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**Globus Medical, Inc. Q4 2022 Earnings Call Transcript**

February 21, 2023

**Company Participants**

Brian Kearns - Senior Vice President of Business Development and Investor Relations

Dan Scavilla - President and CEO

Keith Pfeil - Senior Vice President and Chief Financial Officer

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**Conference Call Participants**

Shagun Singh - RBC Capital Markets

Matt Taylor - Jefferies

Matt Miksic - Barclays

Vik Chopra - Wells Fargo

David Saxon - Needham and Company

Steve Lichtman - Oppenheimer

Matthew O'Brien - Piper Sandler

Craig Bijou - Bank of America

Kyle Rose - Canaccord Genuity

Mathew Blackman - Stifel

Richard Newitter - Truist

Drew Ranieri - Morgan Stanley

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**Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question comes from the line of Shagun Singh of RBC Capital Markets. Your line is open.

**Shagun Singh**

Great, thank you so much and congratulations on exceeding \$1 billion in sales. So I guess my first question is, I guess, we've all had some time to digest the deal, but just given the stock reaction, I'm wondering if you could comment on where you see the disconnect in your thinking versus investors on deal rationale financials and/or strategy? And one of the other things that's come up is, if you may, sweeten the deal, could you just talk about the flexibility and willingness to close the deal here? Any comments would be helpful. Thank you so much.

**Dan Scavilla**

Thanks, Shagun. So just keep in mind as we did this and as we've talked about during our announcement, you're really looking at what we believe is a complementary global scale, the ability to expand customer reach with minimal overlap. We've talked about being able to develop a comprehensive and innovative portfolio in spine and orthopedics when we combine these out. And we remain committed to innovative product development and surgeon education. We're saying that the operational capabilities fit nicely together in this and actually can benefit us as a combined.

And when you look at that and you combine us out the compelling upside of revenue and what even Keith mentioned with the EPS and accretion that's all out there for value opportunity, that's what we see. The disconnect, I can't say, I can't speak for Wall Street, they'll point to several unrelated deals and look at that, but that's okay. It's certainly they're proguative to do it.

As for what we would do in a market and change in stock is something we wouldn't be in a position to actually comment on and with something we'll have to evaluate and see when that time comes.

**Operator**

Thank you. Our next question comes from the line of Matt Taylor of Jefferies. Your questions please, Matt.

**Matt Taylor**

Great. Hi, thanks for taking the question. So I wanted to see if you could address more specifically, I think the main concern a lot of investors have is about the dissynergies, the turnover that you talked about. Can you talk a little bit about how you can mitigate that? And then also how you may be able to offset that with some of the revenue synergies that you discussed here and maybe the timing of this?

**Dan Scavilla**

Thanks, Matt. So we won't go into too much detail. We're going to put together filings and different things in our proxy where you would certainly have access to that in the near future. What we're signaling, of course, is that like in any deal, we would expect to have some reasonable amount of dissynergies. And I think that anybody would want that in there as a prudent statement. So we've built that in that way, whether that be reps going to a competitor, account switching to just natural things that would occur.

What Keith said and what I would stand by is, however, when we're able to get our hands on a cervical disc that's multilevel that they have, their lateral procedures, we can hand to them are expandables. We can open up a market for our enabling technology. All of those things will have actually offsets that we believe would occur over a couple of years. And I think we all strongly believe in this. So by combining the portfolios, combining the markets will come out stronger. And we'll see some short-term pain, but both pains are doing this for the long-term, not the current 12 months, but we're really looking to say, for multiyear, we're building a strong company.

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**Matt Taylor**

Maybe I could just ask 1 follow-up on the synergies. You seem very confident in that target that you laid out. Maybe just talk about how much of that stuff is you'd call it well identified or lower hanging fruit? And how much of it is harder to kind of pull apart and synergize in your plan?

**Keith Pfeil**

Thanks for the question. Yes, we do feel good about achieving the \$170 million in synergies. I would say that we're in the early stages of working with the teams to better understand the business. But as we look at our cost structure, versus their cost structure, we feel confident that we're able to achieve these savings when you look at the combined spending of both companies together.

**Matt Taylor**

Great. Thank you, guys.

**Keith Pfeil**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Matt Miksic of Barclays. Your line is open, Matt.

**Matt Miksic**

Hui, it's Matt Miksic. I wasn't quite referring to me after I look less name, but if you can hear me - can you hear me okay?

**Keith Pfeil**

Yes, we got you, Matt.

**Matt Miksic**

Yes, a lot of Matt on these calls. So one just follow-up, if I could, on the synergies on Matt Taylor's comment, and then I have one on margins, if I could, so on the synergies - can you talk about maybe what is not included in those? I mean there's a fair amount of complementary products, robots and cervical disc replacement and the cervical portfolio at GMED that are potentially complementary in the sense of driving additional sales. Are those included if they are, I guess, what things have you and have you not included in that number? And then I have one follow-up.

**Dan Scavilla**

Yes. Matt, so for clarity, I believe you're talking about sales synergies and dis-synergies. Is that right?

**Matt Miksic**

Yes. Correct.

**Dan Scavilla**

Okay. So separate from the overall cost savings with that. Again, we're not going to go into a lot of granular detail. I think what we're just saying is take a look at what NuVasive has is a strength where we can benefit, and we're saying, look, it's an opposite way for us, too. It's really that combination.

We have some placeholders and some ideas that we're working through, but this is early stages, right? We really just announced a few days ago. And we've gone from being blind into ability to look at this with a little bit more clarity. We'll focus through it. I think what we're signaling is confidence that we have enough tools in our offering to offset sales dis-synergies? And then just kind of back to the question Matt had asked on actually costs synergies.

Again, we have several areas to look at. We haven't fine-tuned those down by accounts certainly or anything like that or even department. We just realized that the abilities are there, and we're in the early stages of working through those.

**Operator**

Thank you. Our next question comes from the line of Vik Chopra of Wells Fargo. Your question, please, Vik.

**Vik Chopra**

Yes, sure. Just on the divestiture, can you talk about where some of the product overlap is and which assets or categories you think you may have to potentially divest?

**Dan Scavilla**

No, it's a great question. I would tell you that given our size, we're not anticipating any significant divestitures at this time. We're in the middle of all of this filing. So again, we've got the places in the hands of the government and wait. But we're not going in with any thought or concern that we're seeing right now that would trigger anything of significance.

**Vik Chopra**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Steven Lichtman of Oppenheimer. Please go ahead, Steve.

**Steve Lichtman**

Got it. Okay. And then just secondly, as you look ahead here near term, is there anything you feel you need to do to help retain reps and prevent any coaching ahead of the deal closing? Or just overall sort of what you think the sort of the tenor of the group in the last couple of three weeks here?

**Dan Scavilla**

It's a great question. And look, it's human nature in the state of change to have some discomfort. So the best thing to do is communicate because we don't need to beg here with this. Keep in mind that we, as Globus and what we intend to do is the bigger company, is pay strongly for our reps, and we've been doing that historically without change unlike other companies.

So we're going to maintain that. At the same time, we have discussed in person with the field team our portfolio to understand the strengths that we're about to give them on the NuVasive side, and they've actually are in the process of doing the same for us on the Globus side with that.

So we're talking about strong compensation, arguably the strongest offering for products in the spine market with that. And then our Enabling Technology, along with the Pulse system can really become a powerful tool, and I think everybody can see that. And then, of course, we're always looking at what near term, yet future innovation can be to significantly tie these together through that ecosystem. When we offer that up with people, it's a tough thing to compete against and a rep that is long-term focused and wise can recognize that within 12 months, they're going to have at their fingertips the most powerful offering in the industry.

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**Steve Lichtman**

Got it. Thanks, Dan.

**Operator**

Thank you. Our next question comes from the line of Matthew O'Brien of Piper Sandler. Please go ahead, Matthew.

**Matthew O'Brien**

Hey, I kind of broke up, you say Matthew O'Brien?

**Dan Scavilla**

He did.

**Matthew O'Brien**

Okay. Fantastic. Thanks for taking my questions. So I guess, Dan, can you or Keith actually just talked about the timing of the NuVa vote from the shareholders. And then it is a take under at this point. It's about 5% lower stock prices versus where it was traded before the announcement. So how are you going to talk those investors into voting for this transaction between you and Chris? And are you so committed to this deal that you would offer up a sweetener, be it more stock or even cash, if need be, to make sure this gets done? And I do have one more follow-up.

**Dan Scavilla**

Thanks, Matt. So a lot of questions there. I would tell you that we're not going to be in a position yet to comment on what it is we're going to do. Certainly, we're going to talk to investors show them why this deal makes sense, show them the math to get them lined up with this and understand that this is a long-term gain that will create a significant acceleration versus if we stay as stand-alone. So I think it's probably the biggest thing with it. But to talk about any other steps at this point would be premature. So I'll refrain from that.

**Matthew O'Brien**

Okay. But Dan, the - when we hear middle of the year closing, you think, all right, June 30, so the vote would be sometime before then. I mean, is the next few months where we could see the vote?

**Dan Scavilla**

Sorry, I did leave that off. I wasn't avoiding that with that. Really, what we need to do right now is create the joint proxy first and then get the vote. We're in the process of compiling that, as I said in my statements, look, I don't have an exact date where we'll say that's done, but it's obviously the priority right now is to get the HSR filing in, get that working, get to joint proxy going so we can get this in motion.

**Matthew O'Brien**

Okay. And then the follow-up, Dan, is again more of a strategic question because I think part of the reaction in the stock was kind of the adjustment to the strategic direction of the business that I think most were anticipating, because you are kind of more diversifying away from spine now you are doubling down more. Is this part of a bigger push for the company longer term, double down on spine, get big there, get a lot of cash flow and then invest in other areas of Ortho to become a much bigger entity in this space? Thanks.

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**Dan Scavilla**

Thanks, Matt. Again, a really good question. So it's always - it's obviously interesting from the seat for years. For eight years, investors have asked what are you going to do? How are you going to make an acquisition? What are you going to do? We've made an acquisition and folks are sort of stepping back by it. But the fact is we've been patient, we've looked, we've analyzed, we decided this is the right time to do it. We've looked through multiple scenarios throughout our portfolio and really came back to this being the strongest opportunity now to go do this.

And what you touched on is exactly right, the combined company will be stronger than the individuals, and our cash flow itself, when we combine, will be significant, which will allow us then to move on to other larger acquisitions over time. Doesn't mean that we've just shifted and won't create innovation and launch organically. We're just saying we want to use the financial strength to our benefit as well as our engineering prowess.

**Matthew O'Brien**

Got it. Makes a lot of sense. Thanks so much.

**Operator**

Thank you. Our next question comes from the line of Mathew Blackman of Stifel. Your question please, Mathew.

**Mathew Blackman**

Hi, it's Matt Blackman from Stifel. Thank you for taking my question. Just one, just thinking about the inputs you put into your deal model revenue dis-synergies, synergies do you think there's the most flex or maybe better said, where is the most opportunity and perhaps the most risk as you think about those different inputs?

**Dan Scavilla**

Yes, it's a great question, a little bit of a teasing question. We probably don't want to answer. But what I would tell you is I feel like we were aggressive in what we think the dis-synergies would be and light in what we think the synergies will be. We're conservative group by nature, if you know us, and so I do think that we might be able to retain better than we've planned in dis-synergies. And I think that we could probably beat if we have the right focus on our synergies within those sales areas, but not product specific, just in general.

**Mathew Blackman**

Alright, appreciate it. Thank you.

**Operator**

Thank you. Our next question comes from the line of Richard Newitter of Truist. Please go ahead, Richard.

**Richard Newitter**

Hi, thanks for taking the questions. Two for me. Just on the deal, you mentioned minimal customer overlap. I was hoping you could elaborate on what the threshold was for defining minimal overlap per surgeon between the 2 companies. I'm essentially just trying to gauge whether a surgeon that you consider not to be overlapped will that necessarily translate into minimal disruption in the region, especially in the way that territories are going to be grown because you still need to split those territories. So I was just hoping you could maybe elaborate a little bit on that.

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**Dan Scavilla**

Yes, Rich, I'll do that in a certain way. There's not a lot I can reveal right now with where we're going on this, but I will give you what I think we can do along these lines. So during the diligence, of course, all of this data was blinded and it was done by bankers, not us. And we traced it down to a surgeon level as the most logical way to go.

And what we found is - we had the vast majority as complementary. And what the definition of the complementary is that someone may either have 100%, 80%, 75% of a surgeon by themselves. And it was kind of after that, maybe if you're 50-50 or less, that would be the overlap. And so what we found is kind of - I can't really reveal this, but I would say extremely high in the 90s of the ability to match up.

Now as we unblind that, perhaps we see it differently. We adjust, we look and go. But even with a surgeon overlap, very well could be that the surgeon is using NuVasive's pedicle screws in our interbody or vice versa. So it may not be a product conflict. The thought being that even along those lines, where that is the case, we can decide between those reps, what's best. Does one keep the surgeon? Do they both keep it that way?

Our goal is to maintain all of the reps. We have enough space, enough growth, enough opportunity to do this. So it's not really about a rep rationalization. And what we're signaling out to the market is we believe that this is a very favorable thing for the deal that will minimize disruption.

**Operator**

Thank you. With no further questions, this concludes the Globus Medical Fourth Quarter and Full-Year 2022 Analyst Call. Thank you for your participation. You may now disconnect.

***Additional Information***

In connection with the proposed transaction, Globus and NuVasive plan to file with the Securities and Exchange Commission (the "SEC") and mail or otherwise provide to their respective stockholders a joint proxy statement/prospectus and other relevant documents in connection with the proposed transaction. Before making a voting decision, Globus' and NuVasive's stockholders are urged to read the joint proxy statement/prospectus and any other documents filed by each of Globus and NuVasive with the SEC in connection with the proposed transaction or incorporated by reference therein carefully and in their entirety when they become available because they will contain important information about Globus, NuVasive and the proposed transactions. Investors and stockholders may obtain a free copy of these materials (when they are available) and other documents filed by Globus and NuVasive with the SEC at the SEC's website at [www.sec.gov](http://www.sec.gov), at Globus' website at [www.globusmedical.com](http://www.globusmedical.com), at NuVasive's website at [www.NuVasive.com](http://www.NuVasive.com) or by sending a written request to Globus Medical at 2560 General Armistead Avenue, Audubon, PA 19403 Attention: Investor Relations or by telephone at (610) 930-1800. The documents filed by NuVasive with the SEC may be obtained free of charge at NuVasive's website at [www.NuVasive.com](http://www.NuVasive.com) or at the SEC's website at [www.sec.gov](http://www.sec.gov). These documents may also be obtained free of charge from NuVasive by requesting them by mail at NuVasive, Inc., 12101 Airport Way Broomfield, CO 80021, Attention: Investor Relations, or by telephone at (800) 455-1476.

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names, affiliations and interests of Globus' directors and officers in Globus' Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which was filed with the SEC on February 21, 2023 and its definitive proxy statement for its 2022 annual meeting of stockholders, which was filed with the SEC on April 21, 2022. Security holders may obtain information regarding the names, affiliations and interests of NuVasive's directors and officers in NuVasive's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which was filed with the SEC on February 23, 2022 and its definitive proxy statement for its 2022 annual meeting of stockholders, which was filed with the SEC on March 30, 2022. To the extent the holdings of Globus securities by Globus' directors and executive officers or the holdings of NuVasive's securities by NuVasive's directors and executive officers have changed since the amounts set forth in Globus's proxy statement for its 2022 annual meeting of stockholders or NuVasive's proxy statement for its 2022 annual meeting of stockholders, respectively, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. Additional information regarding these individuals and any direct or indirect interests they may have in the proposed transaction will be set forth in the joint proxy statement/prospectus when and if it is filed with the SEC in connection with the proposed transaction, at Globus' website at [www.globusmedical.com](http://www.globusmedical.com) and at NuVasive's website at [www.nuvasive.com](http://www.nuvasive.com).

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