



Globus Medical Reports Second Quarter 2019 Results

August 1, 2019

AUDUBON, Pa., Aug. 01, 2019 (GLOBE NEWSWIRE) -- Globus Medical, Inc. (NYSE:GMED), a leading musculoskeletal solutions company, today announced its financial results for the second quarter ended June 30, 2019.

- Worldwide sales were \$194.5 million, an increase of 12.2% as reported
- Second quarter net income was \$38.2 million
- Diluted earnings per share (EPS) was \$0.38 and non-GAAP diluted EPS was \$0.41, a decrease of 6.7%
- Non-GAAP adjusted EBITDA was 32.0% of sales

"Our strong second quarter results demonstrate solid momentum across all parts of our business," said Dave Demski, President and CEO. "Enabling Technologies contributed \$12.0 million, down from last year's \$13.7 million, but up 67% over the first quarter; our International Spine business grew at 19.2%, on a constant currency basis; and our US Spine business continued to accelerate, growing at 11.7%."

Worldwide sales for the second quarter were \$194.5 million, an increase of 12.2% over the second quarter of 2018 on an as-reported basis and 12.7% on a constant currency basis. Second quarter sales in the U.S., including robotics, increased by 10.0% as quarterly seasonality and longer sales cycles dampened robotic sales compared to the second quarter of 2018. International sales increased by 23.3% over the second quarter of 2018 on an as-reported basis and 26.7% on a constant currency basis.

During the second quarter, the Company acquired substantially all of the assets of StelKast, Inc., a privately held company that designs, manufactures and distributes orthopedic implants for knee and hip replacement. "The StelKast acquisition should serve as a platform to expand our products and services into the Total Joint Arthroplasty market," said David Paul, Executive Chairman. "Globus Medical's proven product development engine and history of innovation, when combined with our computer assisted technologies in Imaging, Navigation and Robotics, have the potential to improve clinical care for joint arthroplasty patients and create value for shareholders."

Second quarter GAAP net income was \$38.2 million, a decrease of 15.1% over the same period last year. Diluted EPS for the second quarter was \$0.38, as compared to \$0.44 for the second quarter 2018. Non-GAAP diluted EPS for the second quarter was \$0.41, compared to \$0.44 in the second quarter of 2018, a decrease of 6.7%.

The Company generated net cash provided by operating activities of \$22.6 million and non-GAAP free cash flow of \$7.9 million in the second quarter, and ended the quarter with cash, cash equivalents and marketable securities of \$610.1 million. The Company remains debt free.

2019 Annual Guidance

The Company today increased guidance for full year 2019 sales from \$770 million to \$775 million to account for the StelKast acquisition and reiterated guidance for non-GAAP diluted earnings per share of \$1.72.

Conference Call Information

Globus Medical will hold a teleconference to discuss its 2019 second quarter results with the investment community at 4:30 p.m. Eastern Time today. Globus invites all interested parties to join the call by dialing:

1-855-533-7141 United States Participants

1-720-545-0060 International Participants

There is no pass code for the teleconference.

For interested parties who do not wish to ask questions, the teleconference will be webcast live and may be accessed through a link on the Globus Medical website at investors.globusmedical.com.

The call will be archived until Thursday, August 8, 2019. The audio archive can be accessed by calling 1-855-859-2056 in the U.S. or 1-404-537-3406 from outside the U.S. The passcode for the audio replay is 646-9561.

About Globus Medical, Inc.

Based in Audubon, Pennsylvania, Globus Medical, Inc. was founded in 2003 by an experienced team of professionals with a shared vision to create products that enable surgeons to promote healing in patients with musculoskeletal disorders. Additional information can be accessed at www.globusmedical.com.

Non-GAAP Financial Measures

To supplement our financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), management uses certain non-GAAP financial measures. For example, non-GAAP adjusted EBITDA, which represents net income before interest income, net and other

non-operating expenses, provision for income taxes, depreciation and amortization, stock-based compensation, provisions for litigation, and acquisition related costs/licensing, and net gain from the sale of assets, is useful as an additional measure of operating performance, and particularly as a measure of comparative operating performance from period to period, as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance, and it removes the effect of our capital structure, asset base, income taxes and interest income and expense. Our management also uses non-GAAP adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Provision for litigation represents costs incurred for litigation settlements or unfavorable verdicts when the loss is known or considered probable and the amount can be reasonably estimated, or in the case of a favorable settlement, when income is realized. Acquisition related costs/licensing represents the change in fair value of business acquisition related contingent consideration; costs related to integrating recently acquired businesses including but not limited to costs to exit or convert contractual obligations, severance, and information system conversion; and specific costs related to the consummation of the acquisition process such as banker fees, legal fees, and other acquisition related professional fees, as well as one-time licensing fees. Net gain from sale of assets represents the gain on sale of assets and the offsetting impact of costs incurred through the sale.

In addition, for the period ended June 30, 2019 and for other comparative periods, we are presenting non-GAAP net income and non-GAAP diluted earnings per share, which represent net income and diluted earnings per share excluding the provision for litigation, amortization of intangibles, acquisition related costs/licensing, net gain from the sale of assets and the tax effects of such adjustments. We believe these non-GAAP measures are also useful indicators of our operating performance, and particularly as additional measures of comparative operating performance from period to period as they remove the effects of litigation, amortization of intangibles, acquisition related costs/licensing, net gain from the sale of assets and the tax effects of such adjustments, which we believe are not reflective of underlying business trends. Additionally, for the periods ended June 30, 2019 and for other comparative periods, we also define the non-GAAP measure of free cash flow as the net cash provided by operating activities, adjusted for the impact of restricted cash, less the cash impact of purchases of property and equipment. We believe that this financial measure provides meaningful information for evaluating our overall financial performance for comparative periods as it facilitates an assessment of funds available to satisfy current and future obligations and fund acquisitions. Furthermore, the non-GAAP measure of constant currency sales growth is calculated by translating current year sales at the same average exchange rates in effect during the applicable prior year period. We believe constant currency sales growth provides insight to the comparative increase or decrease in period sales, in dollar and percentage terms, excluding the effects of fluctuations in foreign currency exchange rates.

Non-GAAP adjusted EBITDA, non-GAAP net income, non-GAAP diluted earnings per share, free cash flow and constant currency sales growth are not calculated in conformity with U.S. GAAP. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for financial measures prepared in accordance with U.S. GAAP. These measures do not include certain expenses that may be necessary to evaluate our liquidity or operating results. Our definitions of non-GAAP adjusted EBITDA, non-GAAP net income, non-GAAP diluted earnings per share, free cash flow and constant currency sales growth may differ from that of other companies and therefore may not be comparable. Additionally, we have recast prior periods for non-GAAP net income and non-GAAP diluted earnings per share.

Safe Harbor Statements

All statements included in this press release other than statements of historical fact are forward-looking statements and may be identified by their use of words such as “believe,” “may,” “might,” “could,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and other similar terms. These forward-looking statements are based on our current assumptions, expectations and estimates of future events and trends. Forward-looking statements are only predictions and are subject to many risks, uncertainties and other factors that may affect our businesses and operations and could cause actual results to differ materially from those predicted. These risks and uncertainties include, but are not limited to, factors affecting our quarterly results, our ability to manage our growth, our ability to sustain our profitability, demand for our products, our ability to compete successfully (including without limitation our ability to convince surgeons to use our products and our ability to attract and retain sales and other personnel), our ability to rapidly develop and introduce new products, our ability to develop and execute on successful business strategies, our ability to successfully integrate the international operations acquired from Alphatec, both in general and on our anticipated timeline, our ability to transition Alphatec’s international customers to Globus products, our ability to realize the expected benefits to our results from the Alphatec acquisition, our ability to comply with laws and regulations that are or may become applicable to our businesses, our ability to safeguard our intellectual property, our success in defending legal proceedings brought against us, trends in the medical device industry, general economic conditions, and other risks. For a discussion of these and other risks, uncertainties and other factors that could affect our results, you should refer to the disclosure contained in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission, including the sections labeled “Risk Factors” and “Cautionary Note Concerning Forward-Looking Statements,” and in our Forms 10-Q, Forms 8-K and other filings with the Securities and Exchange Commission. These documents are available at www.sec.gov. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for us to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements contained in this press release speak only as of the date of this press release. We undertake no obligation to update any forward-looking statements as a result of new information, events or circumstances or other factors arising or coming to our attention after the date hereof.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| <i>(In thousands, except per share amounts)</i> | | | | |
| Sales | \$ 194,539 | \$ 173,384 | \$ 377,486 | \$ 347,795 |
| Cost of goods sold | 43,990 | 37,637 | 85,828 | 75,607 |

| | | | | |
|--|------------------|-----------|------------------|-----------|
| Gross profit | 150,549 | 135,747 | 291,658 | 272,188 |
| Operating expenses: | | | | |
| Research and development | 15,746 | 13,523 | 30,069 | 26,210 |
| Selling, general and administrative | 88,379 | 77,125 | 174,163 | 152,819 |
| Amortization of intangibles | 3,449 | 2,178 | 6,792 | 4,365 |
| Acquisition related costs | 106 | 782 | 685 | 1,021 |
| Total operating expenses | 107,680 | 93,608 | 211,709 | 184,415 |
| Operating income | 42,869 | 42,139 | 79,949 | 87,773 |
| Other income, net | | | | |
| Interest income/(expense), net | 4,417 | 2,971 | 8,576 | 5,262 |
| Foreign currency transaction gain/(loss) | (210) | 344 | (22) | 339 |
| Other income/(expense) | 17 | 4,850 | 241 | 5,008 |
| Total other income/(expense), net | 4,224 | 8,165 | 8,795 | 10,609 |
| Income before income taxes | 47,093 | 50,304 | 88,744 | 98,382 |
| Income tax provision | 8,930 | 5,327 | 17,370 | 13,866 |
| Net income | \$ 38,163 | \$ 44,977 | \$ 71,374 | \$ 84,516 |
| Earnings per share: | | | | |
| Basic | \$ 0.39 | \$ 0.46 | \$ 0.72 | \$ 0.87 |
| Diluted | \$ 0.38 | \$ 0.44 | \$ 0.70 | \$ 0.84 |
| Weighted average shares outstanding: | | | | |
| Basic | 99,023 | 97,830 | 98,875 | 97,337 |
| Dilutive stock options | 2,559 | 3,680 | 2,600 | 3,668 |
| Diluted | 101,582 | 101,510 | 101,475 | 101,005 |
| Anti-dilutive stock options excluded from weighted average calculation | 5,021 | 1,809 | 4,854 | 1,863 |

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

| <i>(In thousands, except par value)</i> | <u>June 30,</u> <u>2019</u> | <u>December 31,</u> <u>2018</u> |
|--|--------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash, cash equivalents, and restricted cash | \$ 117,790 | \$ 139,747 |
| Short-term marketable securities | 122,637 | 199,937 |
| Accounts receivable, net of allowances of \$5,410 and \$4,226, respectively | 144,681 | 137,067 |
| Inventories | 173,040 | 131,254 |
| Prepaid expenses and other current assets | 13,512 | 15,387 |
| Income taxes receivable | 12,273 | 7,289 |
| Total current assets | 583,933 | 630,681 |
| Property and equipment, net of accumulated depreciation of \$231,003 and \$216,809, respectively | 194,133 | 171,873 |
| Long-term marketable securities | 369,665 | 263,117 |

| | | |
|------------------------|---------------------|---------------------|
| Intangible assets, net | 85,465 | 87,323 |
| Goodwill | 129,901 | 123,734 |
| Other assets | 15,671 | 10,364 |
| Deferred income taxes | 11,978 | 13,578 |
| Total assets | \$ 1,390,746 | \$ 1,300,670 |

LIABILITIES AND EQUITY

Current liabilities:

| | | |
|----------------------------------|---------------|---------------|
| Accounts payable | \$ 23,745 | \$ 25,895 |
| Accrued expenses | 50,607 | 59,878 |
| Income taxes payable | 431 | 917 |
| Business acquisition liabilities | 6,016 | 6,830 |
| Deferred revenue | 3,385 | 2,598 |
| Total current liabilities | 84,184 | 96,118 |

Business acquisition liabilities, net of current portion

| | | |
|--------------------------|----------------|----------------|
| | 3,288 | 3,288 |
| Deferred income taxes | 8,097 | 8,114 |
| Other liabilities | 7,651 | 7,634 |
| Total liabilities | 103,220 | 115,154 |

Commitments and contingencies (Note 13)

Equity:

Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 76,647 and 76,143 shares at June 30, 2019 and December 31, 2018, respectively

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Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 22,430 and 22,430 shares at June 30, 2019 and December 31, 2018, respectively

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| | | |
|--------------------------------------|---------------------|---------------------|
| Additional paid-in capital | 325,061 | 299,869 |
| Accumulated other comprehensive loss | (1,728) | (7,172) |
| Retained earnings | 964,094 | 892,721 |
| Total equity | 1,287,526 | 1,185,516 |
| Total liabilities and equity | \$ 1,390,746 | \$ 1,300,670 |

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| <i>(In thousands)</i> | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income | \$ 71,374 | \$ 84,516 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,113 | 19,233 |
| Amortization of premium (discount) on marketable securities | (736) | 1,477 |
| Write-down for excess and obsolete inventories | 2,468 | 5,406 |
| Stock-based compensation expense | 12,749 | 11,533 |
| Allowance for doubtful accounts | 1,229 | 312 |
| Change in fair value of business acquisition liabilities | 579 | 416 |
| Change in deferred income taxes | 1,424 | 1,429 |
| (Gain)/loss on disposal of assets, net | 295 | (3,947) |

| | | |
|--|-------------------|-------------------|
| (Increase)/decrease in: | | |
| Accounts receivable | (6,532) | (2,257) |
| Inventories | (28,094) | (11,120) |
| Prepaid expenses and other assets | (2,933) | (3,303) |
| Increase/(decrease) in: | | |
| Accounts payable | (901) | (5,751) |
| Accrued expenses and other liabilities | (8,744) | (2,104) |
| Income taxes payable/receivable | (5,491) | (10,276) |
| Net cash provided by operating activities | 61,800 | 85,564 |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | (210,606) | (309,223) |
| Maturities of marketable securities | 161,568 | 158,102 |
| Sales of marketable securities | 25,490 | 63,741 |
| Purchases of property and equipment | (42,895) | (27,167) |
| Proceeds from sale of assets | — | 3,000 |
| Acquisition of businesses, net of cash acquired and purchases of intangible and other assets | (24,135) | — |
| Net cash used in investing activities | (90,578) | (111,547) |
| Cash flows from financing activities: | | |
| Payment of business acquisition liabilities | (5,633) | (5,950) |
| Proceeds from exercise of stock options | 12,268 | 33,131 |
| Net cash provided by financing activities | 6,635 | 27,181 |
| Effect of foreign exchange rate on cash | 186 | (71) |
| Net increase in cash, cash equivalents, and restricted cash | (21,957) | 1,127 |
| Cash, cash equivalents, and restricted cash at beginning of period | 139,747 | 118,817 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 117,790 | \$ 119,944 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | 4 | — |
| Income taxes paid | \$ 23,975 | \$ 22,667 |

Supplemental Financial Information

Sales by Geographic Area:

| | Three Months Ended | | Six Months Ended | |
|-----------------------|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| <i>(In thousands)</i> | 2019 | 2018 | 2019 | 2018 |
| United States | \$ 159,989 | \$ 145,381 | \$ 307,527 | \$ 290,997 |
| International | 34,550 | 28,003 | 69,959 | 56,798 |
| Total Sales | \$ 194,539 | \$ 173,384 | \$ 377,486 | \$ 347,795 |

Sales by Revenue Stream:

| | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| <i>(In thousands)</i> | 2019 | 2018 | 2019 | 2018 |
| Musculoskeletal Solutions products | \$ 182,538 | \$ 159,644 | \$ 358,296 | \$ 321,333 |
| Enabling Technologies products | 12,001 | 13,740 | 19,190 | 26,462 |

| | | | | |
|-------------|------------|------------|------------|------------|
| Total Sales | \$ 194,539 | \$ 173,384 | \$ 377,486 | \$ 347,795 |
|-------------|------------|------------|------------|------------|

Liquidity and Capital Resources:

| <i>(In thousands)</i> | June 30, 2019 | December 31, 2018 |
|---|------------------|----------------------|
| Cash, cash equivalents, and restricted cash | \$ 117,790 | \$ 139,747 |
| Short-term marketable securities | 122,637 | 199,937 |
| Long-term marketable securities | 369,665 | 263,117 |
| Total cash, cash equivalents, restricted cash and marketable securities | \$ 610,092 | \$ 602,801 |

The following tables reconcile GAAP to Non-GAAP financial measures.

Non-GAAP Adjusted EBITDA Reconciliation Table:

| <i>(In thousands, except percentages)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | \$ 38,163 | \$ 44,977 | \$ 71,374 | \$ 84,516 |
| Interest income, net | (4,417) | (2,971) | (8,576) | (5,262) |
| Provision for income taxes | 8,930 | 5,327 | 17,370 | 13,866 |
| Depreciation and amortization | 12,858 | 9,757 | 25,113 | 19,233 |
| EBITDA | 55,534 | 57,090 | 105,281 | 112,353 |
| Stock-based compensation expense | 6,297 | 5,480 | 12,749 | 11,533 |
| Acquisition related costs/licensing | 335 | 1,285 | 971 | 1,677 |
| Net gain from sale of assets | — | (4,357) | — | (4,357) |
| Adjusted EBITDA | \$ 62,166 | \$ 59,498 | \$ 119,001 | \$ 121,206 |
| Net income as a percentage of sales | 19.6% | 25.9% | 18.9% | 24.3% |
| Adjusted EBITDA as a percentage of sales | 32.0% | 34.3% | 31.5% | 34.8% |

Non-GAAP Net Income Reconciliation Table:

| <i>(In thousands)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | \$ 38,163 | \$ 44,977 | \$ 71,374 | \$ 84,516 |
| Amortization of intangibles | 3,449 | 2,178 | 6,792 | 4,365 |
| Acquisition related costs/licensing | 335 | 1,285 | 971 | 1,677 |
| Net gain from sale of assets | — | (4,357) | — | (4,357) |
| Tax effect of adjusting items | (717) | 95 | (1,524) | (238) |
| Non-GAAP net income | \$ 41,230 | \$ 44,178 | \$ 77,613 | \$ 85,963 |

Non-GAAP Diluted Earnings Per Share Reconciliation Table:

| <i>(In thousands)</i> | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Diluted earnings per share, as reported | \$ 0.38 | \$ 0.44 | \$ 0.70 | \$ 0.84 |
| Amortization of intangibles | 0.03 | 0.02 | 0.07 | 0.04 |
| Acquisition related costs/licensing | — | 0.01 | 0.01 | 0.02 |
| Net gain from sale of assets | — | (0.04) | — | (0.04) |
| Tax effect of adjusting items | (0.01) | — | (0.02) | — |
| Non-GAAP diluted earnings per share | \$ 0.41 | \$ 0.44 | \$ 0.76 | \$ 0.85 |

Non-GAAP Free Cash Flow Reconciliation Table:

| <i>(In thousands)</i> | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net cash provided by operating activities | \$ 22,597 | \$ 33,269 | \$ 61,800 | \$ 85,564 |
| Purchases of property and equipment | (14,740) | (14,793) | (42,895) | (27,167) |
| Free cash flow | \$ 7,857 | \$ 18,476 | \$ 18,905 | \$ 58,397 |

Non-GAAP Sales on a Constant Currency Basis Comparative Table:

| <i>(In thousands, except percentages)</i> | Three Months Ended | | Reported Sales Growth | Currency Impact on Current Period Sales | Constant Currency Sales Growth |
|---|--------------------|------------|-----------------------------|--|---|
| | June 30, | | | | |
| | 2019 | 2018 | | | |
| United States | \$ 159,989 | \$ 145,381 | 10.0% | \$ — | 10.0% |
| International | 34,550 | 28,003 | 23.3% | (945) | 26.7% |
| Total Sales | \$ 194,539 | \$ 173,384 | 12.2% | \$ (945) | 12.7% |

| <i>(In thousands, except percentages)</i> | Six Months Ended | | Reported Sales Growth | Currency Impact on Current Period Sales | Constant Currency Sales Growth |
|---|------------------|------------|-----------------------------|--|---|
| | June 30, | | | | |
| | 2019 | 2018 | | | |
| United States | \$ 307,527 | \$ 290,997 | 5.7% | \$ — | 5.7% |
| International | 69,959 | 56,798 | 23.2% | (2,371) | 27.3% |
| Total Sales | \$ 377,486 | \$ 347,795 | 8.5% | \$ (2,371) | 9.2% |

Contact:

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www.globusmedical.com



Source: Globus Medical