.

## Industry Outlook

The orthopedic industry is expected to grow significantly over the next years and reach \$43.1B by 2024 from the 2015 market value of \$29.7B, according to Grand View Research. The biggest drivers of the industry being injuries and diseases, the expected growth and increasing demand for orthopedic surgeries come from the increase in road accidents and sports injuries, and the growing prevalence of orthopedic conditions, such as osteoarthritis and osteoporosis. The products now available in this industry are made of new materials that lead to a higher success rate of surgeries, meaning higher demand. Additionally, the aging population in most of the world, especially in the US requires more hip replacement surgeries, due to more frequent hip fractures.

US elderly Population Statistics



As for geography, in 2012, the United States dominated the world market, followed by Europe. Looking at 2015, the trend remains with 51.4% of the market in the United States. Additionally, there are plenty of opportunities for Asia Pacific to rapidly expand its market due to its surge in population, rapid industrialization, and rising obesity and bone disorders. China and India are predicted to account for the biggest geriatric population pool worldwide by 2024, therefore aiding in an expected market CAGR of 8.6%.

## People

Exactech has been experiencing stable leadership for over 30 years. The company was founded by William Petty, MD, Executive Chairman and Chairman of the Board, by Gary Miller, PhD, Executive Vice President of Research and Development, and by Betty Petty, Vice President of Administration and Corporate Secretary. Dr. Petty is a former orthopedic surgeon and University Professor, and was given an award for Outstanding Research for his book, *Total Joint Replacement*. Dr. Miller is a former University Professor and used to be a consultant to the FDA and to companies such as Johnson & Johnson.

The company's CEO is David Petty, the son of founders Dr. and Ms. Petty. Mr. Petty has been working at Exactech since 1988 and has held various positions in operations, and sales and marketing, before becoming President of the company in 2007 and CEO in 2014. The company's CFO is Joel Phillips, CPA. Mr. Phillips previously held positions in accounting and Management Information Systems. He has been Exactech's CFO for 18 years. This leadership has allowed for the company to grow for 31 years.

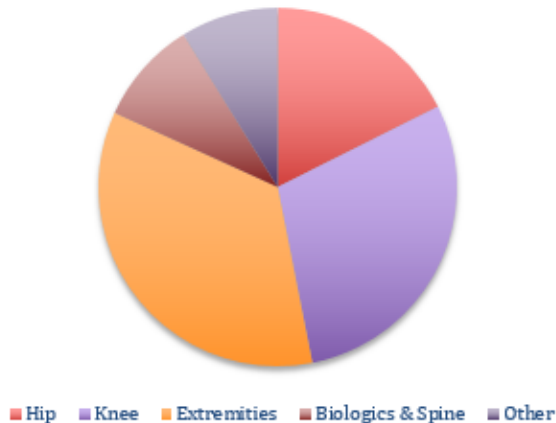
Exactech has kept a culture of a family business, while trying to improve the quality of life of its customers. Its strategy is to "create a customer-centric culture that creates customer loyalty", and this strategy has been working so far, since the company has been growing overtime.



## Product Segmentation

Exactech segments its products in 4 major categories: Hip, Knee, Extremities, and Biologics & Spine. The first three segments have been experiencing double digit growth over the last couple years. Hip has been growing at a rate of 17% and accounts for 17.6% of revenues in 2015. Knee has been growing at a rate of 11% and accounts for 29.3% of revenues. Extremities accounts for 34.9% of revenues, Biologics and Spine for 9.4%, and other products for 8.8%.

Revenues by Segments - 2015

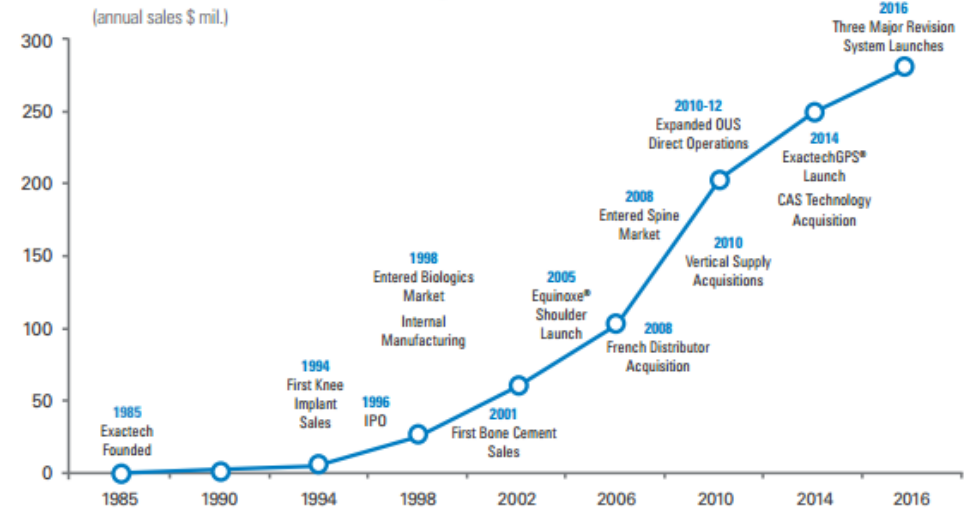


The hip segment includes products for hip replacements such as the Alteon Monobloc revision hip stem, which was pilot launched this year. The extremities segment includes the Equinoxe shoulder system for injuries or diseases of the glenohumeral joint, and a highly competitive range of glenoid solutions. This segment includes solutions for shoulder and ankle joints. The Biologics and Spine segment includes products for bone graft and cervical plates. Other products include the dental biologics business.

## Track Record of Growth and Further Opportunities

Exactech has had a track record of growth since its creation in 1985. In 2016, it launched three major revision system, for the hip, the knee, and the shoulder joint segments.

Siena Market Line  
1<sup>st</sup> week of December 2016



These 3 revision stems were launched through a pilot launch to assess how the market received the new products. In Q4 2016 and 2017, Exactech is planning to go through the limited launch worldwide. They will keep the amount of inventory small until demand for the products can be better assessed.

In Q3 2016, Exactech had its first surgery performed with the new Vantage total ankle system, after getting clearance from the FDA earlier this year. The product will be fully launched in the first 6 months of 2017. The company also had its first successful surgery with the next Exactech GPS total shoulder application, which is a computer-assisted surgery system for total joint replacement. The pilot launches of the new products are underway should bring the company revenues next year. These two successful surgeries will help the commercial adoption of Exactech GPS in the first half of 2017.

For the Hip segment, in 2016, Exactech launched its humeral reconstruction prosthesis used for complex and challenging cases of humeral bone loss. Additionally, the company is waiting for FDA approval for its next generation Alteon coated hip stem. FDA approval is expected to be received shortly and the product will be launched in the first half of 2017. As for the Alteon Monobloc revision hip stem, first surgeries are expected to take place in Q4 2017 or Q1 2018, after being fully launched in the first half of 2017, which will bring progressive contribution to sales growth.

For the Knee segment, the revision knee system had its limited launch in October 2016 and is expected to bring meaningful contribution in 2017. The company also made significant investments with launches planned for the second half of 2017.

Looking at the Extremities segment, the Equinox product line just welcomed a new short humeral stem which will be pilot launched in Q1 2017, pending FDA approval.

As for the Spine segment, the Pro line of products will be extended in Q1 2017 additionally, the second version of the Acapella anchored cervical interbody, which is a cervical spacer system, will be launched in Q2 2017, as well as the plasma coated Octane lumbar interbody, which will go through a limited launch next year.

Exactech is expanding its various product lines and will be launching many new products next year, with the goal of expanding its operating margin in 2017.

## Financials

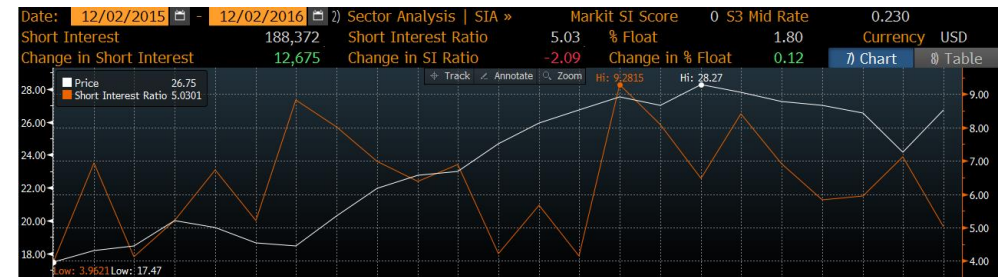
To support all of its launches, Exactech has been using its cash and keeping its debt level low. In 2015, the company had \$12.7M in cash and cash equivalents, compared to \$10.1M in 2014. Additionally, it had only \$16M in debt in 2015, a decrease from \$20.3M the previous year. Therefore, the company has a D/E of 7.6%, which is the lowest among its competitors.

Exactech had \$241.8M in revenues in 2015 and is expected to have its revenues reach \$257.5M this year. In 2015, the company had a gross margin of 69.55%, an operating margin of 9.22%, and a net margin of 6.11%. On average over this year, Exactech spends 61% of its sales on its operating expenses, including 8% on its SG&A expenses, 35% on its sales and marketing expenses, and 8% on its R&D expenses.

Additionally, Exactech has a forward P/E of 20.57 compared to its major competitors median of 25.08. It shows that the company is undervalued and has room for growth.

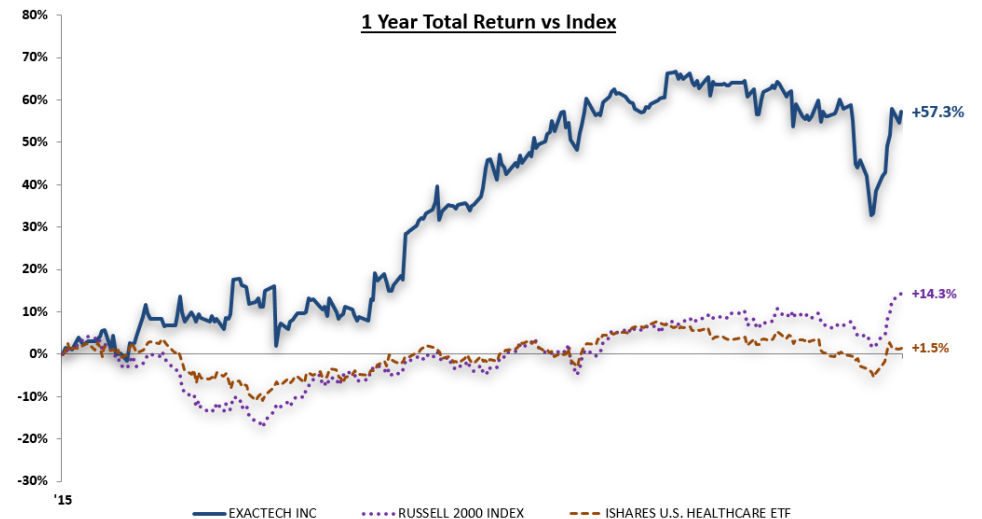
Looking at revenues by geographic location, 69.5% of the company's revenues come from the United States and 30.5% come from international countries, which is where a lot of potential for growth can be found.

Additionally, the short interest is at 5.03 on 11/15/2016. It decrease from 7.12 end of October.



## Summary

Exactech is a BUY because the company is in industry that has a lot of potential for growth. The company in itself has been experiencing high growth, and is in the process of launching many new products, that will reach the revenue stream within next year. The stock is undervalued and has seen a higher total return than the Russell 2000 and other healthcare companies in the past year.



**Exactech, Inc. (EXAC)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**BULLISH**

Analysis by Audrey Barrucand  
11/30/2016

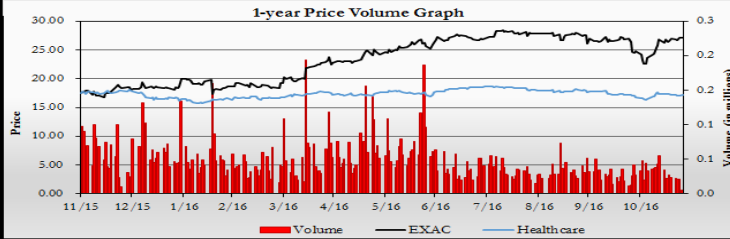
Current Price:  
Divident Yield:

\$25.15  
0.0%

Intrinsic Value  
Target Price

\$25.22  
\$30.74

Target 1 year Return: 22.23%  
Probability of Price Increase: 98.4%

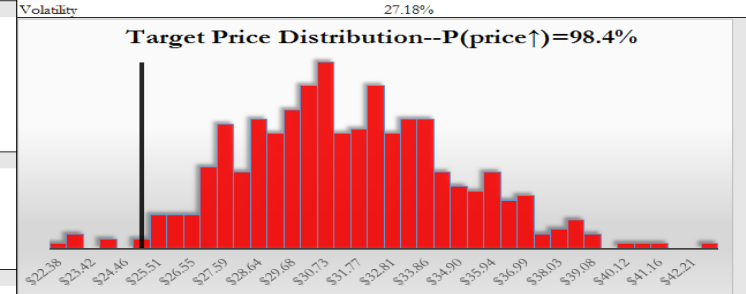


Description	
Exactech, Inc. develops, manufactures, markets, distributes, and sells orthopedic implant devices, related surgical instrumentation, and biologic services.	
General Information	
Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	February 16, 2017
Estimated Country Risk Premium	7.94%
Effective Tax rate	36%
Effective Operating Tax rate	41%

Market Data	
Market Capitalization	\$375.90
Daily volume (mil)	0.06
Shares outstanding (mil)	14.18
Diluted shares outstanding (mil)	14.28
% shares held by institutions	79%
% shares held by investments Managers	50%
% shares held by hedge funds	13%
% shares held by insiders	4.32%
Short interest	1.33%
Days to cover short interest	6.28
52 week high	\$28.66
52-week low	\$16.59
Levered Beta	0.86
Volatility	27.18%

Past Earning Surprises	
Quarter ending	Revenue
9/30/2015	0.42%
12/31/2015	1.62%
3/31/2016	2.04%
6/30/2016	2.61%
9/30/2016	0.90%
Mean	1.52%
Standard error	0.4%

EBITDA	
9/30/2015	-13.73%
12/31/2015	N/A
3/31/2016	N/A
6/30/2016	N/A
9/30/2016	N/A
Mean	-13.73%
Standard error	#DIV/0!



Management	
Management	Position
Petty, R.	Co-Founder and Executive Cha
Petty, David	Chief Executive Officer, Pre
Miller, Gary	Co-Founder and Executive Vic
Phillips, Joel	Chief Financial Officer, Exe
Thompson, Bruce	Senior Vice President and Ge
Petty, Betty	Co-Founder, Vice President o

Profitability	
ROIC	EXAC (LTM)
ROIC	6.9%
NOPAT Margin	12%
Revenue/Invested Capital	0.58
ROE	7.1%
Adjusted net margin	11%
Revenue/Adjusted Book Value	0.62

Invested Funds	
Total Cash/Total Capital	EXAC (LTM)
Total Cash/Total Capital	2.4%
Estimated Operating Cash/Total Capital	1.7%
Non-cash working Capital/Total Capital	19.6%
Invested Capital/Total Capital	92.5%

Capital Structure	
Total Debt/Common Equity (LTM)	EXAC (LTM)
Total Debt/Common Equity (LTM)	0.09
Cost of Existing Debt	5.64%
Estimated Cost of new Borrowing	4.77%
CGFS Risk Rating	CC
Unlevered Beta (LTM)	0.80
WACC	10.07%

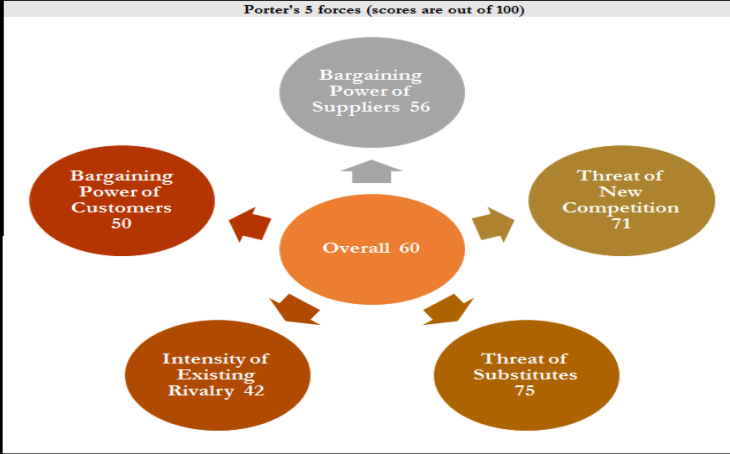
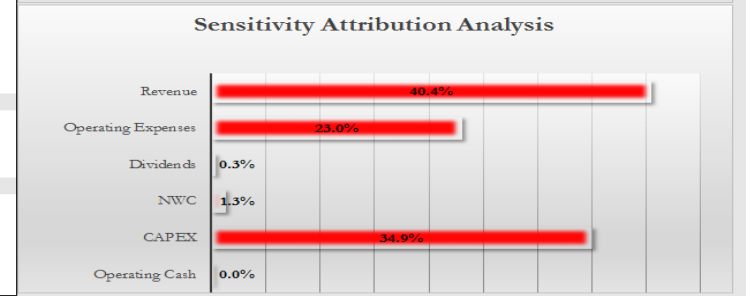
Peers	
Alphatec Holdings, Inc.	
NuVasive, Inc.	
Globus Medical, Inc.	
ConforMIS, Inc.	
Stryker Corporation	
K2M Group Holdings, Inc.	
Orthofix International N.V.	
AngioDynamics, Inc.	

Total compensations growth	
9/30/2015	-8.09% per annum over 5y
12/31/2015	5.89% per annum over 5y
3/31/2016	1.23% per annum over 5y
6/30/2016	5.31% per annum over 5y
9/30/2016	-1.71% per annum over 5y
Mean	N/M

Total return to shareholders	
9/30/2015	-2.16% per annum over 5y
12/31/2015	-2.16% per annum over 5y
3/31/2016	-2.16% per annum over 5y
6/30/2016	-2.16% per annum over 5y
9/30/2016	-2.16% per annum over 5y
Mean	N/M

EXAC (5 years historical average)	
Revenue	14.79%
EBITDA	18.22%
Operating Cash	0.81
ROE	17.88%
Adjusted net margin	17.76%
Revenue/Adjusted Book Value	1.01

Industry (LTM)	
Revenue	8.66%
EBITDA	15.7%
Operating Cash	0.55
ROE	9.88%
Adjusted net margin	14.2%
Revenue/Adjusted Book Value	0.70



Period	Revenue growth
Base Year	4.8%
9/30/2017	3.2%
9/30/2018	4.0%
9/30/2019	10.7%
9/30/2020	7.7%
9/30/2021	5.9%
9/30/2022	4.0%
9/30/2023	4.0%
9/30/2024	4.0%
9/30/2025	4.0%
9/30/2026	4.0%
Continuing Period	4.0%

Period	Invested Capital
Base Year	\$236.19
9/30/2017	\$291.44
9/30/2018	\$356.83
9/30/2019	\$403.04
9/30/2020	\$435.98
9/30/2021	\$479.16
9/30/2022	\$500.84
9/30/2023	\$521.48
9/30/2024	\$555.71
9/30/2025	\$582.93
9/30/2026	\$602.48
Continuing Period	

Valuation	
NOPAT margin	ROIC/WACC
Base Year	0.69
9/30/2017	0.69
9/30/2018	0.65
9/30/2019	0.67
9/30/2020	0.63
9/30/2021	0.77
9/30/2022	0.94
9/30/2023	0.94
9/30/2024	0.95
9/30/2025	0.95
9/30/2026	0.96
Continuing Period	0.97

Net Claims	
Base Year	\$40.33
9/30/2017	-\$8.56
9/30/2018	-\$57.14
9/30/2019	-\$96.05
9/30/2020	-\$146.24
9/30/2021	-\$207.27
9/30/2022	-\$288.06
9/30/2023	-\$372.82
9/30/2024	-\$461.90
9/30/2025	-\$555.62
9/30/2026	-\$654.07
Continuing Period	

Price per share	
Base Year	\$24.74
9/30/2017	\$30.14
9/30/2018	\$35.70
9/30/2019	\$41.61
9/30/2020	\$48.16
9/30/2021	\$54.53
9/30/2022	\$61.26
9/30/2023	\$68.23
9/30/2024	\$75.45
9/30/2025	\$82.93
9/30/2026	\$90.66
Continuing Period	