

GLOBUS MEDICAL INC
Form 10-Q
May 02, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-35621

GLOBUS MEDICAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

04-3744954

(I.R.S. Employer Identification No.)

2560 General Armistead Avenue, Audubon, PA 19403

(Address of principal executive offices) (Zip Code)

(610) 930-1800

(Registrant's telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading Symbols Name of exchange on which registered

Class A Common Stock, par value \$.001 per share

GMED

New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files):

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	<input checked="" type="checkbox"/> Accelerated Filer	<input type="checkbox"/> Non-accelerated Filer	<input type="checkbox"/> Smaller Reporting Company	<input type="checkbox"/> Emerging Growth Company	<input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

The number of shares outstanding of the issuer's common stock (par value \$0.001 per share) as of April 29, 2019 was 98,990,287 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except par value)	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash, cash equivalents, and restricted cash	\$129,976	\$ 139,747
Short-term marketable securities	190,688	199,937
Accounts receivable, net of allowances of \$4,235 and \$4,226, respectively	139,616	137,067
Inventories	143,380	131,254
Prepaid expenses and other current assets	12,915	15,387
Income taxes receivable	993	7,289
Total current assets	617,568	630,681
Property and equipment, net of accumulated depreciation of \$223,662 and \$216,809, respectively	184,288	171,873
Long-term marketable securities	300,802	263,117
Intangible assets, net	84,269	87,323
Goodwill	123,680	123,734
Other assets	12,962	10,364
Deferred income taxes	12,350	13,578
Total assets	\$1,335,919	\$ 1,300,670
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$25,031	\$ 25,895
Accrued expenses	48,605	59,878
Income taxes payable	1,068	917
Business acquisition liabilities	2,000	6,830
Deferred revenue	2,788	2,598
Total current liabilities	79,492	96,118
Business acquisition liabilities, net of current portion	3,289	3,288
Deferred income taxes	7,938	8,114
Other liabilities	7,986	7,634
Total liabilities	98,705	115,154
Commitments and contingencies (Note 13)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 76,552 and 76,143 shares at March 31, 2019 and December 31, 2018, respectively	77	76
Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 22,430 and 22,430 shares at March 31, 2019 and December 31, 2018, respectively	22	22
Additional paid-in capital	316,665	299,869
Accumulated other comprehensive loss	(5,480	) (7,172
Retained earnings	925,930	892,721

Total equity	1,237,214	1,185,516
Total liabilities and equity	\$1,335,919	\$ 1,300,670

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share amounts)	Three Months Ended	
	March 31, 2019	March 31, 2018
Sales	\$182,947	\$174,411
Cost of goods sold	41,838	37,970
Gross profit	141,109	136,441
Operating expenses:		
Research and development	14,324	12,689
Selling, general and administrative	85,784	75,694
Amortization of intangibles	3,343	2,187
Acquisition related costs	579	238
Total operating expenses	104,030	90,808
Operating income	37,079	45,633
Other income, net		
Interest income/(expense), net	4,159	2,291
Foreign currency transaction gain/(loss)	189	(5)
Other income/(expense)	224	158
Total other income/(expense), net	4,572	2,444
Income before income taxes	41,651	48,077
Income tax provision	8,441	8,539
Net income	\$33,210	\$39,538
Earnings per share:		
Basic	\$0.34	\$0.41
Diluted	\$0.33	\$0.39
Weighted average shares outstanding:		
Basic	98,727	96,840
Dilutive stock options	2,640	3,656
Diluted	101,367	100,496
Anti-dilutive stock options excluded from weighted average calculation	4,687	1,917

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands)	Three Months Ended	
	March 31, 2019	March 31, 2018
Net income	\$33,210	\$39,538
Other comprehensive income/(loss):		
Unrealized gain/(loss) on marketable securities, net of tax	1,799	(236)
Foreign currency translation gain/(loss)	(107)	4,371
Total other comprehensive income/(loss)	1,692	4,135
Comprehensive income	\$34,902	\$43,673

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands)	Three Months Ended	
	March 31, 2019	March 31, 2018
Cash flows from operating activities:		
Net income	\$33,210	\$39,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,254	9,476
Amortization of premium (discount) on marketable securities	(396)	) 785
Write-down for excess and obsolete inventories	2,167	2,483
Stock-based compensation expense	6,448	6,053
Allowance for doubtful accounts	33	217
Change in fair value of business acquisition liabilities	579	234
Change in deferred income taxes	1,059	(124)
(Gain)/loss on disposal of assets, net	94	—
(Increase)/decrease in:		
Accounts receivable	(2,533)	) (5,080)
Inventories	(13,844)	) (1,206)
Prepaid expenses and other assets	848	(1,234)
Increase/(decrease) in:		
Accounts payable	2,827	728
Accrued expenses and other liabilities	(9,984)	) (7,072)
Income taxes payable/receivable	6,441	7,497
Net cash provided by operating activities	39,203	52,295
Cash flows from investing activities:		
Purchases of marketable securities	(127,911)	) (118,403)
Maturities of marketable securities	90,454	73,330
Sales of marketable securities	11,773	1,333
Purchases of property and equipment	(28,155)	) (12,374)
Net cash used in investing activities	(53,839)	) (56,114)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(5,350)	) (5,440)
Proceeds from exercise of stock options	10,255	9,307
Net cash provided by financing activities	4,905	3,867
Effect of foreign exchange rate on cash	(40)	) 971
Net increase in cash, cash equivalents, and restricted cash	(9,771)	) 1,019
Cash, cash equivalents, and restricted cash at beginning of period	139,747	118,817
Cash, cash equivalents, and restricted cash at end of period	\$129,976	\$119,836
Supplemental disclosures of cash flow information:		
Interest paid	2	—
Income taxes paid	\$1,450	\$1,197

See accompanying notes to unaudited condensed consolidated financial statements.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Globus Medical, Inc., together with its subsidiaries, is a medical device company that develops and commercializes healthcare solutions whose mission is to improve the quality of life of patients with musculoskeletal disorders. We are primarily focused on implants that promote healing in patients with musculoskeletal disorders, including the use of a robotic guidance and navigation system and products to treat patients who have experienced orthopedic traumas.

We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures to assist surgeons in effectively treating their patients and address new treatment options. With over 190 products on the market, we offer a comprehensive portfolio of innovative and differentiated technologies that address a variety of musculoskeletal pathologies, anatomies, and surgical approaches.

We are headquartered in Audubon, Pennsylvania, and market and sell our products through our exclusive sales force in the United States, as well as within North, Central & South America, Europe, Asia, Africa and Australia. The sales force consists of direct sales representatives and distributor sales representatives employed by exclusive independent distributors.

The terms the “Company,” “Globus,” “we,” “us” and “our” refer to Globus Medical, Inc. and, where applicable, our consolidated subsidiaries.

(b) Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2018.

In the opinion of management, the statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of our financial position and of the results for the three month periods presented. The results of operations for any interim period are not indicative of results for the full year.

(c) Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Globus and its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

(d) Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates, in part, on historical experience that management believes to be reasonable under the circumstances. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary.

Significant areas that require management's estimates include intangible assets, business acquisition liabilities, allowance for doubtful accounts, stock-based compensation, write-down for excess and obsolete inventory, useful lives of assets, the outcome of litigation, recoverability of intangible assets and income taxes. We are subject to risks and uncertainties due to changes in the healthcare environment, regulatory oversight, competition, and legislation that may cause actual results to differ from estimated results.

(e) Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

(In thousands)	March 31, 2019	December 31, 2018	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$129,976	\$139,647	\$119,836	\$118,817
Restricted cash	—	100	—	—
Total cash, cash equivalents, and restricted cash as presented in the condensed consolidated statement of cash flows	\$129,976	\$139,747	\$119,836	\$118,817

(f) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, securities of government, federal agency, and other sovereign obligations, and asset-backed securities, and are classified as available-for-sale as of March 31, 2019. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our condensed consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of accumulated other comprehensive income or loss on our condensed consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of our marketable securities are determined on a specific identification basis. Realized gains and losses, along with interest income and the amortization/accretion of premiums/discounts are included as a component of other income/(expense), on our condensed consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our condensed consolidated balance sheets.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We maintain a portfolio of various holdings, types and maturities, though most of the securities in our portfolio could be liquidated at minimal cost at any time. We invest in securities that meet or exceed standards as defined in our investment policy. Our policy also limits the amount of credit exposure to any one issue, issuer or type of security. We review our securities for other-than-temporary impairment at each reporting period. If an unrealized loss for any security is considered to be other-than-temporary, the loss will be recognized in our condensed consolidated statement of income in the period the determination is made.

(g) Inventories