Siena Market Line
4th week of March 2015

Globus Medical, Inc.

NYSE:GMED

Analyst: Laura Pladys
Sector: Healthcare

BUY

Price Target: $32.00

Key Statistics as of 3/25/2015

Market Price:	$23.74
Industry:	Medical Devices
Market Cap:	$2.25 B
52-Week Range:	$17.45 – 27.00
Beta:	0.05

Thesis Points:

- Growth through 3 acquisitions in the last fiscal year
- Significant domestic and international expansion forecasted
- CREO: GMED's future most advanced pedicle screw system in the world
- Surgeons' training and commissions

Company Description:

Globus Medical, Inc., a medical device company, focuses on the design, development, and commercialization of musculoskeletal implants that promote healing in patients with spine disorders. It offers products that address an array of spinal pathologies, anatomies, and surgical approaches. The company provides fusion products that are used in cervical, thoracolumbar, sacral, and interbody/corpectomy fusion procedures to treat degenerative, deformity, tumor, and trauma conditions. It also offers disruptive technology products that provide material improvements to fusion procedures, such as minimally invasive surgical techniques, as well as new treatment alternatives, which include motion preservation technologies, such as dynamic stabilization, total disc replacement and interspinous process spacer products, and advanced biomaterials technologies; and interventional pain management solutions comprising treatments for vertebral compression fractures. The company has received pre-market approval for SECURE-C Cervical Artificial Disc; and conducting other clinical trials for ACADIA Facet Replacement System, a motion preserving anatomic reconstruction of the facet joint intended for the treatment of spinal stenosis, as well as TRIUMPH Lumbar Disc, a motion preserving disc replacement inserted obliquely into the disc space from a posterolateral approach to address posterior spinal pathology and maintain important anterior anatomical structures. It also offers human tissue products, such as bone allografts, biomaterials, and soft tissue products for spine, orthopedics, sports medicine, dental, and wound care markets. The company sells its implants and related disposables primarily to hospitals through sales representatives and independent distributors in the United States and internationally. Globus Medical, Inc. was founded in 2003 and is headquartered in Audubon, Pennsylvania.

Thesis

GMED has a significant potential for success. The company's biggest catalyst for an increase in stock price is its revenues. The recent three acquisitions increased the company's pipelines and should generate more sales. To become the most advanced pedicle screw system in the world is an area of focus for GMED. From a platform with a single system, GMED developed seven new systems in the last 18 month and expects to launch nine others in the next 18 months, positioning GMED as the biggest market player in this product. In addition, GMED plans to reward their sales representatives only on commissions so that they have an incentive to actually generate more sales, benefiting both the company and the representatives. Finally, the company forecasts a significant expansion in the years to come in both its domestic and international market.

All of these factors should push Globus Medical's stock higher. The market seems to underestimate GMED's capacity to push CREO to the state of "most advanced product worldwide" in the spine industry.

Industry Outlook: Medical Devices

The medical devices industry is a very wide industry. It gathers simple oxygen masks to these very sophisticated life-supporting products. It is an industry with intense competition with a fast growth. There are a few factors driving the industry such as the aging population, the growth of emerging markets as well as increased regulations. GMED main area of activity is the spine market. This market is expected to increase in 2015 as it did in 2014. Marketed at $11.6 billion in 2012, it is forecasted to grow at a CAGR of 5.1% from 2012 to 2017. Spine disorders are an important, if not the leading, drivers of healthcare costs worldwide. The effects of spine disorders range from a slight pain to paralysis. They are primarily explained by degenerative conditions in the spine, tumors, or trauma.

The positive outlook of the industry is mainly explained by favorable patient demographics, a better and constantly improving technology leading to an increased demand for fusion procedures, as well as a possibility for earlier treatment thanks to disruptive technologies, as well as an increasing demand in international markets. The number of people over 60 is growing. The U.S. Department of Health and Human Services expects the "60+" to grow from 23% to 32% by 2050. In the last past years, improvements in healthcare and people's health awareness have led people to live more active lives at advanced ages, leading to an increase of spine surgeries.

On the chart above, the white line represents the US population above 65 years, clearly increasing. The pink line represents the US unemployment rate. Since 2010, it did not stop decreasing. Most of the American citizens rely on their job to have a health insurance. With the rate increasing, there is more people covered and therefore more people have access to these kinds of surgeries if needed. In addition, Obama's Affordable Care plan aims to cover every citizen in the US with a health insurance, once again increasing the potential patients for spinal surgeries.

Most of the American medical devices players are projecting their sales revenue to come from emerging markets to counteract the lower margins domestically. In the next 50 years, the BRIC markets are expected to replace the G6 countries.

Market >	BRAZIL	CHINA	EUROPE	INDIA	USA
Among device executives at companies with 250+ employees	29%	44%	37%	25%	43%

The chart on the previous page is from a survey answering "when you think about your company, which markets do you expect to have the strongest growth in 2015?" Starting 2015, China is expecting to outperform the European market in the medical devices industry. Fusion procedures have become basic procedures overtime and enable surgeons to treat advanced stages of spine disorders that were not possible in the past. Finally, disruptive technologies are gaining increased acceptance amongst both surgeons and patients. This could result in new surgeries performed and better outcome for patients.

Competitors

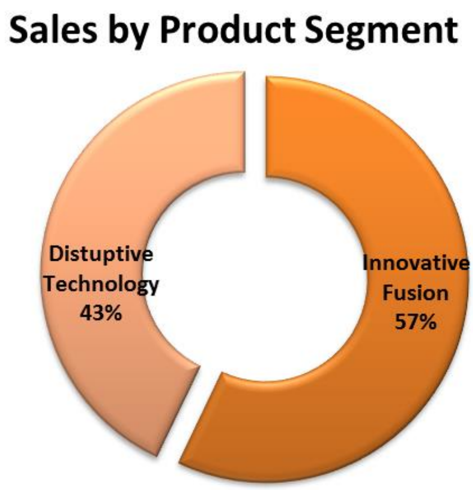
GMED's most significant competitors are described as Medtronic (a cardiac and vascular group, restorative therapies group, and diabetes group), DePuy Synthes Companies (orthopedic and neurological solutions), Stryker (orthopedics, medical surgery, neurotechnology, and spine), and NuVasive (applications for spine fusion surgery). The medical devices and spine market are very competitive markets. Any of these companies can develop a product that would directly or indirectly compete with GMED's products. Competition arises not only from the products proposed and the company's market shares but to have the best qualified scientific, management and sales personnel, acquiring technologies and technology licenses advantageous to the company. Due to the rapid change and the high sensitiveness of new products' introduction in the market, timing is a very important factor in the product development. On a revenue basis and in the whole subindustry of medical devices, GMED is in the top ten, behind the competitors listed above. However, on a size scale, GMED is a much smaller company with fewer resources.

Management

GMED's CEO David Paul is also the co-founder of Globus as well as its chairman. He is the principal executive officer of the company. Prior to founding Globus, he held various positions within Synthes Inc, including Director of Product Development. He has a background of research engineer as well. David Demski is GMED's current interim CFO, President, and Chief Operating Officer. He recently created the Cortnerstone Capital Lbo Fund in addition to the positions he holds at GMED. Most of the company's executives are in their mid40-50s. It is a young company, ran by talented and dynamic people willing to push the company's growth further.

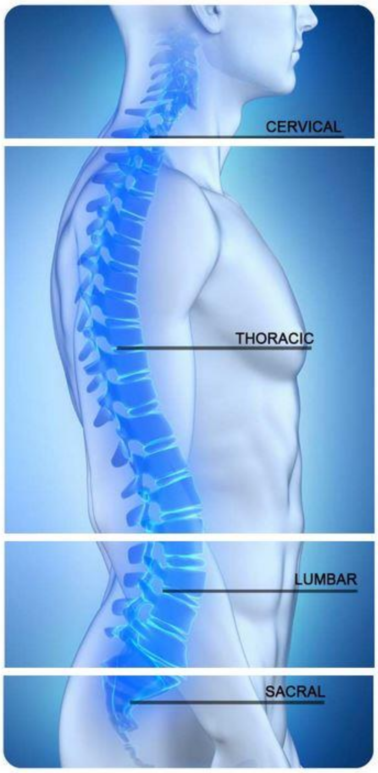
Pipeline

GMED pipeline is segmented into two categories: innovative fusion and disruptive technology. Innovative fusion products are made for treatments of spinal disorders for the entire spine and that have the flexibility to be used in different surgical approaches. Disruptive technology is a variety of products that represents a change in the way surgeons treat spinal disorders. They enable the treatment of spinal disorders to be made earlier in the continuum of care. They are aimed to reduce patients' recovery length as well as the risk to have a spinal disc disease associated with surgeries performed by fusion. Disruptive technology gathers both minimally invasive surgeries as well as alternatives surgeries not possible using regular fusion surgeries. For the year 2014, innovative fusion products had the largest segment sales with 57% of total revenues.



However, though the company's pipeline is divided in two categories, their products are not limited to a technology, a platform, or a surgical approach.

A human spine is divided into four sections: the cervical spine, the thoracic spine, the lumbar spine, and the sacral spine. Each of these sections requires specific products. Globally, the company offers 130 different products for the treatment of spine disorders. Innovative fusion products are made for treatment from the occiput (back of the head) to the sacrum (posterior of the pelvis), covering the four areas on the picture below. This category included the CREO system that would be



discussed later. The disruptive technologies product segment is a high-growth segment that includes biomaterials technologies as well as interventional pain management solutions. This product segment also proposes a wide range of innovative fixations such as plates and pedicle screw systems that can be used in minimally invasive procedures.

(PLYMOUTH – minimally invasive plate) (PROTEX Deformity – full line of monoaxial screws, rods, hooks and connectors)

Growth through acquisitions

Globus Medical has been very aggressive in its growth through acquisitions. The company first acquired Excelsius Surgical LLC on January 8th, 2014. Excelsius is a leading musculoskeletal implant manufacturer. The company created a robotic platform for spine, brain and therapeutic markets. It is designed to navigate and to facilitate surgical access as well as to enable surgeons to perform surgeries faster with greater accuracy. On October 23rd, 2014, GMED announced it had acquired Transplant Technologies of Texas (TTOT), an allograft tissue processor, for $35 million upfront and $15 million of milestone payments in the next three years. This vertical acquisition was a strategic move for the company to expand its regenerative biologic products. TTOT's acquisition had the primary goal of improving GMED's capabilities for the development of new and innovative human allograft tissue products in the future.

On February 25th, 2015, GMED announced the acquisition of Branch Medical Group (BMG) for $52.9 million. BMG is GMED's largest third-party supplier. The acquisition is to be made on March 31st, 2015. BMG is a highly efficient manufacturer of precision medical devices that generates $9.1 million adjusted EBITDA, representing EBITDA margins of 39%, better than GMED's EBITDA margins of 34.8%. BMG plans to invest between $15 to $17 million over the next three years to increase BMG's capacity as well as GMED's ability to double their sourcing through BMG. The vertical integration also aims to increase GMED's EBITDA by $19 million per year by 2019. This is a strategic move as BMG should enable GMED to lower its costs structure as well as strengthened its control over the company's supply. The market underestimates this transaction. It is a cheap buy for GMED as it represents only 17% of its current cash balance. The company efficiency will increase GMED's operating margins over time. For the $52.9 million invested, the company will immediately take $9 million of EBITDA – 17% of the purchase price – since most of BMG's EBITDA already comes from GMED. With the decrease in the costs structure and the same level of efficiency, BMG's EBITDA of $9.1 million should at least double in the next few years, improving GMED's bottom line.

Beyond these three acquisitions within only one year, all based on cash transactions; the company is looking for a partnership or to acquire even more suppliers. The company next target would be one of its metal suppliers, their needed raw materials. The market underestimates the benefits that all three companies are bringing to GMED, especially the potential coming for the new to come, BMG.

Growth through acquisitions

For the year 2014, the company added 16 new products. These additions added to the company's sales footprint, both domestically and internationally. Below is a chart representing the sales by geography in both 2013 and 2014.

-	% as total sales	2014	2013	$ Δ	% Δ
United Sales	90%	$427,091	$396,615	$30,476	7.7%
International	10%	$ 47,280	$ 37,844	$ 9,436	24.9%
Total	100%	$474,371	$434,459	$39,912	9.2%

Total sales increased 9.2%, including increases of 7.7% in the US and 24.9% internationally. Domestically, this increase is explained by an increased existing penetration. Internationally, there was an increased existing penetration as well as a penetration of 5 new countries.

Moreover, there is an increased demand in international markets. The US comprises around 4% of the worldwide population but around half of all spine surgeries occur in the US. However, the improved standards of care globally with the European Conformity marked (CE) or FDA approvals in other markets should increase the international demand for spine products. For instance, though spine products have been FDA approved in the US, these products have to be CE marked for them to be sold in the European Union.

Around 600,000 spine surgeries are performed each year in the US, meaning that worldwide, around the same number are performed. In the ranking of the most common illness, back pain is ranked #15 behind acne, allergy, and asthma. In the top #15, it is one of the only, if not the only, that can be healed with surgery. There is an 80% chance that people will suffer from back pain in their lifetime. However, in the US, insurance companies are doing a pushback because of the costs that spine surgeries imply whereas in Europe, Spain and Turkey are becoming attractive medical facilities when it comes to back surgery. The costs of these kinds of surgeries are rising substantially. When done for comfort and not medical reasons, European countries propose competitive price, increasing the demand when insurance companies are creating a pushback because of the costs associated with these surgeries.

CREO: the most advanced pedicle screw in the world

CREO was introduced in 2010 as a single platform. Over the past 18 months, GMED has launched seven new systems to fit the platform and expects the launch nine other systems within the upcoming 18 months. The CREO platform has already been used in more than 6,000 surgeries worldwide and has excellent surgeons' feedback. The CREO platform is a stabilization system that enhances efficiency and ease of use by providing intuitively designed instrumentation and intraoperative versatility along with a complete array of implant options for treating complex spinal pathologies. All of that in one single system. This system basically gives surgeons an option of action in any situations. With the development and efforts the company is putting in this product, the CREO platform should become GMED's top seller by the end of 2015-beginning of 2016. The system is seen as the world's most "advanced and comprehensive pedicle screw system in the world for treating a wide variety of complex deformity, degenerative and trauma pathologies through either an open or a minimally invasive approach" according to the CEO. CREO currently represents a market share of 7-8%. Thus, pedicle screw market share - thanks to the constant addition of new systems in the platform as well as no direct competitors - should skyrocket to become their largest product by 2015-2016.

The market seems to undervalue CREO's ability to drive GMED's growth. The new systems are creating new features that really improve an already performing platform.

Corporate: trainings & commissions

Globus Medical has a different corporate vision. First of all, the company proposes to train and educate surgeons for the safe and effective use of the company's products and resources. The company therefore invested in a center called Musculoskeletal Education and Research Center (MERC). This center provides training both internally and externally. The internal trainings are made in one of the company's laboratories whereas the external ones are made on a regional basis. The company also creates two day minimally invasive surgeries training programs. These trainings are a high focus for GMED.

In addition, the company's system of compensation is on its way to change. Currently, it is based on both a fixed salary and commissions. In order to improve its sales growth, the company wants to reward its sales representatives by only using commissions. The reason is simple. GMED wants its sales representatives to have the best knowledge in its pipeline in order to have better sales skills. At the meantime, it is an incentive for sales representatives to sell GMED's values and product performances in order to achieve the best sales and therefore earn a good commission.

The company is very focused on the image its projects and the values it gives. The company is very bullish on its business. It sincerely believes in its ability to achieve significant growth performance and that there are share-taking opportunities in this competitive spine industry.

Financials and Valuation

Globus Medical Inc is a profitable company. It has a positive and double-digit growing net income as well as positive free cash flows as far as 2009. Since 2010, the company's EBITDA margin grew faster than the revenues, creating value. On average for the past few years, the EBITDA margin was 1.05 times greater than the revenues margin. For the year 2014, GMED's EBITDA margin represented 34.8% whereas revenues grew 9.2% only, being 3.8 times lower. In addition to a remarkable EBITDA growth, the company is debt-free since FY 2011. The last acquisitions have been paid with cash. Until FY2012, the company had more than 50% of its assets in cash. Starting FY2012, the company started to invest in short term marketable securities putting the cash balance to only 22% of total assets. Therefore, the post-acquisitions cash balance of $82.3 million represented 18% of the firm's total assets, excluding short term investments.

GMED's inventories are decomposed between raw materials, work in process, and finished goods. These finished goods inventory represented 88% of their total inventories in FY2014, showing the company's readiness to increase its competitiveness and distribution.

The factors impacting the most the cash flows this last fiscal year were the decrease in cash due to several acquisitions as well as the net change in long term investment. GMED received 4.5 times more proceeds than FY 2013 for approximately the same amount of investment, reducing the cash from investing activities. The company's operating margin is around 29% and the net income margin at 19.50%. In addition, the company's effective tax rate is decreasing since FY2010 to reach 33.29% in FY2014.

Compared to its US direct competitors, GMED is in a comfortable financial situation. Its PE is around half the market at 24.04 times with a return on equity of 17.49%, 4 times higher than its competitors. The company is clearly undervalued by examining the multiples. The enterprise value of $1.98 billion is 15 times lower than the peers' average. The enterprise value to EBITDA of 12.34 times is 1.7 times lower than the peers' average. In FY1, the multiple is forecasted at 11.10 times – similar to the peers' average – but in FY2, the multiple of 9.98 times is forecasted to be 2.77 times lower than the peers' average. Last but not least, the company price to cash flow multiple of 41.41 times, 1.4 times higher than the peers' average, is attractive to investors as GMED is an established slow growth company compared to its peers.

Conclusion

Thanks to its product development, its projects of expansion both domestically and internationally, its growth through acquisitions and the surgeons' training and the sales representatives' salary based only on commissions, the company has all of the drivers to increase their stock price. It is a debt-free, profitable company with high margins that creates value.

The one year target price is set around $32 per share, creating an upside of more than 35% from the actual price of $23.87 per share.

CENTER FOR GLOBAL FINANCIAL STUDIES

Globus Medical, Inc.	GMED	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Laura Pladys	$23.87	$28.97	$32.94	0%	37.99%	

General Info

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	Jan-06-2015
Next earnings date	NM

Market Data

Enterprise value	$2,002.57
Market Capitalization	$2,231.27
Daily volume	0.23
Shares outstanding	94.71
Diluted shares outstanding	95.46
% shares held by institutions	68.00%
% shares held by insiders	27.77%
Short interest	7.57%
Days to cover short interest	17.52
52 week high	$27.00
52-week low	$17.45
5y Beta	0.05
6-month volatility	28.34%

Peers

Peers	Market Cap.
NuVasive, Inc.	$2,124.73
Thoratec Corp.	$2,183.20
Tornier N.V.	$1,281.06

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	
Altman Z	13.62
Debt Rating	AAA
Levered Beta	1.00
WACC (based on market value weights)	8.11%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Paul, David	Co-Founder, Chairman, Chief E	$ 1,133,104.00	$ 1,347,512.00	$ -
Demski, David	President, Interim Chief Financia	$ 897,375.00	$ 1,062,702.00	$ -
Davidar, David	Co-Founder, Senior Vice Preside	$ 616,630.00	$ 680,311.00	$ -
Murphy, A.	Executive Vice President of US S	$ 695,770.00	$ 795,476.00	$ -
Payne, Steven	Chief Accounting Officer	$ -	$ -	$ -
Williams, Anthony	Senior Vice President of Busines	$ -	$ -	$ -

Historical Performance

	GMED	Peers	Industry	All U.S. firms
Growth	8.9%	14.5%	13.0%	6.0%
Retention Ratio	0.0%	257.4%	79.2%	55.0%
ROIC	15.2%	3.0%	17.1%	13.3%
EBITA Margin	0.0%	16.5%	15.9%	13.7%
Revenues/Invested capital	102.3%	63.5%	102.3%	202.3%
Excess Cash/Revenue	52.0%	59.9%	36.3%	18.5%
Unlevered Beta	-0.05	0.88	0.88	0.95
TEV/REV	3.9x	3.6x	3.3x	2.4x
TEV/EBITDA	11.5x	24.2x	13.8x	11.3x
TEV/EBITA	13.2x	27.8x	15.6x	15.4x
TEV/UFCF	42.2x	754.8x	29.5x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.8%	6.1%	20.0%
Last Quarter-1	4.1%	11.9%	14.3%
Last Quarter -2	-5.2%	0.3%	0.0%
Last Quarter -3	0.5%	10.6%	9.1%
Last Quarter -4	0.0%	10.6%	13.6%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	20%	Straightline	10 years

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	1.00
Rev/Invested Capital	120.0%
Continuing Period Revenue Growth	4.0%
Long Term ROIC	12.3%
Invested Capital Growth	Equals to Maintenance
Justified TEV/REV	3.9x
Justified TEV/EBITDA	11.5x
Justified TEV/EBITA	13.2x
Justified TEV/UFCF	28.4x

Forecasted Profitability

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
LTM	9%	51%	$467.27	$120.57	$433.02	$234.68
LTM+1Y	8%	51%	$503.25	$136.00	$600.38	$82.76
LTM+2Y	7%	51%	$536.43	$150.41	$647.82	$102.97
LTM+3Y	6%	51%	$567.01	$160.54	$690.59	$117.78
LTM+4Y	4%	50%	$591.71	$170.31	$726.41	$134.49
LTM+5Y	5%	50%	$622.44	$180.72	$759.51	$147.62
LTM+6Y	4%	50%	$649.50	$188.21	$791.85	$155.87
LTM+7Y	4%	50%	$677.05	$195.72	$822.53	$165.04
LTM+8Y	4%	51%	$705.24	$203.31	$852.95	$172.89
LTM+9Y	4%	51%	$734.16	$211.04	$883.90	$180.09

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	22.0%	8.1%	$60.32	$2,499.42	$0.00	-$223.30	$2,722.71	$29.78
LTM+1Y	31.4%	8.2%	$139.29	$2,775.06	$0.00	-$365.57	$3,140.63	$33.69
LTM+2Y	25.1%	8.3%	$108.48	$2,847.38	$0.00	-$470.55	$3,317.93	$35.57
LTM+3Y	24.8%	8.4%	$113.08	$2,953.51	$0.00	-$586.27	$3,539.79	$37.94
LTM+4Y	24.7%	8.5%	$117.35	$3,054.48	$0.00	-$715.15	$3,769.63	$40.38
LTM+5Y	24.9%	8.6%	$123.59	$3,155.36	$0.00	-$852.98	$4,008.34	$43.04
LTM+6Y	24.8%	8.7%	$127.28	$3,256.29	$0.00	-$998.85	$4,255.14	$45.55
LTM+7Y	24.7%	8.8%	$130.86	$3,359.42	$0.00	-$1,153.76	$4,513.18	$48.30
LTM+8Y	24.7%	8.9%	$134.86	$3,466.80	$0.00	-$1,316.82	$4,783.61	$51.19
LTM+9Y	24.7%	9.0%	$139.09	$3,577.67	$0.00	-$1,488.31	$5,065.98	$53.49

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Market Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	14%	Triangular
Terminal Value	0	0.1	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$29.78	$33.69
σ(ε)	$0.27	$0.25
3 σ(ε) adjusted price	$28.97	$32.94
Current Price	$23.87	
Analysts' median est.		$28.89