

# Globus Medical Acquires NuVasive for \$3.1bn

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# DEAL INTRODUCTION

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## DETAILS ABOUT THE DEAL

On the 9th February Global Medical confirmed the acquisition of NuVasive, with the full transaction expected to be closed in mid-2023.

Globus Medical Inc (Globus) is a medical device company specialising in treatments for musculoskeletal disorders, whilst Nuvasive specialises in spine surgery.

The deal involves Globus buying a 72% stake in NuVasive, valuing the deal at \$3.1 billion, with NuVasive's shares receiving a 26% premium to their closing price on Feb 8th. According to the terms of the deal, shareholders of NuVasive will secure 0.75 of a share of Globus Medical Class A common stock for each owned share of NuVasive common stock after the closure of the transaction.

The deal is expected to help boost both of the firm's globalisation strategies and target the \$50bn musculoskeletal market. With the addition of more than 5,000 employees from NuVasive, the entities will now share operations in over 50 countries. However, Analysts from Piper Sandler and BTIG noted some concerns surrounding: cultural fit, approach to commercialisation and profitability, antitrust issues.

Globus Medical financial advisors will be Goldman Sachs & Co. LLC and their legal counsel will be Goodwin Proctor LLP. NuVasive's financial advisor will be BofA Securities, Inc and Wachtell, Lipton, Rosen & Katz will be their legal counsel.



## **REASONS FOR M&A**

The deal is expected to bring together two complementary companies in the musculoskeletal industry with a shared vision to improve patient care. Both firms have strong records of developing technology that solves unmet clinical needs for the treatment of musculoskeletal disorders, which could generate greater quality and diversification of products and increase the range of products offered.

Globus Medical and Nuvasive have a history of delivering above-market net sales growth, enhancing the likelihood of strong growth and success following the merger. The transaction will provide both companies with several strategic and financial benefits e.g., cost saving advantages as cost synergies are \$170 million. In addition, the combined company would have annual orthopaedic sales in excess of \$2.2 billion, with spinal hardware contributing 77% of all revenues.

The merger is expected to accelerate the companies' globalisation strategy, enabling them to target the \$50 billion musculoskeletal market and expand their presence in more than 50 countries with over 5,000 employees. Their combined market share of 21% will result in the second-largest spine business behind Medtronic. The new organisation's larger commercial sales organisation will enable it to further penetrate existing and future markets, reaching more surgeons and patients worldwide. Globus Medical president and CEO Dan Scavilla believes the merger reflects the company's mission to be the leader in the musculoskeletal space.

However, there are some areas which may cause friction in the merging process, such as cultural differences and the complexity of Globus as a company, who has a fixed management and operation systems. Lastly, considering the scale of the deal (\$3 bn), it puts Globus under immense pressure to make the investment profitable.



# INDUSTRY OVERVIEW

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## MUSCULOSKELETAL DEVICES

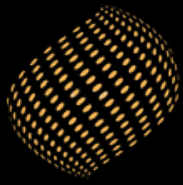
Musculoskeletal devices refer to a broad range of medical devices that are used to diagnose, treat, or support the musculoskeletal system, which includes the bones, muscles, tendons, ligaments, joints, and related tissues.

These devices are designed to address various musculoskeletal conditions and injuries, ranging from simple fractures to complex deformities and degenerative diseases.

Musculoskeletal devices can be classified into different categories based on their intended use, such as orthopaedic implants, prosthetics, orthotics, and assistive devices.

### What are the leading firms in the musculoskeletal space?

1. **Johnson & Johnson:** A multinational medical device and pharmaceutical company that operates through multiple subsidiaries, including DePuy Synthes, which is a leading manufacturer of orthopaedic implants, including joint replacements, trauma fixation devices, and spinal implants.
2. **Medtronic:** A global medical technology company that offers a wide range of musculoskeletal devices through its Spine, Orthopedics, and Biologics business units. Medtronic's product portfolio includes spinal implants, orthopaedic implants, bone grafts, and biologics for bone healing.
3. **Stryker Corporation:** A leading manufacturer of orthopaedic implants, including joint replacements, trauma fixation devices, and spinal implants. Stryker also offers a wide range of orthotic devices, such as braces and supports, as well as surgical instruments and equipment used in orthopaedic surgeries.



# INDUSTRY OVERVIEW

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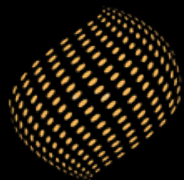
## 2022 & LONG TERM OUTLOOK

The relief on lockdowns positively impacted market growth. Small and medium clinics started treating musculoskeletal disease patients. As a result, demand for the drugs and devices has increased, and the supply chain has improved.

The global musculoskeletal diseases market is predicted to grow at a CAGR of 6.12% from 2023 to 2028. The market size is predicted to grow to USD 6.7 billion by 2028 from \$4.99 billion in 2023. There are several factors driving such growth, but we have highlighted two of the main ones below:

**Ageing Population:** As the global population continues to age, the demand for musculoskeletal devices is expected to increase. Older adults are more prone to musculoskeletal conditions and injuries, such as osteoarthritis, fractures, and degenerative spine disorders, which often require musculoskeletal devices for diagnosis, treatment, and support. This demographic trend is expected to drive the demand for musculoskeletal devices in the long term.

**Technological Advancements:** Advances in technology, such as 3D printing, robotics, and minimally invasive surgical techniques, are transforming the musculoskeletal devices industry. These technological advancements are enabling more precise and personalised musculoskeletal solutions, improving patient outcomes, and reducing recovery times. Continued innovation in materials, design, and manufacturing processes is expected to further enhance the performance and capabilities of musculoskeletal devices.



# ACQUIRER OVERVIEW



TICKER: GMED

## GLOBUS MEDICAL

Founded in 2003, Globus Medical is a medical device company headquartered in Audubon, Pennsylvania, specialising in the design, development, and sale of medical technologies that facilitate healing in patients suffering from musculoskeletal disorders (e.g carpal tunnel syndrome, back pain, etc.). Employing over 2,200 employees as of 2023, it is currently led by CEO Daniel T. Scavilla. Within this niche, Globus has expanded to provide a variety of products and services, not only to medical professionals, but patients themselves.

Notable products include the Excelsius surgical system, a technological apparatus designed to assist in surgeries by holding patients in place with millimetre accuracy, and Surgimap, a pre-surgery planning software for spinal surgeons. Furthermore, the company has expanded its services to include allograft tissue transplants, implants for hip and knee replacements, and other high-precision medical devices.

## KEY FINANCIALS

### Revenue

- \$1.022B

### Market Capitalisation

- \$5.33B

### P/E ratio

- 28.116

### EBITDA

- \$227.951M

### Share Price

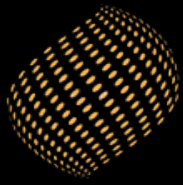
- \$53.14 (as of March 24th)

### EBIT

- \$245.686M

### Net income

- \$190.169M



## **BUSINESS MODEL**

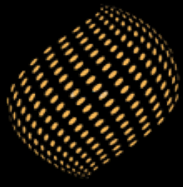
**Globus Medical has established a focus on the acquisition, development, and sale of medical technologies (both hardware and software) to aid in surgeries and healing processes associated with musculoskeletal disorders. Since the mid-2010s, Globus has overseen a consistent strategy of consolidation and acquisition of promising new firms and technologies. Noteworthy recent acquisitions include the aforementioned acquisition of the Excelsius surgical system in January of 2014, the acquisition of the allograft (a transplant of skin, organs, or tissue from a non-identical donor) tissue processor Transplant Technologies of Texas in October 2014, and the acquisition of Nemaris, the developers of the pre-surgery planning software Surgimap, in September 2018.**

**Given its business model geared towards consolidation of Globus' dominant position within the niche of musculoskeletal disorders, the acquisition of NuVasive, with its promising R&D pipeline aimed at sale directly to medical professionals (rather than to clients) appears consistent with the firm's long-term strategy.**

## **SHARE PRICE GRAPH**







## **BUSINESS PRACTICES**

As a company specialised in the production of sophisticated medical technology, Globus Medical has taken steps to ensure that materials involved in the manufacture of its products are ethically sourced; in May 2019, the firm officially declared to the US Securities and Exchange commission that, as a result of their inquiry, no materials used in any Globus Medical product manufactured in 2018 derived from a conflict zones.

Despite its commitment to ethically sourced materials, the firm seems to have focused little of its ESG strategy on ensuring environmental sustainability in its activities, with there being no mention of carbon caps or emissions goals in its ESG activities.



Source: Freepik



# TARGET OVERVIEW



TICKER: NUVA

## NUVASIVE

Founded in 1997, NuVasive is a San Diego-based medical devices firm who specialises in products and procedures for minimally invasive spinal surgeries. With a diverse product line including software for surgical planning and assistance and implantable hardware, NuVasive's products treat a variety of spinal conditions, from early onset scoliosis to limb length discrepancy. Led by CEO Chris Barry, the firm employs approximately 2,900 employees as of 2023. Subdivided into three business segments: Spine, Orthopedics, and Neuromonitoring, NuVasive's diverse product line is primarily aimed for sale to surgeons and medical staff directly, rather than to clients themselves. Active in both the United States and abroad, the company's focus on integrated systems to aid in surgery planning and execution has rendered it an internationally renowned publicly listed medical firm.

## KEY FINANCIALS

### Revenue

- \$1.201B

### Market Capitalisation

- \$2B

### EBIT

- \$816.059M

### EBITDA

- \$865.435M

### Share Price

- \$38.37

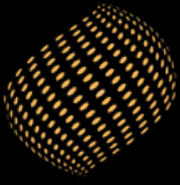
### Net Income

- \$40.407M

### P/E Ratio

- 49.19





## **ESG PRACTICES**

**NuVasive conducts a range of ESG practices, aimed at ensuring sustainability and social justice in their commercial activities. NuVasive has committed itself to full transparency and sustainability of its supply chain, ensuring materials used in their products are both ethically and sustainably sourced, although the extent to which this is abided by is unclear.**

**Furthermore, nonprofit groups associated with the firm, such as the NuVasive Spine Foundation, work to render NuVasive technologies and surgeries accessible to under-privileged communities around the world, supplying training and technology to clinics in impoverished areas to expand access to sophisticated spinal treatments. Since its inception, the foundation has provided over 1,700 surgeries to underprivileged communities worldwide.**



Source: Freepik



# DEAL ANALYSIS

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## STRENGTHS

- There is minimal overlap among the geographies and customers that they cater to, and the products are complementary
- Globus can expand its presence in the spine surgery space, where it competes with larger device makers like J&J and Medtronic
- The deal should contribute to its adjusted earnings within a year

## WEAKNESSES

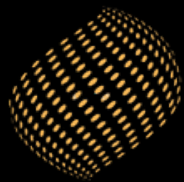
- Similar deals in the spinal device market, such as Stryker acquiring K2M Group, have had more revenue “dis-synergies and loss of integration” than other areas of medtech
- Globus will inherit NUVA’s debts, totalling \$1 billion of which \$450 million Senior Convertible Notes are due in 2023
- Globus has purchased an inferior business that has to improve. Nuvasive has generated 4 years of negative net income in the a 13-year period

## OPPORTUNITIES

- Nuvasive’s Advanced Materials Science portfolio of specialised spinal implants is designed to advance spinal fusion by enhancing the osseointegration and biomechanical properties of implant materials, a strong fit within Globus’s Spine Solutions portfolio
- Nuvasive’s MAGEC technology forms the basis for its preCICE line of products, which supports complex orthopaedic reconstruction, and this augments GMED’s earlier acquisition of Synoste Oy, which specialises in the R&D of a limb lengthening system

## THREATS

- The musculoskeletal industry is highly competitive, diminishing profitability of musculoskeletal device manufacturers and suppliers.
- There are antitrust concerns over the completion of the deal



# VALUATION ANALYSIS

## DISCOUNTED CASH FLOW MODEL

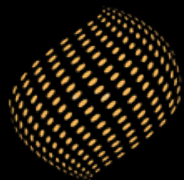
Sensitivity Table						
		Growth Rate				
51.58		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	8.0%	54.30	57.55	61.39	66.00	71.64
	8.5%	49.92	52.59	55.71	59.39	63.82
	9.0%	46.17	48.39	50.96	53.95	57.48
	9.5%	42.94	44.80	46.93	49.39	52.26
	10.0%	40.11	41.69	43.48	45.52	47.88

Please click on the table to access full model.

Using a **WACC** of 8.9% (calculated using **CAPM**), and a **perpetuity growth rate** of 2.5% (average economic growth rate of the US economy), we get an implied share price of \$52.05.

This implies that Globus Medical only paid a 10.6% **premium** to acquire NuVasive (from its intrinsic value) rather than 22.5% (the difference between its unaffected share price and acquisition share price).

Regarding the modelling assumptions made, the pandemic did cause some slight distortion in YoY percentage changes. However, to ensure that assumptions used to forecast UFCF were accurate, 4 years of historical data were used, and if data were widely apart, then a median was used rather than an average.



# VALUATION ANALYSIS

## COMPARABLE COMPANY ANALYSIS

Nuvasive Valuation	Low	High
Selected EBITDA Multiple	23.8	41.4
Implied Enterprise Value	5,193	9,022
Net Debt	643	643
Implied Enterprise Value	4,550	8,379
Equity Value Per Share	87.5	145.2
Premium (Discount)	-34%	-60%

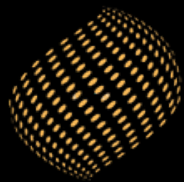
Please click on the table to access full model.

In order to understand how Nuvasive (NUVA) performs when compared to its peers, and whether the offer was fair, a Company Comparable Analysis has been performed.

After selecting five target competitors that are similar in size and products offered, Nuvasive financial details have been compared to get the mean and median industry multiples.

The implied valuation therefore resulted to be somewhere between 23.8x and 41.4x, if compared to those competitors.

Therefore, the implied Enterprise Value was slightly higher than its market value (\$5,193 million vs \$3000 million) and the **equity value** per share resulted to be \$87.5, 34% higher than what Globus Medical offered (\$57.72).



# VALUATION ANALYSIS

## TRANSACTION COMPARABLE ANALYSIS

Company	Target	Revenue	EBITDA
AstraZeneca	Alexion Pharma	6.83x	13.07x
PAI Partners	Amplitude Surgical	2.40x	12.50x
Frensius	Akorn	4.35x	10.74x
Mallinkrodt	Questor	5.95x	10.25x
JPMorgan	Olympus	2.10x	11.30x
Maquet	Pulsion	3.80x	11.10x
Valeant	Medicis	3.05x	12.17x
Average		4.07x	11.59x
<b>Globus Medical</b>	<b>Nuvasive</b>	<b>2.25x</b>	<b>12.40x</b>

Please click on the table to access full model.

A precedent transaction analysis, or transaction comparable analysis, is one in which similar acquisitions are selected in the attempt of obtaining a **valuation multiple** that can be compared to the acquisition's one.

In this case, both Revenue and EBITDA multiples were selected from previous comparable acquisitions. It can be seen that the **EV/Revenue** multiple paid by Globus Medical (2.25x) is lower than the peer group, whereas the **EV/EBITDA** (12.4x) is in line with the group.





# CONCLUSION

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**This deal comes at great risk to Globus despite several of its products aligning well with Nuvasive (Pulse, Advanced Materials Science Portfolio, MAGEC).**

**Globus will face several challenges such as sales force and customer dislocation, and doubling down in a slower growth category or orthopaedics, which is the spine market.**

**As mentioned beforehand, Globus is also acquiring a vastly inferior business with high net debt and 4 years of negative net income from 2011 to 2021. Further should the deal go through, GMED shareholders will be diluted with this being an only stock deal.**

**On the upside, the larger combined company will have a broader range of products to better compete with Medtronic, and have more cash flow from more revenue sources. In addition, Globus CEO has been with Globus as the CFO from 2015 to 2020 and oversaw earlier successful acquisitions.**

**The impact on the overall industry should be significant with the combined entity having 21% market share in the spine business - second only to Medtronic.**



## GLOSSARY

**CAPM Model:** Model used to calculate the cost of equity in a business, by adding the risk-free rate of return to the increased risk of a security.

**Equity Value:** Total value of a publicly traded company's outstanding common shares owned by the stockholders.

**EV/EBITDA:** Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

**EV/Revenue:** Enterprise Value 'Multiple', gives insight into the value of companies against their total revenues, often used to value less mature companies.

**Premium:** increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

**R&D:** Research & Development, the amount a company spends in producing innovative products and services.

**Terminal (Perpetuity) Growth Rate (TGR):** A growth rate that a company is expected to grow at forever based on the market and industry conditions.

**Valuation Multiples:** Financial tool providing one metric as a ratio of another; often used to compare similar companies.

**WACC:** Cost of capital used to represent a firm's after-tax costs from all resources.



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