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GMED - Q3 2017 Globus Medical Inc Earnings Call

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PRESENTATION

Operator

Welcome to Globus Medical's Third Quarter 2017 Earnings Call. (Operator Instructions) I will now turn the call over to Brian Kearns, Vice President of Business Development and Investor Relations. Please go ahead.

Brian Kearns

Thank you, Josh, and thank you, everyone, for being with us today. Joining today's call from Globus Medical will be Dave Demski, CEO; Dan Scavilla, Senior Vice President and CFO; Anthony Williams, President; and David Paul, Executive Chairman.

This review is being made available via webcast accessible through the Investor Relations section of the Globus Medical website at www.globusmedical.com.

Before we begin, let me remind you that some of the statements made during this review are or may be considered forward-looking statements. Our Form 10-K for the 2016 fiscal year and our subsequent filings with the Securities and Exchange Commission identify certain factors that could cause our actual results to differ materially from those projected in any forward-looking statements made today. Our SEC filings, including the 10-K, are available on our website. We do not undertake to update any forward-looking statements as a result of new information or future events or developments.

Our discussion today will also include certain financial measures that are not calculated in accordance with generally accepted accounting principles or GAAP. We believe these non-GAAP financial measures provide additional information pertinent to our business performance. These non-GAAP financial measures should not be considered replacements for, and should be read together with, the most directly comparable GAAP financial measures. Reconciliations to the most directly comparable GAAP measures are available in the schedules accompanying the press release and on the Investor Relations section of the Globus Medical website.

With that, I'll now turn the call over to Dave Demski, our CEO.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Thank you, Brian, and good evening, everyone. Worldwide sales for the third quarter of 2017 were \$152 million, an increase of 11.9% over the third quarter of 2016. We also generated non-GAAP diluted earnings per share of \$0.30 and 35.2% in adjusted EBITDA. In the third quarter, we saw a further acceleration in our U.S. business, continued growth in the Japan market, FDA clearance of our Excelsius GPS robotic and navigation system and industry-leading profitability and cash flow.

As we've discussed on the last several calls, growth in our U.S. implant sales bottomed out in Q3 2016. Since that time, we have taken steps to ramp up our recruiting efforts, correct certain issues that led to unwanted attrition and made invested -- investment into a long-term sales development program. The year-over-year growth has increased in each quarter since that time, reaching 6.2% in Q3 2017 on a date-adjusted basis. The pace and trajectory of this improvement has been very encouraging and positions us well for a strong finish to 2017 and positive momentum heading into 2018. We remain highly focused on competitive recruiting and expect to begin seeing fruit from our development efforts in the back half of 2018.

International sales grew by 70.1% in Q3, including the acquisition of the Alphatec International business. The business in Japan continues to grow and contribute meaningful profitability. Since the acquisition, we have made significant investments in sales reps and sets in Japan. We have launched our first 2 Globus systems in Japan, and the feedback from surgeons has been extremely positive. We expect the impact of our investments and the introduction of new technology to produce strong growth into 2018.

As we discussed on prior calls, our core international business has struggled in several key markets. While there was some improvement in the third quarter, we still experienced a 5.2% decline compared to the third quarter of 2016. We have made several organizational changes to address these issues. We have realigned executive management to increase our operational focus, we have made key hires in important markets, and we are finalizing plans to invest additional resources into inventory and education in larger markets. While these are the right steps to drive growth in our international business, the impact will not be immediate. We expect to see steady top line improvement as these changes are implemented in 2018.

In spine, we launched 2 new products in Q3, bringing our year-to-date total to 7. Today, I'd like to highlight ELSA-ATP, a recent addition to our growing portfolio of expandable products. Globus has pioneered the development of expandable interbody devices and is the unquestioned market leader in this category, having completed over 120,000 surgeries to date across 20 different implant systems. ELSA-ATP is an expandable lateral lumbar interbody fusion device with integrated fixation that can be implanted through an anterior to psoas approach. This first of its kind device is inserted at an oblique angle to reduce the need for trans-psoas resection and potentially decrease reliance on neuromonitoring. The product allows for post-expansion introduction of bone graft and includes integrated screws for enhanced fixation in addition to supplemental fixation. Like all of our expandable technologies, it enables a surgeon to safely place the device at a minimized height, reducing the impaction force and retraction needed for insertion. This helps to preserve endplate integrity, which may result in less subsidence. While ELSA-ATP is in its initial rollout period, we are very excited by the potential impact on our lateral business.

As previously announced, we received 510(k) clearance for the Excelsius GPS robotic and navigation system in mid-August. While we did not book any revenue in Q3, we continue to see tremendous interest in this product from surgeons and expect to report meaningful revenue in Q4. Excelsius GPS is the only product that combines robotics and navigation in a single platform. It is designed to work with 3 different imaging modalities, and it has an optimized workflow that fully integrates with our implant technologies.

In trauma, we have received FDA clearance for 5 product lines, with several more filed with FDA. We also previously announced that we had done our first cases using our distal radius technology several weeks ago. This is a milestone event for Globus as our first foray outside the spine in our 15-year history. We are building sets and aggressively hiring sales reps in anticipation of a full commercial launch in Q1 of 2018. The sets and inventory needed for this launch are unprecedented in our history, involving literally hundreds of sets and thousands of distinct SKUs. And I'd like to acknowledge the great work of our engineering and manufacturing teams to undertake this massive effort.

Turning to profitability. We delivered 35.2% in adjusted EBITDA margins in Q3, which includes significant expenditures related to Emerging Technologies. We believe we are at the apex of the investment stage of Emerging Technologies. In Q3 2017, our investment in Emerging Tech



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

reduced EPS by \$0.05 and was a 4.7% drag to adjusted EBITDA margins. In other words, the spinal implant portion of our business produced \$0.35 in non-GAAP diluted EPS and 39.9% adjusted EBITDA margins. As we begin to generate revenue in robotics, the negative impact should lessen, offset somewhat by incremental investments in robotics as well as a large ramp in the expenses associated with the trauma commercial launch. As these businesses grow to scale, we expect them both to contribute materially to our bottom line as well. This strategy was part of our commitment when we went public 5 years ago: to invest in new areas of growth while maintaining a mid-30s adjusted EBITDA, and I'm proud of our ability to execute on this commitment.

In summary, we had a very solid Q3 performance, exhibiting continued improvement in our U.S. spine business while maintaining our focus on profitability. As we enter into full commercialization of our Emerging Technologies, we are very excited about our prospects in Q4, in 2018 and beyond.

I will now turn the call over to Dan.

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Thanks, Dave, and good evening, everyone. We are pleased with the strong financial results in Q3, the continued improvements in the U.S. business performance, driven by record recruiting, the significant international growth and the progress in commercializing our emerging technology opportunities in robotics and trauma, in line with our long-range strategic plan.

For Q3, sales were \$151.7 million, growing 11.9% as reported, with GAAP net income of \$25.6 million and non-GAAP net income of \$29.3 million, delivering \$0.30 fully diluted non-GAAP earnings per share and adjusted EBITDA of 35.2% and \$22 million of cash flow.

Focusing on sales. U.S. sales for the quarter were \$125.9 million, 4.5% higher than Q3 '16 or 6.2% higher when adjusted for 1 less day in Q3 '17. We continue to see growth acceleration and sequential improvements in the U.S. business, with year-over-year organic growth rates improving from negative 4.1% in Q3 '16 to positive 6.2% in Q3 '17 on a day-adjusted basis. This is driven by stronger competitive rep recruiting and other structural improvements we have made to the business that we believe have and will drive continued momentum and quarterly improvements to revenue into 2018. While sales were impacted by hurricanes in Q3, we saw increased procedures in the subsequent weeks that netted the overall exposure to less than \$1 million for the quarter.

International sales for the quarter were \$25.8 million, growing 70.1% as reported or 69.7% in constant currency, driven by continued market penetration in Japan, gains in key distributor markets and improved momentum in the core international business. September marked the anniversary of the Alphatec acquisition, and we remain pleased with the top line and bottom line contribution of this successful acquisition and the long-term growth potential it offers in international markets. Disruptive Technology sales for the quarter were \$71.5 million or 6.5% growth, with continued strength in our expandable technologies, integrated spacers, biologics and CREO MIS. Innovative Fusion sales for Q3 were \$80.2 million or 17.1% growth, driven by international business, cortex and CREO.

Turning to the rest of the P&L. Q3 gross profit was 75.7% compared to 76.8% in Q3 '16. The change versus prior year is driven by negative mix, with growth in international markets in U.S. biologics resulting in a planned margin decline, partially offset by continued gains from in-house manufacturing, which contributed \$2.2 million in the quarter.

Research and development expenses for the third quarter were \$10.9 million or 7.2% of sales compared to \$10.3 million or 7.6% in Q3 '16, reflecting an increase in investments for robotics and trauma.

SG&A expenses for the third quarter were \$63.4 million or 41.8% compared to 40% in Q3 '16. The increase is driven by the inclusion of pre-revenue robotics and trauma commercial organization builds and increased investments in the U.S. sales force.

Provision for litigation expense in Q3 was \$2.5 million, impacting GAAP EPS by approximately \$0.02.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

The income tax rate for Q3 was 31.5% versus 32.5% in Q3 '16. The change in the effective tax rate is driven by gains from foreign tax credits in Q3 and the ongoing benefit for the adoption of new stock compensation accounting regulations that began in Q1 '17.

GAAP third quarter net income was \$25.6 million and GAAP diluted earnings per share were \$0.26. Non-GAAP net income was \$29.3 million, and non-GAAP diluted earnings per share were \$0.30.

Investments in Emerging Technologies negatively impacted Q3 '17 EPS by approximately \$0.05. Excluding the investment impact of Emerging Technologies in both years, the non-GAAP net income growth in the U.S. and international businesses would be 14.5% in Q3.

We ended the quarter with \$396.5 million of cash, cash equivalents and marketable securities. Net cash provided by operating activities in Q3 was \$35.3 million, and free cash flow was \$22 million. The company remains debt-free.

The company reaffirms guidance for full year 2017 sales of approximately \$625 million and non-GAAP diluted earnings per share of \$1.27.

We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

Your first question comes from the line of Kaila Krum from William Blair.

Kaila Paige Krum - *William Blair & Company L.L.C., Research Division - Research Analyst*

So first, I know you guys have been making a lot of investments in your international business to reinvigorate growth there and stabilize Alphatec. So, I guess, what do you think is a durable growth rate for that business longer term? And what sort of confounding factors should we be considering as we think about next steps to that integration into next year?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Kaila, this is Dave. I didn't hear the second part of your question. Could you repeat it?

Kaila Paige Krum - *William Blair & Company L.L.C., Research Division - Research Analyst*

So just as far as kind of confounding factors into next year, what should we be considering as we think about next steps to the Alphatec integration?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Sure. So overall, I think the growth rate in our international business should be higher than our overall growth rate. We're still underpenetrated in several markets, so I think the upside potential is much stronger there. As I mentioned in my prepared remarks, we're doing really well in Japan. Some of the offsets to that would be we are still working through the integration of overlapping distribution in certain markets, and we expect to see some drag next year for that. But most of the major markets at least are on a good path towards -- we're not finalized, we're on a good path towards that.

NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

Kaila Paige Krum - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay, that's helpful. And then kind of a two-part question as it relates to robotics. Obviously, I mean, there's a lot of excitement there. As we look at the fourth quarter and then into next year, I mean, first, how are we thinking about robotics contribution in the fourth quarter included in your guidance? And then the second part to the question would be just related to the pipeline. I mean, how are we thinking about the robotic system sort of evolving over time? Because I know you've talked -- we've talked about this a little bit in the past. But through KB Medical you tackled on some rod-bending patents. Perhaps you have to go into a few other areas there. Just what would be the process to incorporate additional capabilities over time?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Sure. I'll answer the second part first, and then I'll ask Dan to address the sort of the guidance and revenue expectations. But we consider the Excelsius to be a platform technology. So today, it's assisting in navigating and placing pedicle screws, but we are actively working on projects to expand that, to work in cranial applications. We also anticipate a rod-bending process that would be associated with the machine. We have a navigation -- a stand-alone navigation project on the books. And then we see further on down the line that beyond pedicle screws, we think there's opportunities to really expand the utility of the platform and go into sort of discectomies, decompression, rod placement, really encompassing the entire procedure. Dan?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Kaila, for the first part of your question with guidance, as we get to the \$625 million, we feel pretty good about that in many respects. Certainly, we see the anticipated seasonality lift that we're already experiencing as we had planned for Q4 in the spine. Dave had mentioned we see a lot of activity with robotic quoting. We think that we will have some meaningful revenues there. In general, we feel strongly that we can achieve that \$625 million. I think I'll refrain from anything going forward. Your question was more about the outer years of 2018. And we'll provide some of that guidance in January, as we normally do, as how that looks.

Operator

(Operator Instructions) Your next question comes from Matthew O'Brien from Piper Jaffray.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Just one quick clarification question before I get to my 2, I guess, real questions. But, Dan, can you just give us the Alphatec revenues in the quarter? By my math, it was about \$16 million of Alphatec revenues and about \$11.2 million of incremental revenue contribution versus this time last year.

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Yes. Matt, I think you're in the ballpark. Keep in mind what I did in Q2, as I had said, that, that would be the last quarter we split those out for a couple of reasons. One was the anniversary of the acquisition. The second was that we had gotten enough cross-channel activity that looking at international core separately from Alphatec started to become misleading. So I think as you do those assumptions -- and Dave had called out the one number -- you're getting close, but in general, I'm going to refrain from this and look at it as just one international business at this point.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Fair enough. Okay. So then for the couple of questions that I do have, and I don't want to throw too much water on this. But the 2-year stack U.S. performance, and I get that day-adjusted basis grew nicely, but that was still the lowest level we've seen in that metric, I believe, over the last couple of years, so last 7-or-so quarters. So I know it's good. It was easier comp that you guys had. So just talking about as we get into Q4 and to next year,



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

how that business should kind of progress. Should this be a low or a mid-single-digit adjusted kind of growth business for you going forward? And then maybe in the quarter, what did you see as far as getting these new surgeons or getting existing surgeons back that you had worked with previously?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Thanks, Matt. So I'll go at that a couple of different ways. The first thing is we're really pleased with the results on the-day adjusted basis. It's exactly where we would have called it for Q3. I'm not looking at a stacked comp because we're going from a negative inflection point in Q3 of '16 to a positive in this Q3. So just in general, almost 10.5-point spread between those 2 factors, I think that shows momentum, which is more important. I think that is driven by us doing competitive recruiting, surgeon conversions, going deeper into existing businesses in the U.S. that are the main driver that way. As we signaled, we thought that we would get through Q4 and the rest of this year exiting around that same rate and bring that forward. That was always the plan of 2017 being the recovery year. And we would hit the high points in Q3, Q4 and carry that into what we think would be 2018 based on what we know.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Fair enough. And then lastly on the adjusted EBITDA number again. I get all the investment. It is the lowest level we've seen in the last 8 quarters. And as I look at The Street numbers for next year, they're -- The Street's modeling more like 36.5%. So the number that we're seeing here in Q3, is that essentially what we should be thinking about for the business going forward as you make these investments until we get on the other side, when you start to get more and more revenue?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

So 2 things. We had always signaled that Q2 and Q3 would be the heavier investments as we carry both robotics and trauma pre-revenue. I would never shy away from a 35% EBITDA. I think I'm pretty proud of that being market-leading by anyone's standards. Nothing else comes close, to be honest. And as always, we would encourage The Street to look at that mid-30s EBITDA, between 33% and 37%, at any given time as we continue to invest and grow for the future.

Operator

Your next question comes from the line of Jonathan Demchick at Morgan Stanley.

Jonathan Lee Demchick - *Morgan Stanley, Research Division - Equity Analyst*

I wanted to start off on robotics and, I guess, the interest, really, that you've been getting at NASS. Obviously, there was a lot of attention given to robotics at NASS. I think there's a number of key differentiators, but, I guess, from talking to a lot of physicians, it sounded like the navigation aspect of your platform is one that they really liked compared to other robotics platform out there. Can you just kind of talk about how that really can help in the sale of the robot? And then also if that attribute gets added on to more competitive systems, how does that change the viewpoint on robotics?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Thanks, Jonathan. In terms of the impact, I think it's a safety and a comfort factor. So the other pure robotics systems out there, you're essentially driving the screw in or driving the k-wire in blindly. And this -- the navigation, the integrated navigation enables you to visualize, at least digitally, where the instruments are and where the implants are throughout the procedure. And we've gotten a great feedback from surgeons that, that's really essential to a lot of them adopting robotic technology so that the integration there -- and to your question about what the competition will



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

do, I think it's highly informative that we are aware that they are planning to add that feature to their offering. So we clearly think we're on the right path. And as I mentioned in Kaila's question, we are working on ways to enhance the functionality of the platform moving forward. So we're not going to stand still.

Jonathan Lee Demchick - *Morgan Stanley, Research Division - Equity Analyst*

When you think of the physicians that have been looking at the system, are they typically more physicians that are already used to using navigation or those that are doing more traditional like fluoro procedures?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

It's both. It's certainly, the ones that use computer-assisted technology today are already believers that, that can improve their ability to treat patients. But I think the functionality that we've built into Excelsius has attracted an entirely new group of potential users who are considering using technology to help them treat their patients as well.

Jonathan Lee Demchick - *Morgan Stanley, Research Division - Equity Analyst*

Understood. And then just a quick follow-up for I guess either Dave or Dan. When you were answering the previous question about, I guess, the U.S. growth rate at around 6%, as we kind of move forward, I mean, is the expectation that this is kind of the right growth rate of the business, kind of in the mid- to upper single-digit range for the core business? Is that the expectations for this business moving forward at this point?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Jon, yes, we'll fine-tune, obviously, guidance for 2018 in January, as we said before. But the way I would look at this is, depending on what you see or read, you're looking at a spine market that's currently considered between 0 and 2%. And I think what we're signaling is that we are 2 to 3x growth rate of that. And as you always know, we strive to be a share taker. So we think that we're still going to look at that mid-to upper single digits as a main driver for us to capture share in the market.

Operator

Your next question comes from the line of Richard Newitter from Leerink.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Dan, I wanted to follow up on your answer to that last one and then the comment that you made earlier about some of the trends with respect to the fourth quarter. So when you say mid-single digit to high single digit, that is about, whatever, 2 to 3x, 0 to 2% market. Is it right to think that there's acceleration potential off of that, given the trauma and robotics, those are totally incremental? Or are you committed to mid-single digit to high single digit, and you need robots and trauma to get there?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

So, Rich, when I was using that number, to answer Jon's question, I was referring to core spine. An addition to that would be, of course, the trauma business and the robotic business. They would come as additional growth beyond that number.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Okay. I thought so. And just you mentioned that you're already starting to experience some typical seasonality. Can you elaborate on that a little bit? And is it coming back stronger than even the end of September kind of snapback that you had from the hurricanes? And what are you seeing kind of for this year compared to prior year's seasonality?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Yes. So too early to make a call like that, Rich. What I would tell you is there tends to always be a lift as you get into Q4. And I'm just saying that as we're sitting here in November, we're seeing what appears to be normal for year-end right now in the spine. And again, that's positive. It's something we will bank on. But I would tell you, we're not seeing or experiencing anything outside of the usual historical norm.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Okay. And if I could -- just one more on the robot. Can you give us a sense as to what kind of strategies that you plan to implement in order to potentially secure more sticky kind of implant revenue market share as the robot installed base expand? And are there certain types of, I don't want to say discounts, but are there certain types of kind of volume arrangements that you're engaging in with customers to kind of go after that share?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Thanks, Rich. I mean, we're not going to get into all of our intricacies of our selling strategy. But I think the most obvious impact to our implant business is that the robot works much more efficiently if you use our implant. It's fully integrated with about 10 of our implant systems right now. So there's a natural inclination for surgeons to want to utilize our implants because their procedures are going to go better and faster.

Operator

Your next question comes from the line of Kyle Rose at Canaccord.

Kyle William Rose - *Canaccord Genuity Limited, Research Division - Senior Analyst*

Can you hear me all right?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Yes.

Kyle William Rose - *Canaccord Genuity Limited, Research Division - Senior Analyst*

Yes. So I wanted to ask the robotics question a different way. I mean, 2 years ago at the Analyst Day, I think it was this time 2 years ago, you talked about Emerging Technologies as a whole looking like about 15% of that \$1 billion revenue number from a long-term perspective. So when we think about that being a \$150 million potential revenue line for you guys, I just wanted to see, one, a lot's happened over the last 2 years. Does that still kind of long-term view hold? And then when you think about that and just the overall mix of robotics versus trauma within there, can you kind of just walk us through how you think about the next several years playing out from an Emerging Technologies standpoint relative to that guidance?



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Sure, Kyle. Thanks. So the first thing is, you're right, it was about 2 years ago that we had, had that Analyst Day and we had declared about \$1 billion as we got to 2020. I would tell you, everything we look at now, we still see that as a realistic approach and certainly feasible. In that, the key signal was that we are a spine company and would remain a spine company even then. So back to our point, 80% to 85% of sales in that \$1 billion would remain as the core spine. And we had, had about \$150 million that would be Emerging Technologies. During that meeting, we simply cut it in half, having had no real data, just to say this is what we think. If you ask me today, I'm still guessing. But I would tell you that I would be heavier on the robotics side than the trauma that way. The number is truly a guess, but I would probably be more in the 100 to 125 for the robotics and the difference being trauma right now. But it's really more of a gut feel than any data or science there.

Kyle William Rose - *Canaccord Genuity Limited, Research Division - Senior Analyst*

Terrific. And then just a follow-up on the robotics. I know that you're hesitant to give guidance specifically for the Q4. But in the press release about the first cases, you did call out cases at 2 different facilities. And I just wanted to know, is it fair to think that, that's -- those are the first 2 first robots placed? I guess, are there any different types of values, selling agreements or anything along those lines? Or should we think about that as being 2 initial placements?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Kyle, we're really not prepared to discuss anything regarding the fourth quarter or any details of our sales on this call.

Kyle William Rose - *Canaccord Genuity Limited, Research Division - Senior Analyst*

Okay. And then one more on trauma. Just, obviously, you had the initial cases. You talked about continuing to build out the commercial team. Can you just kind of give us a good understanding of how you'd expect the hiring of the trauma sales force to take place over the course of the next 6 months as you build out those sets, prepare for the broader commercial launch in 2018?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

We're hiring right now. We've got our field sales management team in place, and we're hiring reps as we speak. They're coming through here every day. Was that answering your question, Kyle?

Kyle William Rose - *Canaccord Genuity Limited, Research Division - Senior Analyst*

Yes. Sorry, I was on mute.

Operator

Your next question comes from the line of Ryan Zimmerman at BTIG.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - Research Analyst*

So just -- you talked about your product introductions into Japan. I'm just curious if you could expand a little bit on the kind of cadence of product introductions into Japan and what we should think about for what's coming in that market. That is my first question.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

Anthony L. Williams - *Globus Medical, Inc. - President and Corporate Secretary*

Ryan, this is Anthony Williams. So we started -- as Dave mentioned, we've got a handful of systems cleared for sale in Japan. Obviously, we started initially with the products that target the biggest segments there, so primarily pedicle screws at this point. But we are in the process of looking at the entire portfolio and figuring out what makes sense to launch in Japan and are working with the regulatory team there to get products submitted and registered as quickly as we can.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - Research Analyst*

Okay, I appreciate that. And then just on the trauma build-out, there's a lot of sets that need to get done and built and produced for this production. Just from a capital expenditure standpoint, I mean, your capital expenditures are tracking in line, I think, to where you've gone historically. But should we expect any additional increases going forward on the capital expense side for those [trade] build-outs? Or should it track fairly in line with what we're seeing thus far?

Daniel T. Scavilla - *Globus Medical, Inc. - CFO & Senior VP*

Ryan, it's Dan. It's a great question. And I would tell you that it probably is going to track in line so far. There's a couple of reasons for that. We have been investing in our in-house manufacturing capabilities in order to produce trauma as well as grow spine. And so this year, you're carrying a lot of machine expenditures that would probably diminish somewhat into next year and be replaced with that build of trauma sets. Keep in mind, we're sitting with \$396 million of cash, so converting that into profit-generating sets is something we're equipped to do.

Operator

Your next question comes from the line of Mike Matson at Needham & Company.

David Joshua Saxon - *Needham & Company, LLC, Research Division - Associate*

This is David Saxon on for Mike today. So I just wanted to start first with 3D printing. So I was wondering if you've noticed any impact from competitors' 3D printed and expandable spacers. And then previously, I think it sounded like you weren't quite convinced. So I was curious if that's changed or if that's still the case.

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

Thanks, David. We have seen a modest impact. It's more anecdotal at this point, where a few surgeons have utilized some of our competitors' products in 3D printing. And we are actively developing products in that space at this point.

David Joshua Saxon - *Needham & Company, LLC, Research Division - Associate*

Okay. And then as a follow-up, can you give any update on how the sales force hiring is going and, I guess, if you're targeting more experienced hires?

David M. Demski - *Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director*

It's going quite well. I think as we mentioned last quarter, we had already exceeded our previous record in terms of the number of competitive reps that we've hired. And our pipeline is very full and very active at this point. There's a lot of buzz about our -- the robotics opportunity and the impact that may have on the implant business. And we continue to see people that are interested in carrying our portfolio. So we've got an extensive pipeline, looking forward to continuing to build the sales force that way.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

Operator

Your next question comes from the line of Matt Taylor at Barclays.

Matthew Charles Taylor - Barclays PLC, Research Division - Director

I'd love to start there, just piggybacking off of your last comment. I want to know how you thought the robot could help drive that implant business. I guess, from what we've seen from the market leader with their partnership with Medtronic, it hasn't really driven a lot of that implant business yet. So how are you going to approach that differently? And how do you think you can really get a halo effect from a robot?

David M. Demski - Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director

Thanks, Matt. Well, the difference is our competitors -- you need to use a k-wire, which means you're agnostic to the implant that you're going to use. As long as it's a cannulated screw, you can use anybody's implant. Ours also offers that option. You can use a k-wire and other folks' implants, but the system itself is -- functions much better if you integrate it with our technology. So we think there'll be a natural pull-through as surgeons want to do the cases as efficiently and safely as possible if they use our implants.

Matthew Charles Taylor - Barclays PLC, Research Division - Director

Great. And just to follow, it seems like you're doing much better on the hiring and the (inaudible) front. And I was wondering if you could give us any kind of hard metrics other than talking about record hires. You mentioned earlier in the comments, you expected some additional positive impact, I guess, late next year. Is that just pull-through from the guys that are already on board? Or is that a harbinger of more hires to come?

David M. Demski - Globus Medical, Inc. - CEO, Group President of Emerging Technologies & Director

Yes, we traditionally don't disclose actual numbers of hires and that sort of thing. But just to clarify my comments, I was referring to the developmental program that we had instituted late last year, early this year. We're bringing folks who don't have experience in the industry up to speed, getting them comfortable and confident in the spine world. They will start becoming ready to take over territories towards the back half of next year.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

Brian Kearns

Thanks, Josh. I'd like to thank everyone for joining us for the Globus Medical Third Quarter Conference Call. Feel free to reach out if you have any additional questions. I will be happy to help you out. And at this time, please disconnect. The call has ended.

Operator

This concludes today's conference call. You may now disconnect.



NOVEMBER 08, 2017 / 10:30PM, GMED - Q3 2017 Globus Medical Inc Earnings Call

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