

October 31, 2017

Globus Medical, Inc: GMED

Nico Dumas

Sector: Healthcare

Industry: Healthcare Equipment & Supplies

Current Price: \$31.21

Target Price: \$36.87

Globus Medical, Inc. is a mid-cap medical device company that focuses on the design, development, and commercialization of musculoskeletal implants for patients with spinal issues. Founded in 2003, they have been the fastest growing company in the history of orthopedics. Globus is engineer-driven, with a history of rapidly developing innovative products and procedures to assist surgeons in effectively treating their patients. They have developed over 170 differentiated products that address a broad array of spinal treatments since inception. Globus strives on providing the highest quality products to improve techniques and outcomes of spine surgery to ensure patient satisfaction. They have a single-minded focus on further enhancing spinal surgery and this is what sets them apart from competition within the industry.

BUY/HOLD/SELL

Current Price:	\$31.21
Target Price:	\$36.87
Market Cap:	3B
Volume	.532M
52 week spread	\$19.25-\$34.03
EBITDA Margin	34.8%
Net Income Margin	18.1%
ROIC	13.2%
WACC	9.4%

Catalysts:

- **Short Term (within the year):** The introduction of robotic and orthopedic trauma products along with new product development.
- **Mid Term (1-2 years):** Mergers, acquisitions, and international expansion.
- **Long Term (3+):** Increasing sales force size and improvements to the standard of care outside of the United States.



Thesis: Two of the leading drivers related to healthcare costs include expensive technologies and lack of cost consideration from patients. Individuals with spinal problems want the best products available; having little concern over price when it comes to their health. Patients want the latest, most advanced technology, and this is what Globus Medical provides. Spine disorders range anywhere from mild pain and loss of feeling to

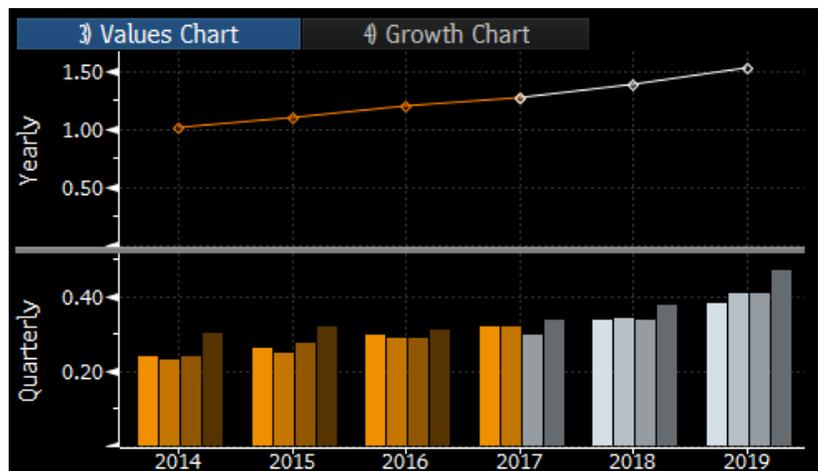


extreme pain and paralysis. Globus has developed over 170 different products accustomed to whichever spinal trauma a patient might have. Headquartered in Audubon, Pennsylvania, the company markets and sells their products within North, Central, & South America, Europe, Asia, Africa, and parts of Australia. With the introduction of Globus' robotic surgical devices and orthopedic trauma products, stock appreciation will be noticed. These products have yet to come to the market, still waiting on clearance from the U.S. Food and Drug Administration. International expansion is another target, acquiring Alphatec Holdings, Inc accompanied with international sales professionals and distribution channels.

Earnings Performance:

Adjusted earnings have been consistently increasing over the previous three and a half years and are projected to stay on this path. Analysts are forecasting an adjusted EPS of .47 by the fourth quarter of 2019. Current adjusted earnings for 2017 have been stable at .32 over the first two quarters.

If you notice on the values chart there is a cyclical theme found in EPS concerning fourth quarters. After doing some research, I found out that the top two reasons for spinal injuries are motor vehicle accidents and slips or falls. These motor vehicle accidents usually occur from rainy/icy roads, which come in the fourth quarter generally. Slips and falls are also much more predominant in the fall and winter months, leading to fourth quarter sales of spinal treatment products.



Buying Globus now is not only a good idea due to the upcoming fourth quarter cyclical boost in earnings. From the second quarter of 2015 to the second quarter of 2017, adjusted EPS has increased by a CAGR of 14%. If this CAGR stays constant, by quarter two of 2019 adjusted EPS should reach .42. This is slightly above analysts' projections of .41, suggesting an undervaluation. Actual adjusted earnings per share have exceeded estimated earnings per share in both quarters of 2017 as well. Globus has been undervalued, beating both EPS targets and revenue over the first two quarters of 2017. The company is starting to develop a global footprint, increasing revenues and earnings.

Globalization:

In the second quarter earnings report, for the three months ended July 30, 2017, international sales reached \$26.1 million compared to \$12.8 million in quarter two of 2016. This is a 104.5% increase in international sales. Globus Medical, Inc. acquired the international operations and distribution channels of a company called Alphatec Holdings, Inc. on September 1st, 2016. Alphatec's total sales in 2015 amounted to \$71 million. This acquisition, bought for \$80.1 million cash, provided immediate access to Japan and other key geographical areas. Globus also extended a five-year senior secured credit facility allowing \$30 million to support Alphatec's current



working capital needs. Alphatec will continue to sell their products until Globus begins infusing their products into the distribution channel. Globus has already started globalization and Alphatec has yet to begin distributing their medical products. A large part of this increase in international revenue was Globus' acquisition of a substantial pool of international sales professionals as well as an extensive network of international

distributors. In GMED's 10-k, they predicted the results of these acquisitions would essentially double international sales. International sales have increased approximately 72% through the following three quarters since the acquisition. If this pace continues, international sales will have a CAGR of 95.6%. Along with international sales increasing, Globus' selling, general, and administrative expenses have increased 21% compared to SG&A expenses in the second quarter of 2016. The company is building a sales force. In quarter two of 2017, they spent \$8.8 million strictly on Alphatec International sales, building the Emerging Technologies sales force, and increasing the size of their current U.S sales force. A key success factor within the Healthcare Equipment and Supplies industry is the ability to sell your company's products. Having a strong sales team is an important part of growth, and Globus is investing in this growth strategy. They have increased their SG&A expenses \$36.5 million within two years; a 17.3% increase. The number of patents that Globus has brought in has more than doubled between the last two 10-k's. They served 342 million people in 2014 and in 2016; they reported having 688 million patents. This is a 104% increase within two years.

Medical Products:

Globus Medical spent \$41.3 million on research and development within their last twelve months from June 30th, 2017. Their only segment labelled “Medical Products,” contains two different categories: “Innovative Fusion” and “Disruptive Technology”. In Globus Medical’s last earnings report from 2017, total sales between these two categories increased 11.4% from the first two quarters of 2016. Innovative fusion has increased by 16% compared to an increase of 6.7% in the disruptive technology category. GMED’s innovative fusion products are used to treat a wide variety of spinal disorders for the entire spine and can be used in a variety of surgical approaches. The company’s disruptive technologies category consists of products improving current surgical procedures and targeting spinal disorders earlier in the care process. Globus allocates the same amount of resources to both categories, focused on launching five to ten new products per year. The company also keeps thirty products in development each year, focused on providing the latest medical products available. This is what allows rapid growth; consistently introducing new, innovative products to the market. In Globus Medical’s latest 10-k, disruptive technology grew \$19.7 million, primarily due to products launched within the past three years. Both categories contain relatively the same margins, consisting of the same materials and sales prices. The only difference is the use of the products that each category provides; innovative fusion having to deal with new approaches to spinal treatment whereas disruptive technology deals with altering existing methods.



Robotic Surgical and Orthopedic Trauma Products:

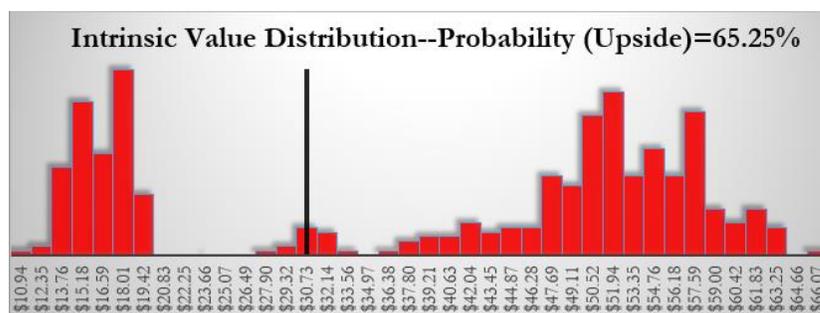
GMED launched seventeen new products in 2016 and have thirty potential new products in various stages of development. Of these products in development, included is their robotic surgical devices and orthopedic trauma products. The U.S. Food and Drug Administration have not yet fully cleared these two categories. When these products do clear, Globus will essentially be opening a new category of products; a new revenue stream. They have already begun the process of building an exclusive sales force for their robotic surgical and orthopedic trauma businesses and expect to expand these teams within the U.S. and abroad. Globus mentioned in their 10-k concerning fiscal year 2016, that they planned to launch these products within 2017. So far, there has been one successful case concerning their orthopedic trauma products. On September 14th, 2017, Globus announced the first case where an orthopedic surgeon used their newly developed product named “ANTHEM™”. This device allowed the hand surgeon to see a clear view of a fracture line for improved diagnosis and care. This product can be used for trauma areas outside of the spinal system. This is a huge factor, previous products only concerning with spinal treatment.



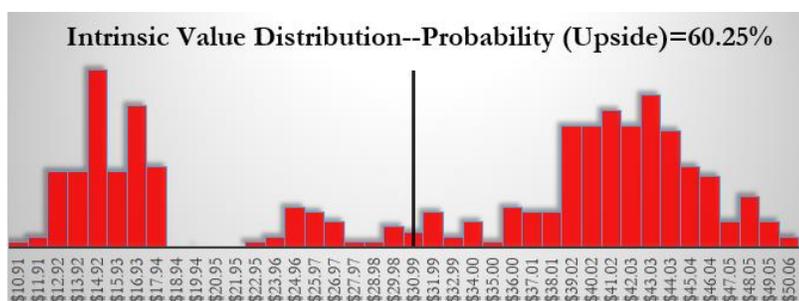
GMED's price per share has only increased \$1.45 since this announcement, which I believe resembles an undervaluation concerning the current stock price of \$31.21. On June 13th, Globus acquired KB Medical SA; a private company that designs, manufactures, and markets robotic assistance systems for the healthcare industry. Surgical practices will most likely shift within the next decade, turning towards robotic assistance in the operating room. These devices allow extreme precision, precision that the typical human surgeon is incapable of performing. Globus took notice of this and is beginning to further invest in robotic technology. The company bought KB Medical SA for \$31.5 million cash. The stock price reached its 52 week high of \$34.03 a week and a half after the acquisition. It does not make sense that the stock is still hovering around \$30-\$31 per share. KB Medical is going to help Globus penetrate a completely new market.

Upside/Downside:

Based on my evaluations of Globus Medical, I created both upside and downside intrinsic value distributions. For the upside forecast, I used an increase of 2% per year for the revenue growth rate for four years until maturity, where the company's growth rate would begin to slow. I also projected a 5% cut in operating cost to revenue within an eleven-year spread. In the preceding four years from where my projections began, the company cut operating costs to revenue by approximately 2%. If this trend



continues, we could see operating costs to revenue even lower than my forecast, creating more value. The Monte Carlo simulation resulted in a one-year target of \$36.87 with a 65.25% probability of upside. For my downside forecast, I only projected the revenue growth rate continuing to increase until 2019, effectively predicting maturity within two years, which is extremely unlikely due to their most recent acquisition. This growth rate would again increase by 2% but only for two years, followed by a gradual decrease. I also



increased operating cost to revenue 2%, concluding that they may maximize cost cutting at 61% operating costs to revenue. This simulation created a one-year target price of \$29.74, yet still encompassing a probable upside of 60.25%. Even with conservative projections, both of these simulations resulted in a probable increase

in stock value. The possible upside from my projections resulted in an 18.1% gain compared to a 4.7% loss. Concerning price per share, Globus Medical's stock could either increase by \$5.66 per share or decrease by \$1.47 per share. This upside simulation is extremely conservative, not taking into account their international revenue's growth rate of 104% between the second quarter of 2017 and the second quarter of 2016. I decided to change the return on cash invested more towards their historical average and increase revenue growth. Seeing how Globus already has a relatively large presence in the United States market, so I decided to keep a CAGR of 6%; which they have maintained through the preceding three quarters. They had an international

CAGR of 95.6% over these same three quarters (average of 23.9% revenue increase per quarter). Knowing that this would be practically impossible to maintain as you can see below, I forecasted a 30% decrease of the original growth rate per year. After running a new Monte Carlo simulation to forecast this international growth scenario, the one-year target price came out as \$41.35. This is a 32.5% possible appreciation in stock price. A \$10.14 increase from the current price per share of \$31.21.

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
International Rev	63.80	124.80	208.33	326.85	484.91	684.22	923.27	1197.46	1499.72	1821.51	2153.71
US Revenue	500.20	530.21	562.02	595.75	631.49	669.38	709.54	752.12	797.24	845.08	895.78
Total Revenues	564.00	655.01	770.36	922.60	1116.40	1353.60	1632.81	1949.57	2296.97	2666.58	3049.49
		16%	18%	20%	21%	21%	21%	19%	18%	16%	14%
International Growth Rate		96%	67%	57%	48%	41%	35%	30%	25%	21%	18%

Relative Valuation:

Name (BI Peers)	Ticker	Mkt Cap	EBITDA to Net Sales LF	ROIC LF	WACC	OPM LF	NI Mrgn Adj LF
Median		1.76B	13.84%	3.17%	8.57%	9.89%	6.06%
100) GLOBUS MEDICAL IN...	GMED US	3.02B	31.54%	12.57%	9.42%	24.52%	19.39%
101) STRAUMANN HOLDIN...	STMN SW	11.11B	28.72%	26.31%	7.30%	25.36%	22.29%
102) NUVASIVE INC	NUVA US	2.91B	24.59%	6.37%	8.29%	12.37%	6.78%
103) EXACTECH INC	EXAC US	613.15M	14.37%	-0.02%	9.47%	6.40%	4.72%
104) PRIM SA	PRM SM	206.91M	13.23%	11.26%	5.53%	11.20%	9.14%
105) ORTHOFIX INTERNAT...	OFIX US	946.02M	13.31%	-3.86%	8.85%	8.58%	5.34%
106) WRIGHT MEDICAL GR...	WMGI US	2.58B	2.15%	-4.69%	10.04%	-10.86%	-20.72%
107) ALPHATEC HOLDINGS...	ATEC US	58.96M	4.66%	-38.49%	7.26%	-3.01%	-11.66%

Compared to their competitors, Globus Medical is one of the top performers in EBITDA to net sales, operating margin, and net income margin. Their ROIC from the latest filing is also well above the median of their competition at 12.57%. The company has maintained consistent revenue growth year over year, almost reaching \$600 million in 2016. Over the last five years, they have maintained a compounded annual growth rate of 10.85%. If the growth rate continues at this pace, which I believe is being very conservative, they should generate total revenues of over \$1 billion by 2022 (\$1.1 billion). Globus Medical's officers and

Compensation Analysis		2016
Name	Title	Total Compensation
1) Daniel Scavilla	Senior VP/CF0	1,784,456 (USD)
2) David Paul	Chairman/CEO/Co-Foun...	1,678,183 (USD)
3) David Demski	President:Emerging Tec...	1,206,343 (USD)
4) A Murphy	President:Commercial O..	1,194,110 (USD)
5) Anthony Williams	President	1,164,584 (USD)

presidents receive fair compensation as well. Globus is a \$3 billion company, with its main officers/presidents making below \$2 million a year. Their Co-Founder, David Paul, established the company in 2003; and is only making

\$1.7 million a year. David Demski recently took over as Chief Executive Officer on August 29th, 2017. He has been with the company since inception as a senior executive, serving initially as Chief Financial Officer. In 2008, he was appointed President and Chief Operating Officer of the company. During Mr. Demski's tenure as President and COO, Globus Medical consistently delivered above average growth and profit margins, creating a successful IPO in 2012.

Conclusion:

Globus is a best in class spinal treatment company that is about to expand globally. They will also be introducing a new segment to their company, concerning robotic surgical and orthopedic trauma products. Globus has recently acquired both Alphatec Holdings, Inc. and KB Medical SA. These acquisitions will not only help international growth, but also penetrate markets that they have yet to touch. With the help of the sales force that they have been building, selling newly developed products should be quick and at large. Globus Medical, Inc.'s current stock price of \$31.21 is a complete undervaluation. This cheap stock certainly deserves to be bought at its current price.

Globus Medical, Inc.
(GMED)

CENTER FOR GLOBAL FINANCIAL STUDIES

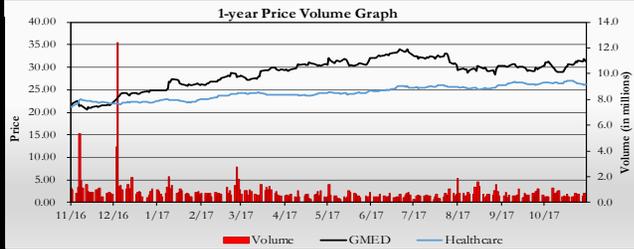
NEUTRAL

Analysis by Nico Dumas
11/3/2017

Current Price: **\$31.21**
Dividend Yield: **0.0%**

Intrinsic Value: **\$33.37**
Target Price: **\$36.67**

Target 1 year Return: **17.5%**
Probability of Price Increase: **65.25%**



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.

General Information
Sector: Healthcare
Industry: Healthcare Equipment and Supplies
Last Guidance: November 3, 2015
Next earnings date: November 8, 2017
Estimated Country Risk Premium: 5.36%
Effective Tax rate: 21%
Effective Operating Tax rate: 21%

Market Data

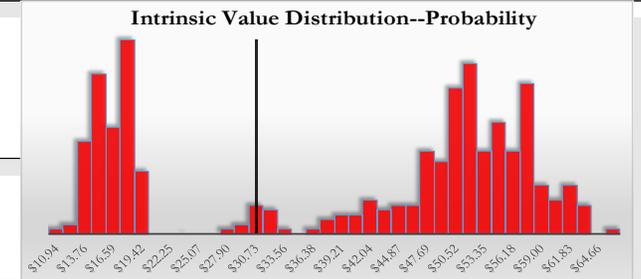
Market Capitalization	\$2,994.68
Daily volume (mil)	0.26
Shares outstanding (mil)	96.29
Diluted shares outstanding (mil)	96.99
% shares held by institutions	72%
% shares held by investments Managers	56%
% shares held by hedge funds	3%
% shares held by insiders	27.25%
Short interest	9.16%
Days to cover short interest	13.04
52 week high	\$34.03
52-week low	\$19.25
Volatility	30.61%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2016	-2.95%	-5.07%
9/30/2016	-2.41%	-3.46%
12/31/2016	1.16%	0.67%
3/31/2017	4.37%	1.92%
6/30/2017	1.26%	-7.02%
Mean	0.28%	-2.59%
Standard error	1.3%	1.7%

Peers

NuVasive, Inc.
Wright Medical Group N.V.
K2M Group Holdings, Inc.
Stryker Corporation
Nevro Corp.
Zimmer Biomet Holdings, Inc.
Orthofix International N.V.
Exactech, Inc.

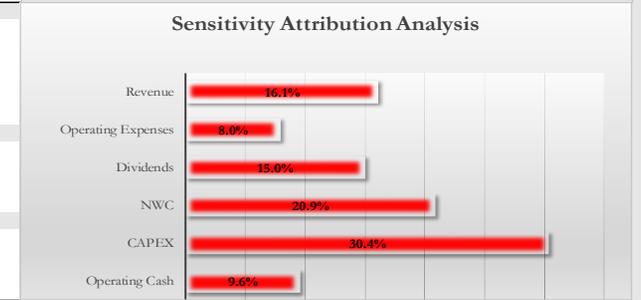


Management

Position	Total compensations growth	Total return to shareholders
Paul, David Co-Founder & Executive Chair	21.43% per annum over 4y	N/M
Demski, David CEO, Group President of Emer	20.52% per annum over 4y	N/M
Williams, Anthony President and Corporate Secr	N/M	0% per annum over 0y
Davidar, David Co-Founder and Director	15.57% per annum over 4y	N/M
Seavilla, Daniel CFO & Senior VP	N/M	0% per annum over 0y
Murphy, A. Group President of Commercia	20.23% per annum over 4y	N/M

Profitability

	GMED (LTM)	GMED (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	19.9%	111.11%	6.36%
Operating Margin	20%	16.38%	7.75%
Revenue/Capital (GAAP)	1.01	6.78	0.82
ROE (GAAP)	16.0%	19.6%	7.3%
Net margin	23.4%	22.2%	8.7%
Revenue/Book Value (GAAP)	0.69	0.88	0.84

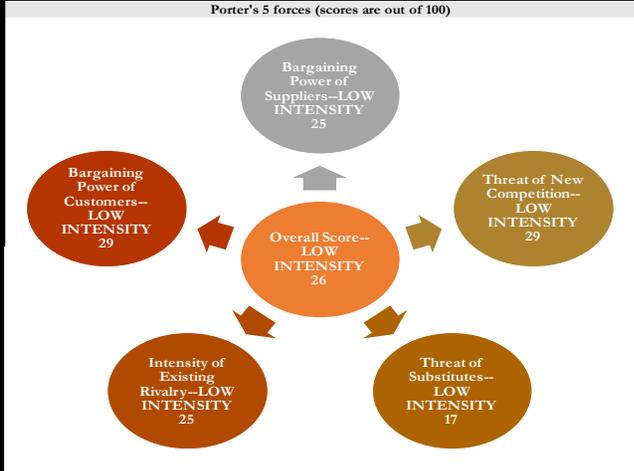


Invested Funds

	GMED (LTM)	GMED (5 years historical average)	Peers' Median (LTM)
Cash/Capital	32.0%	67.8%	21.1%
NWC/Capital	20.4%	21.0%	16.6%
Operating Assets/Capital	36.4%	6.6%	36.6%
Goodwill/Capital	11.1%	4.7%	25.8%

Capital Structure

	GMED (LTM)	GMED (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.00	0.01	0.37
Cost of Existing Debt	7.0%	7.0%	6.6%
CGFS Rating (F-score, Z-score, and default Probability)	B	BB	BBB
WACC	12.4%	12.0%	10.6%



Revenue Growth Forecast

Period	Revenue Growth Forecast
Base Year	7%
6/30/2018	13%
6/30/2019	15%
6/30/2020	17%
6/30/2021	18%
6/30/2022	16%
6/30/2023	15%
6/30/2024	13%
6/30/2025	10%
6/30/2026	7%
6/30/2027	5%
Continuing Period	2%

Valuation

	NO PAT Margin Forecast	Revenue to Capital Forecast
Base Year	25.8%	0.72
6/30/2018	20.4%	0.65
6/30/2019	21.7%	0.64
6/30/2020	22.5%	0.65
6/30/2021	22.7%	0.65
6/30/2022	25.4%	0.65
6/30/2023	26.4%	0.63
6/30/2024	27.3%	0.60
6/30/2025	28.1%	0.57
6/30/2026	28.9%	0.52
6/30/2027	29.6%	0.47
Continuing Period	2%	0.42

Return on Capital Forecast

Period	Return on Capital Forecast
Base Year	18.6%
6/30/2018	13.2%
6/30/2019	13.9%
6/30/2020	14.5%
6/30/2021	14.9%
6/30/2022	16.5%
6/30/2023	16.7%
6/30/2024	16.5%
6/30/2025	15.9%
6/30/2026	15.0%
6/30/2027	14.0%
Continuing Period	12.8%

WACC Forecast

	WACC Forecast	Price per share Forecast
Base Year	12.4%	\$46.44
6/30/2018	9.0%	\$51.69
6/30/2019	9.2%	\$56.35
6/30/2020	9.2%	\$61.34
6/30/2021	9.5%	\$66.84
6/30/2022	9.3%	\$72.61
6/30/2023	9.3%	\$78.76
6/30/2024	9.3%	\$85.24
6/30/2025	9.3%	\$92.03
6/30/2026	9.4%	\$99.08
6/30/2027	9.4%	\$106.32
Continuing Period	9.4%	