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GMED - Q4 2017 Globus Medical Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Brian Kearns

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

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

CONFERENCE CALL PARTICIPANTS

Brandon Vazquez *Canaccord Genuity Limited, Research Division - Associate*

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

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

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

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

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

Steven M. Lichtman *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Travis Lee Steed *BofA Merrill Lynch, Research Division - VP*

William George Inglis *Piper Jaffray Companies, Research Division - Research Analyst*

Xuyang Li *Barclays PLC, Research Division - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Globus Medical Fourth Quarter and Full Year 2017 Earnings Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Vice President of Investor Relations, Mr. Brian Kearns. You may begin.

Brian Kearns

Thank you very much, Demetrius, 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 2017 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



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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.

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

Thank you, Brian, and good afternoon, everyone. Worldwide revenue for the fourth quarter of 2017 was \$176 million, an increase of 16.1% over the fourth quarter of 2016. For the full year, revenue has increased 12.8% to \$636 million. Non-GAAP EPS for the fourth quarter were \$0.38 per share, an increase of 20.7% over the fourth quarter of 2016. For the full year, non-GAAP EPS increased 10.2% to \$1.31 per share.

Revenue growth in the fourth quarter was 100% organic as we completed the acquisition of Alphatec's international assets in the third quarter of 2016. The exceptional growth in revenue and earnings we achieved in the fourth quarter was a result of a combination of strong performance by all sectors of our business, combined with the first quarter revenue attributable to our ExcelsiusGPS system.

The U.S. spinal implant business continued its recent trend, growing by 6.5% over the fourth quarter of 2016. You will recall that year-over-year growth rates have been accelerating for the past 5 quarters after having bottomed out in the third quarter of 2016. We continue to be encouraged by the progress in this part of our business even though the easy comps are now largely behind us.

Growth from new product introductions remains robust, led by strong results from recent additions to our COALITION integrated cervical fusion platform, CREO MIS pedicle screws and our QUARTEX posterior cervical fixation system.

2017 was a record recruiting year for our U.S. sales force, and we are seeing continued strong interest in Globus due to our position as a technology leader in spine. Our international spinal implant business delivered exceptional results in the fourth quarter, growing by 16.2% compared to the fourth quarter of 2016. The Japanese business continues to deliver outstanding growth as we are starting to see the impact of increased investments in sets and manpower begin to pay off. We expect significant growth from this market in 2018 as we have aggressive hiring plans, and we'll continue to introduce Globus-branded technology throughout the year, including the introduction of our unique expandable technology.

The remainder of our international business also experienced a strong turnaround in the quarter. Operational improvements were seen in several markets, combined with the impact from a very soft fourth quarter of 2016 for the Alphatec business. The fourth quarter of 2016 was the first full quarter after the acquisition, and we were working through inventory supply and transition issues that limited sales in some markets. These issues were largely resolved in the first quarter of 2017. While we are pleased with our operating progress, the growth rate we achieved in the fourth quarter is likely not sustainable in the short term, particularly in the first quarter of 2018 as the impact of the Alphatec issues reverses. High single-digit growth rates are more appropriate expectations for this segment of our business in the near term.

As we have stated in prior calls, we have seen tremendous enthusiasm by surgeons for our ExcelsiusGPS robotics and navigation system. As a reminder, this is the only robotic technology that combines robotics and navigation on a single platform and supports 3 different imaging modalities: pre-op CT, intra-op CT and fluoroscopy. These features, combined with the full integration of Globus implant systems and an elegant workflow design, have generated strong interest in the product. That interest resulted in significant revenue in the fourth quarter. I could not be more pleased with the teamwork exhibited by our capital and implant teams to deliver these results in such a short period of time following FDA clearance. In addition, our clinicals board and implant teams have done a tremendous job of turning these early installations into burgeoning robotics programs in the accounts that purchased this technology. Robotics technology has the potential to transform the way spine surgery is done, and Globus intends to remain the leader in this endeavor. Our early results are very encouraging.

Moving on to trauma. We are pleased to announce that we have now received FDA clearance for the 10 systems that we have identified as our core systems. As we noted in our last call, we have begun doing cases on a limited basis with one system. Our focus now is building the inventory required to fully launch all of these systems and recruiting a world-class sales force. I'm happy to report great progress on both fronts. We expect to begin launching new systems throughout the first quarter, with a full launch of all systems to occur in Q2. Based on the surgeon feedback we received at the Orthopaedic Trauma Association last fall, we believe we will introduce solutions to advance patient care in this market in the same



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way we have advanced patient care in spine. Furthermore, the quality and quantity of the highly skilled, successful sales representatives who have joined our team is further endorsement of what we are doing and the potential of this opportunity.

As we look forward to 2018, we expect to maintain our recent growth trends in the U.S. spinal implant business as we remain focused on new product launches, sales recruiting and development. Internationally, we anticipate our outstanding performance in Japan to continue and are encouraged by the early signs of a turnaround in other parts of the world. We remain bullish on the impact that our robotics technology will have on 2018 revenues, and in trauma, we expect to set the stage in 2018 for significant growth in 2019.

Our non-GAAP EPS for the fourth quarter was \$0.38 per share, an improvement of 20.7% over the \$0.31 we delivered in the fourth quarter of 2016. Much of this improvement is due to robotic sales as the EPS drag from Emerging Technologies front from negative \$0.03 on a non-GAAP basis to approximately breakeven. Given our planned increases in investments in trauma commercialization, combined with the investments we are making for growth in robotics in 2018, we expect it will be 2019 before we see a significant profit contribution from Emerging Technologies.

As Dan will outline more in his segment of the call, we were very pleased to see the tax reform legislation pass. We plan to reinvest a portion of the anticipated savings into our business but also expect a large contribution to our earnings in 2018.

Our performance in the fourth quarter was an outstanding way to close out a very significant year of change for Globus Medical. The CEO transition from David to me has gone very smoothly, which is a credit to the strong leadership team we have in place and our passionate and dedicated employees all over the world. Furthermore, our foray into the field of robotic technology has crossed a significant milestone with the commercial success we are experiencing. Our innovation in spinal implant technology remains vibrant, and we have set the stage for a new journey into the field of trauma. While we have accomplished a lot in the last 15 years, our future looks even brighter.

I will now turn the call over to Dan.

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

Thanks, Dave, and good afternoon, everyone. We're pleased with the strong financials in Q4 resulting from continued improvements in the U.S. business, significant international growth driven by Japan, a strong uptake of the Excelsius robot by hospitals throughout the country.

Full year sales were \$636 million, growing 12.8% as reported with 1 less selling day in 2017. GAAP net income was \$107.3 million, including a onetime tax reform charge of \$11 million. Non-GAAP net income was \$128.1 million, delivering \$1.31 fully diluted non-GAAP earnings per share, and adjusted EBITDA of 35.6% and \$107.8 million of free cash flow. Q4 sales were \$176 million, growing 16.1% as reported, with GAAP net income of \$24.4 million, including a onetime tax reform charge of \$11 million. Non-GAAP net income was \$37.3 million, delivering \$0.38 fully diluted non-GAAP earnings per share, an adjusted EBITDA of 34.9% and \$31.4 million of free cash flow.

Focusing on sales. U.S. sales for the quarter were \$148 million, 16.1% higher than Q4 '16. We continue to see year-over-year organic growth acceleration and sequential improvements in the U.S. business. Our sales growth resulted from the launch of the Excelsius robot, coupled with stronger, competitive rep recruiting in U.S. spine and other structural improvements we have made to the business that we believe will drive continued momentum in 2018.

International sales for the quarter were \$28 million, growing 16.2% as reported or 15.2% in constant currency. Gains were achieved through continued market penetration in Japan, increases in key distributor markets and improved momentum in the core international business.

Some of the year-over-year revenue growth was attributable to the lower Q4 '16 comp. As Dave mentioned, Q4 '16 was the first full quarter of the Alphatec acquisition, and during that period, we were working through inventory supply and transition activities that limited sales in some markets. As a result, some distributor orders were shipped in Q1 '17 once enough inventory was received from Alphatec.

Disruptive Technology sales for the quarter were \$90.6 million or 25.8% growth, driven by Excelsius, integrated and expandable spacers, CREO MIS and biologics. Innovative Fusion sales were \$85.5 million or 7.3% growth, with sales increases in cortex, CREO and Alphatec international business.



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Turning to the rest of the P&L. Q4 gross profit was 76.8% compared to 74.3% in Q4 '16. There were onetime charges in both Q4 '17 and Q4 '16 that impact year-on-year comparability. In Q4 '17, we extended the depreciable lives of instruments and cases from 3 to 5 years, which had a 100 basis point gain in Q4 '17 gross margins. While in Q4 '16, we recorded multiyear depreciation and scrap charges, negatively impacting the Q4 '16 gross profit by approximately 170 basis points. Full year gross profit for 2017 remains strong at 76.3%, and full year 2018 gross profit is projected to be approximately 75%.

Research and development expenses for the fourth quarter were \$11.4 million or 6.5% of sales compared to \$13.6 million or 9% in Q4 '16. Q4 '16 contained a onetime \$4 million acquisition-related charge. Excluding this onetime expense, operational R&D grew 18.4% versus prior year, driven by increased investments in Emerging Technologies and spine.

SG&A expenses for the fourth quarter were \$73 million or 41.4% compared to \$60.8 million or 40.1% in Q4 '16. The increase was primarily from investments in our U.S. spine sales force, building the robotic and trauma commercial teams and the expansion of our Japanese sales force.

The GAAP net income tax rate for Q4 was 51.8%, including a onetime \$11 million tax reform charge for deferred tax asset remeasurement and forced foreign earnings repatriation. Excluding this onetime charge, the effective tax rate in Q4 was 30.1% versus 33.4% in Q4 '16. The 330 basis point gain in the effective tax rate resulted from the reorganization of our domestic legal structure, foreign tax credits and the adoption of stock compensation accounting regulations in 2017. We project an effective tax rate for 2018 of approximately 23%.

GAAP fourth quarter net income was \$24.4 million, and GAAP diluted earnings per share were \$0.25. Non-GAAP net income was \$37.3 million, and non-GAAP diluted earnings per share were \$0.38. Emerging Technologies negatively impacted Q4 '17 EPS by less than \$0.01 compared to approximately negative \$0.05 in Q3 '17 and \$0.03 in Q4 '16.

Adjusted EBITDA for Q4 '17 was 34.9%, reflecting gains from the strong robotic sales, partially offset by increased investments in Emerging Technologies and spine, coupled with year-end adjustments and provisions. Full year '17 adjusted EBITDA was 35.6%. Full year 2018 is projected to be approximately 35%.

We ended the quarter with \$429.8 million of cash, cash equivalents and marketable securities. Net cash provided by operating activity in Q4 was \$44.8 million, and free cash flow was \$31.4 million. Full year net cash from operating activities was \$159.5 million, and free cash flow is \$107.8 million. The company remains debt free.

The company reaffirms guidance for full year 2018 sales of approximately \$690 million and non-GAAP diluted earnings per share of \$1.50.

We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Larry Biegelsen with Wells Fargo.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Dan, let me just start with the guidance. You did 16% organic in Q4, but you're guiding to about 8% for 2018. So can you talk a little bit about the cadence of growth you expect through 2018? And is the only thing that you expect to be softer the international growth that you called out in -- from Q4 to Q1? Is there any other reason why you're expecting a deceleration from 16% to 8%? And I had a couple of follow-ups.



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

Thanks, Larry. I would say there's a couple of things with this. First is you're looking at a spine market that everyone would probably triangulate to between 0 and 2%. So to walk into the beginning of the year as we are with our core and declaring that we have to grow anywhere between 2 to 3x the market is, I think, a good step for us that way, and I think it's just a natural approach. In addition, as you know, we're layering on top Emerging Technologies, primarily robotics, with that. And again, having had just 1 quarter of launch under our belt we think it's prudent to put out a strong growth well above the market but not necessarily continue forward with the fourth quarter growth rate. And as Dave called out, and I also mentioned, we also had a different international comp, and that as well gets factored into that move.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

That's helpful. And then just for a follow-up. What are you guys assuming for Emerging Technologies in the 2018 guidance? And David, could you provide some qualitative feedback on the robot that you're hearing from the field? What's the most attractive feature that people are gravitating to? What type of accounts are buying the robot? Are these primarily Globus loyalists or physicians or surgeons who typically haven't used Globus implants in the past?

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

I'm going to answer the first part then hand it over to Dave. So we have not split out individual parts of guidance. I think there are ranges within all of our areas, and we think some will overachieve and some may fall short. But in total, getting to \$690 million, we have many different combinations to get there. So we're going to guide it as one total company and use those levers appropriately to achieve that number.

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

Let me take the second part of your question there in terms of the response we're getting -- it's been really gratifying to date in terms of the installations that we've made. It's gone very smoothly. And to your question about what they find most attractive, I think it's a combination of factors. I think probably most importantly is the integration of robotics and navigation on a single platform. I think the different imaging modalities enables us to accommodate any investments the hospitals have made in terms of imaging equipment in place. And I think, finally, the way we have integrated it with the Globus implants is a very elegant workflow the surgeons appreciate, and they -- it doesn't disrupt them from the way they normally do the case. I think it's a combination of those factors that has had the appeal. And to the second part of your question, we're seeing interest from both Globus accounts as well as folks that we haven't done business with in the past. And it's been pretty mixed up to this point. So it's -- that's been great as well. We're starting to get some interest and time with folks who haven't used this prior to now.

Operator

And our next question comes from Jonathan Demchick with Morgan Stanley.

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

I wanted to follow up a bit on Larry's questions really on the profile of some of the accounts that purchased the Excelsius. Specifically, you kind of mentioned it's been, I guess, split between Globus loyalists and other accounts. I was really trying to focus in on those other accounts and what you've seen in terms of implant pull-through from the system, those people that are really shifting more sales towards Globus now that they can optimize it using the robot. And I just have one quick follow-up.



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

Sure, Jon. It -- we're seeing the almost exclusive use of Globus implants or pedicle screws on those cases. The system just works much more efficiently when and if they use our screws.

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

Just wanted to follow up a bit on the added investments that are going to be made during -- into the Emerging Technology platform next year. Where are these initially going to be focused? When you think about \$14 million of added revenue or added expense that you're going to place there, is this predominately on the sales force and marketing? Is this more for getting trauma products off the ground? Just any clarity there would be helpful.

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

I can take that, Jon. It's across the board. And in terms of trauma, we're heavily ramping up the sales force at this point. And then on the imaging navigation and robotics piece of the business, we are continuing to invest in product development there to enhance the current platform. We're looking at some follow-on products as well. And then we are expanding our capital sales force to meet the demand that we're seeing in the market.

Operator

And our next question comes from Ryan Zimmerman with BTIG.

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

So just want to follow up on the robotics questions a little bit as well. Not to throw water on what was a fantastic quarter, but should we think that there was some pent-up demand in the early start of the robotics commercialization? And just kind of how we should think about the run rate and what the sales cycle looks like at this point. And I have a couple of follow-ups as well.

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

Thanks for asking. So a couple of things. First off, fourth quarter for core spine is always that hockey stick effect, and certainly, we saw and experienced that in fourth quarter as you normally do. And we'd see something come out differently in Q1. So I think that's normal. What we think we see as well is we look to think about 40% of the capital demand occurs in the fourth quarter based on hospitals' financial cycles and things like that as well. So I don't know if it will be appropriate to take that fourth quarter performance and roll that forward. I think it is soaked in the seasonality. And I think, certainly, there's some pent-up demand and some interest that we process through. I don't think we have a true accurate measure to say what was new, what was pent-up, those type items, but nonetheless, you would just think inherently there were some of that there.

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

Appreciate the color around that. And then to follow up on your comments about sales reps, I mean, you guys have had really robust hiring over '17 and really at the end of '16. And just curious, given your comments that you are going to continue to hire in '18, how should we think about greenfield opportunities for reps and competitive -- territories potentially splitting, those types of dynamics that may challenge some of your existing reps?



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

No, it's great question. Keep in mind that we are 7% share in the U.S. And so there's a lot of territory for us to still get into, a lot of penetration that we can do before we really start bumping into our own reps. And so, certainly, a few of those may occur somewhere, but the fact we are 7% share and a share taker gives us a lot of opportunity to continue to convert or hire and drive into the market.

Operator

And our next question comes from Richard Newitter with Leerink Partners.

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

So Dave, maybe the first one for you. At your Analyst Day a few years ago, you kind of talked about at a \$1 billion in sales beyond 2020. You would expect the Emerging Technologies business combined between trauma and robotics to be about 15% of that or \$150 million, and I think you were saying about OUS being about 15% of sales. I'm just wondering, with trauma now kind of just about to get going, the robot clearly commercial, any changes on the view of the aggregate Emerging Tech kind of revenue contribution as you approach that billion dollar mark? And then -- and what about on the international side? I'm sure you weren't contemplating the Alphatec contribution at that point in time. So any updates there would be helpful.

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

Thanks, Rich. We haven't really gone back and revised the projections there. But I don't think we're too far off. I think we're still well within range of hitting the Emerging Technology numbers. And while we didn't account for Alphatec, I think our organic growth has been less than optimal in the interim period. So I think those numbers are still in the ballpark. We will probably be looking at that plan later on this year and maybe giving you some update to it then.

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

Okay. That's helpful. And maybe just one more. You've got \$400 -- or just under \$430 million of cash on the balance sheet here. I know Brian and the team there are constantly looking at opportunities. So could you give us any sense as to where you think the portfolio needs the most help potentially externally and where and when we might see kind of that capital deployed?

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

Thanks, Rich. We're -- actually, as we look at 2018, I refer to it as an execution year with what we have, the opportunity in front of us with robotics and where we need to be in trauma. As an organization, I think our bandwidth is going to be deployed on those 2 opportunities. So I don't see us doing anything at all significant this year. We -- of course, we're always looking at things. And if something very opportunistic presents itself, we'll take a look at it. But I think our best bet for this year is on our self, basically.

Operator

And our next question comes from Kaila Krum with William Blair.



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

So I guess, first off, a couple on robotics. I think you can back into the number of robotic systems in the quarter, but I guess, can you help us understand, first off, how many accounts that you've sold those systems into? And then second, can you give any detail about the pipeline potential of this platform and how or when we should think about you scaling this system into trauma and extending into augmented reality, et cetera?

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

Thanks, Kaila. We've tried to give you enough information to figure out the revenue, but we're -- it's not our intention to get into details on ASPs or units or that granular level just for competitive reasons. It's highly competitive market right now. And in terms of our expanding the pipeline, later -- late in this year and early into next year, we'll probably have some things to begin sharing with you in terms of where we're taking the platform.

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

Okay. That's helpful. And then I guess as we think about kind of that U.S. spine implant growth, I mean, really strong performance in the quarter. You guys talked about a handful of contributors, but can you just parse out the specific drivers in the quarter and just how durable those drivers are into this year?

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

Thanks, Kaila. I would consider them durable. I think it's really about going through 2016, addressing some of the items we had on how we recruit, how we retain, providing newer products into the bag through those continuous launches and then going out and penetrating the market. I don't think there's anything that occurred as we continue to have sequential improvements through 2017 that we would not see rolling into 2018 and continuing to be strong. I called out -- we called out several of the products. But I would tell you, just in every area, we're doing really well. I mean, expandables continue to grow. We feel like we're making inroads with other products, including pedicle screws, biologics, et cetera.

Operator

And our next question comes from Bob Hopkins with Bank of America Merrill Lynch.

Travis Lee Steed - *BofA Merrill Lynch, Research Division - VP*

This is Travis Steed on for Bob. So one of the ways we're getting to your 2018 guidance is we're assuming \$20 million to \$25 million for the robot; \$5 million to \$10 million for trauma; the U.S. business grows kind of more mid-single digits; OUS, high single digits, low double digits. Just trying to think, are we at least in the ballpark of what you're thinking in your various scenarios that you talked about?

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

Yes, I think you're reasonably close to those type things, Travis. So one thing I'd say with trauma is keep in mind, we're investing this year, we're hiring folks. We plan on launching -- I wouldn't get carried away with it. I think that's more of a 2019 story onward. I think we'll get some points on the board towards the second part of the year. But I wouldn't make it a bigger part of the guidance or anything you're modeling right now.

Travis Lee Steed - *BofA Merrill Lynch, Research Division - VP*

Okay. That's helpful. And on the hiring plans for reps this year, can you talk about that and also some of the performance of some of the new reps you put to your development program?

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

Sure. Our hiring plans are to exceed the record we set in 2017. So we continue to be active in that area in terms of spinal implants. And then it's still in the early stages of the development program, but we're happy with the folks that we have in the program. We're happy with the way they are progressing through their experiential as well as their classroom learning. And we're just now starting to put them into some territories. So it's a little too early to say whether they're going to be effective in those territories, but all signs are very positive right now.

Travis Lee Steed - *BofA Merrill Lynch, Research Division - VP*

Okay. And then speaking about the cadence for 2018, are there any selling day differences in 2018?

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

There's 1 extra day for the overall year. I don't have the exact quarterly split with me now, but we could always take that off-line and take a look through as you model.

Operator

And our next question comes from Steve Lichtman with Oppenheimer.

Steven M. Lichtman - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Just wondering, any updated thoughts on the market overall, anything new you've heard from the field in terms of why the continued sluggishness we've been seeing and any potential for us to break out of that from the things that you've heard on the ground?

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

Thanks, Steve. So I'll tell you, we don't have anything in particular to call out for this. I'm just looking at the public reported sales and looking at the changeover years. I had a chance to get to a few health care conferences and talk to some investors. And I think we're all saying we look at some move that makes us between 0 to 2%. But if you talk about the actual whys, we've not heard anything concrete that we would assign to us and push forward. Keep in mind, again, that's a 7% share, we're share taker. And regardless of the marketing 0 or 5%, we plan to go out and capture more and more share and drive forward.

Steven M. Lichtman - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And Dan, I think you mentioned gross margin would be down a little bit in '18. Why would that be? Is that mix international? Or what are the other drivers are there?

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

No, thanks for asking, Steve. It's a couple of things. One is guidance. So I'm always going to go in that mid-70s as we declare and then look to see how that works and beats it. But if I was going to give you some stronger rationale than that, I'd say growth in international business, in biologics, coupled with some continued U.S. price pressure, probably just gets you down there. I think as an overall modeling tool, that's a conservative approach and a reasonable approach to use as we enter into 2018.



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Steven M. Lichtman - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And then just lastly, what are your thoughts in terms of how big of a trauma sales force you'll get to when you go to the broader launch in the second quarter? And maybe how big you think this thing needs to be ultimately a few years out to compete against a couple bigger players?

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

Steve, as is our tradition, we're really not prepared to share the number of reps that we're going to hire, but we plan to compete head-to-head with the market leaders. So we know we need to match up with them geographically and account-by-account. So it's going to be a significant investment.

Operator

And our next question comes from Matt O'Brien with Piper Jaffray.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

This is Will Inglis on for Matt. I guess one quick question regarding the robot, then I'll move on to Japan. But as far as what you've seen so far with Excelsius, are there certain types of cases that surgeons are using the platform for specifically, complex versus D gen, inpatient versus outpatient, et cetera? And then how should we think about that going forward in terms of your go-to-market strategy?

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

Yes, Will, thanks for the question. It's been surprising with the -- just early days here, the variety of cases that we're seeing, we're seeing lateral, posterior, MIS, open, D gen, deformity. I mean, it shows the versatility of the system and also the surgeons' willingness to put it through its paces and really test it out. And it's performed well in every aspect.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

That's great to hear. And then as far as Japan, where are you at with registering new products there? And then what type of contribution do you expect from those new products in '18?

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

This is Anthony. So we've gotten -- so breaking it into 2 different groups. So there's -- we have 2 products, 2 Globus products, that are registered and selling in Japan. And then we've got another half a dozen or maybe a few more that are approved and then a slate of additional ones that are in the process of being submitted. Initially, we expect incremental revenue contribution to be fairly nominal as we switch the existing customers from the existing Alphatec products that they're using today onto our systems. It's not opportunity to get premium pricing in Japan because pricing is set by the government. So it's pretty uniform across systems. We do think that's some of our advanced technologies. I think Dave mentioned our expandables. As we get those into market, we have to be able to drive additional revenue from those but aren't prepared at this point to call out what we think the incremental contribution will be.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

Okay. That's fair. And then just one last question. So are there any other new geographies OUS in '18 that we should think about in terms of driving growth?



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

I would think not at this point. We continue to go penetrate those markets, both from our core international and the Alphatec acquisition. I don't think we have any plans or have anything in the [site] currently that would take us beyond those borders.

Operator

And our next question comes from Young Li with Barclays.

Xuyang Li - *Barclays PLC, Research Division - Research Analyst*

I guess the first question, just on the utilization rates for the robotic system you placed so far. Can you maybe talk about how that compares to your internal expectations? And also maybe talk about how many surgeons are needed from each account in order to get it approved by the hospital admins?

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

Sure, Young. In terms of the adoption, as I mentioned in my prepared remarks, the, what we call, robotics programs, which is really utilizing that technology in a robust way, is already beginning. So we're very happy with the initial utilization of the systems in all the accounts we're in. And then to your question, one spine surgeon can be enough to get it approved. And it depends on their influence and the amount of volume that they might do in their hospital. But certainly, multiple surgeons interested in it is going to make it easier for them.

Xuyang Li - *Barclays PLC, Research Division - Research Analyst*

Okay. Great. That's helpful. And I guess just curious, you had a really successful launch, but are there any pushbacks on the robotic system so far from either surgeons or hospital administrators?

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

Just to understand your question, you mean in terms of the installed units?

Xuyang Li - *Barclays PLC, Research Division - Research Analyst*

In terms of the selling process like pricing or service or anything like that.

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

As in most things, price is always an issue, and you always have to negotiate that. But I think we've demonstrated the value that this can bring to the practice and to the hospital, and we've been able to keep our pricing where we want it to be.

Operator

And our next question comes from Kyle Rose with Canaccord Genuity.



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Brandon Vazquez - *Canaccord Genuity Limited, Research Division - Associate*

This is actually Brandon in for Kyle. My first question, just sticking on robotics, is in terms of -- in your current accounts, can you just kind of speak to any early halo effects that you might be seeing in those accounts? And then maybe to dovetail off of that, just any color in terms of volume or implant arrangements that are tied to the robotic sales at this point?

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

Thanks, Brandon. I'm not sure I understand exactly what you mean by a halo effect. Could you clarify that?

Brandon Vazquez - *Canaccord Genuity Limited, Research Division - Associate*

Yes, sure. So I just mean in terms of in the accounts that you're placing Excelsius, are you seeing a pull-through in terms of other products in the entire portfolio?

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

I don't think at this point, but that's -- obviously in the long term, I think that's a real opportunity for us. As we're in those robotics cases and we have a full portfolio of compelling technology, the opportunity to work with the surgeons and continue to talk to them about the advantages our products could bring to their practice is huge. And I'm confident that our guys will be able to do that over the long term.

Brandon Vazquez - *Canaccord Genuity Limited, Research Division - Associate*

Great. And just in terms of the capital reps and your core spine reps in the U.S., can you just talk to you maybe what -- to what degree that they interact with each other and maybe they can create leads for one another down the road?

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

It has been fantastic. I just really want to commend both groups for the way they are working together. We understand from other companies' experience, when they try to mix the capital group in with a strong implant team that there can be turf wars, if you will. But our guys have done a fantastic job, and they're generating leads for each other. And I think it has resulted in the quick start that we've made.

Operator

With no further questions, this concludes the Globus Medical Fourth Quarter and Full Year 2017 Earnings Call. Thank you for your participation. You may now disconnect. Good night.



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