Canaccord Genuity Capital Markets

Flash Update

Bioventus

Biomedical Devices and Services

US Equity Research
21 June 2022

Rating	Price Target
BUY	**US$18.00**
BVS-NASDAQ	Price **US$9.13**

Market Data

52-Week Range (US$) :	7.31 - 19.94
Avg Daily Vol (000s) :	261.59
Shares Out. (M) :	77.1
Market Cap (US$M) :	704.4

Source: FactSet

Priced intraday 21 June 2022

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CartiHeal acquisition back in play as BVS restructures deal terms

What happened? This morning, Bioventus announced it had restructured its purchase agreement for the pending acquisition of CartiHeal — effectively salvaging the deal as market conditions made financing the deal under its prior structure particularly onerous. The amended acquisition agreement reduces the upfront closing payment to $50M (in addition to $50M earnest money committed last year), however the total acquisition price remains the same. This is down from the previous upfront of $315M. The remaining $215M of the purchase price will instead be paid to CartiHeal based on the earlier of milestones or installment payment dates and will be paid in five tranches beginning in 2023 and ending no later than 2027. Additionally, BVS will pay interest on each tranche at a rate of 8% annually, until the tranche is paid. Also, the ~$135M payable upon the achievement of $100M in trailing 12M sales was reduced to $75M in TTM sales. The company expects the acquisition to close by the end of July 2022, with an upfront payment of ~$108M (inclusive of the $50M earnest money, $50M upfront, and ~$8M in closing fees). BVS intends to finance the payment due at closing with additional debt. The company is finalizing an amendment to its existing credit facility to facilitate the closing of the acquisition. Moving forward, the payments of the deferred amount are anticipated to be made through the company's free cash flow and expansion of its existing credit facility.

Our take: Our major concern to date has been the financing challenges with the upfront purchase price given the volatile debt/equity markets YTD. We see this announcement as a directional positive in terms of helping to assuage those earlier concerns and expect shares to start trading more in line with "fundamentals." On the positive side, Agili-C fits neatly into BVS' pain treatments vertical, providing access to the broader cartilage repair TAM as well as providing OA patients a potential treatment option between HA injections and TKR. In total, BVS expects to increase its TAM by ~ $1.3B. Given the adjacency of this technology to BVS' current pain treatment offerings, we expect a straightforward integration of the product into BVS' current HA and pain distribution channels. Our long-term thesis here remains unchanged, if not slightly aided by today's news. Overall, we believe the deal only adds to our thesis that Bioventus has the assets, scale, clinical differentiation, and pipeline to break through as a classic small-cap medtech execution story. We see myriad opportunities for accelerating revenue share gains across BVS's multiple end markets, which when combined with strong gross margins and operating metrics position the company as a unique asset among its peers.

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Investment Recommendation

Date and time of first dissemination: June 21, 2022, 09:59 ET

Date and time of production: June 21, 2022, 09:59 ET

Target Price / Valuation Methodology:

Bioventus - BVS

Our price target of $18 is based on a 2.8x EV/sales multiple (~25% discount to the group) applied to our 2023 sales estimate of $610.4M, assuming $32.7M in cash, $368.3M in debt, and 76.3M shares outstanding in our valuation.

Risks to achieving Target Price / Valuation:

Bioventus - BVS

Large and well-capitalized competitors in the highly competitive spine market

Bioventus operates in the highly competitive spinal-fusion market which includes large and well-capitalized competitors, such as Johnson & Johnson and Medtronic who have broader product portfolios and may impact the company's ability to grow and take share.

Government regulation

Bioventus's products and manufacturing process are subject to regulatory approval from the FDA and other regulatory agencies around the world. The process of future regulatory approval or remediation efforts for already approved products are generally costly and time consuming, and any delay in the regulatory process can significantly impact operating results.

Reimbursement

The use of Bioventus products is dependent on reimbursement for certain healthcare procedures. The company can be negatively impacted by decreases in reimbursement rates especially as the US healthcare landscape continues to evolve. Outside the U.S., reimbursement varies significantly and in many countries the government controls the pricing of procedures, which may limit how often the company's products are utilized.

Acquisitions may not perform to expectations

Bioventus has made numerous acquisitions over the past several years and a key tenant of its capital allocation strategy includes making additional acquisitions in the future. This strategy exposes the company to integration and execution risk as well as potential financing/dilution risk should the company need to utilize debt/equity to finance an acquisition.

Commercial recruiting

Bioventus is focused on strategically increasing the headcount of its commercial network. Because of intense competition within the medical device industry, there is no guarantee that the company will be able to recruit/retain qualified sales representatives, or that they will be able to reach effective productivity levels which may adversely impact Bioventus's financial condition.

Distribution of Ratings:

Global Stock Ratings (as of 06/21/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	649	68.68%	36.83%
Hold	125	13.23%	16.00%
Sell	11	1.16%	18.18%
Speculative Buy	155	16.40%	42.58%
	945*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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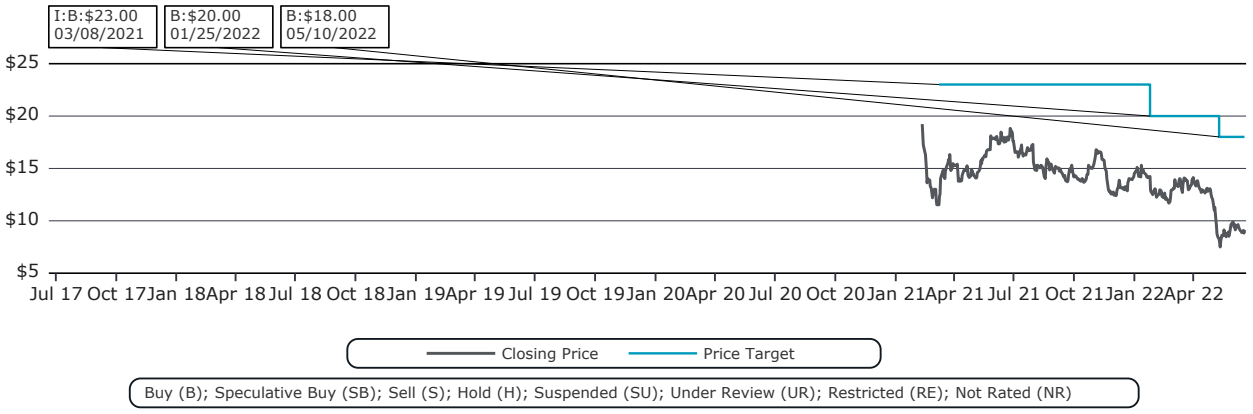
Bioventus Rating History as of 06/17/2022



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