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Orthofix Medical, Inc. (OFIX)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Julie Dewey

Chief Investor Relations and Communications Officer, Orthofix Medical, Inc.

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Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Jason Wittes

Analyst, ROTH Capital Partners LLC

Ryan Zimmerman

Analyst, BTIG LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Christine and I will be your conference operator today. At this time, I would like to welcome everyone to the Orthofix Medical, Second Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I will now turn the conference over to Julie Dewey. Julie, the floor is yours.

Julie Dewey

Chief Investor Relations and Communications Officer, Orthofix Medical, Inc.

Thank you, operator, and good morning, everyone. Welcome to the Orthofix second quarter 2024 earnings call. We appreciate you joining us. I'm Julie Dewey, Orthofix's Chief IR and Communications Officer. Joining me on the call today are President and Chief Executive Officer, Massimo Calafiore; and Chief Financial Officer, Julie Andrews.

During this call, we will be making forward-looking statements that involve risks and uncertainties. All statements other than those of historical facts are forward-looking statements, including any earnings guidance we provide and any statements about our plans, beliefs, strategies, expectations, goals or objectives. Investors are cautioned not to place undue reliance on such forward-looking statements as there is no assurance that the matter contained in such statements will occur.

The forward-looking statements we will make on today's call are based on our beliefs and expectations as of today, August 6, 2024. We do not undertake any obligation to revise or update such forward-looking statements. Some factors that could cause actual results to be materially different from the forward-looking statements made by us on the call, include the risk factors disclosed under the heading Risk Factors in our Form 10-Q filed this morning, August 6, 2024, as well as additional SEC filings we make in the future.

In addition, on today's call, we will refer to various non-GAAP financial measures. We believe that in order to properly understand our short-term and long-term financial trends, investors may wish to review these matters as a supplement to the financial measures determined in accordance with US GAAP. Please refer to today's news release announcing our second quarter 2024 results for information regarding our non-GAAP results, including our reconciliations of these non-GAAP financial measures to our US GAAP results.

Additionally, all revenue percentage changes discussed will be on a constant currency year-over-year basis. As a reminder, as noted in the first quarter call, we have annualized the impact of the SeaSpine merger and will therefore no longer be referring to pro forma growth. In addition, all results of operations that we referred to in our prepared comments will be on a non-GAAP as adjusted basis.

With that, I'll now turn the call over to Massimo.

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

Thank you, Julie, and welcome to the team. Glad to have you on board with us. Good morning, everyone, and thank you for joining us for our second quarter earnings call. I'll spend some time providing business updates and information about other key initiatives. Before I turn it over to our CFO, Julie Andrews to cover the specifics of our Q2 results and revised guidance.

Orthofix had a strong second quarter delivering above market growth across virtually the entire portfolio. Our team continues to execute to plan and after two quarters in my role, I can very confidently say that the business fundamentals are excellent. We have the momentum to continue leveraging our strategic advantages and we have made considerable progress in cash usage, paving the way for much earlier than expected positive free cash flow for the second half of this year. Both operationally and commercially, I'm pleased with our first half performance and encouraged by what's to come in the remainder of 2024 and beyond.

Net revenue for the second quarter was \$198.6 million, representing year-over-year growth of 6% on a constant currency basis. Growth was led primarily by strength in our US Spine and Bone Growth Therapies or BGT businesses as well as continued market penetration in US orthopedics. US Spine Fixation grew 12% more than twice the market rate, and we are capturing increased market share with every quarter. Spine and fracture theme in the BGT markets, where once again bright spots and have benefited from cross-selling efforts from our spinal and orthopedic implant business.

During the second quarter, we began a limited market release for two new Interbody designs. It features Orthofix proprietary advances surface technologies and expand our portfolio of Lumbar Interbody Fusion Products to address [ph] pairing (06:08) patients anatomies. Our new Reef L Lateral Lumbar Interbody is designed to maintain the favorable mechanical and imaging properties of [ph] peek (06:23) while also supporting bone on growth.

Importantly, Reef L further augments our competitive position in the \$400 million lateral interbody fusion market in the US. Building on last year's successful launch, the Meridian ALIF portfolio has been expanded to include additional solutions that pair our best-in-class 3D printed WaveForm surface technology with new options to address the vast majority of surgeon preferences. US Orthopedics grew 7% and we received our 510(k) clearances for the Fitbone Trochanteric Nail and Fitbone Transport and Lengthening System, further bolstering our comprehensive portfolio used in limb reconstruction and deformity correction procedures.

We are in a limited market release for both of these products, which we expect to launch in Q2 2025. In prior calls, I have outlined the key priorities that we're focusing on this year, including profitable growth, strategic innovation, and a synergistic and balanced approach to our portfolio and products platform. We remain committed to these efforts and are benefiting from key decisions made as a result. In addition to those priorities, I'd like to call out some highlights relating to the leadership team, expanded commercial innovation opportunities and successes across merger integration milestones.

One of my first tasks in taking on this role was to recreate a world class leadership team capable of shaping a culture of value creation and successfully executing on our long-term vision for Orthofix. I am pleased to report that we have finalized the executive leadership team with the latest addition of a seasoned business leader for our orthopedics team, who will start in mid-August. We have a blend of new and tenured talent ready to deliver on our commitments and fuel future profitable growth. Collectively, this team has more than 250 years of experience in the orthopedics and spine space. And now more than ever, I believe we are poised to unlock the company's full potential in each of our respective markets.

The team's focus is now on prioritizing the most impactful initiatives that will fuel profitable growth. To achieve these, we will be bringing together a cross-functional group of leaders at the end of August, to further define our long range plan and align on the specific strategies and vital few initiatives to propel our business forward. We plan to share our strategy as well as our intermediate to longer term goals and financial targets with you on our third quarter earnings call in November.

As it relates to reaching other key milestones post-merger, I'm pleased to say that the integration with SeaSpine has gone exceedingly well from an operational and culture perspective, including the recent successful achievement of our key milestones to complete the ERP system implementation at SeaSpine. We are laying the foundation for sustainable above market growth across our portfolio with a more focused commercial strategy to drive meaningful innovation to improve outcomes and efficiencies for our patients and surgeon customers.

At a high level, this strategy includes three key components. One, going deeper into existing accounts. Two, taking advantage of multiple commercial access points across our product portfolio. And three, leveraging our 7D FLASH navigation system to drive surgeon engagement and build brand loyalty. I'll now spend the next few minutes covering each of these in more detail.

First, following the SeaSpine merger and recent product launches, we believe we are well-positioned to serve over 90% of the spine surgeons' needs, with our comprehensive product portfolio, which includes the spinal hardware, biologic and enabling technologies. We also believe that our comprehensive portfolio, a steady cadence of innovation will enable us to attract top sales talent, increase exclusive distributor relationships, and drive stickier relationships, with surgeons and hospital accounts, which we expect to result in incremental product pull through, as well as an [ph] ASP (12:16) lift from mix benefits.

Second, the breadth and depth of the Orthofix spine and orthopedic offerings provides multiple paths to grow the business and sustained above market rates. For example, we are already taking advantage of cross-selling opportunities to sell our BGT products into SeaSpine accounts, as well as introducing spinal hardware, biologics and navigations to our spine BGT customers. We also have additional opportunities with our biologics and fracture stimulation products, through our Orthopedics channel.

Finally, we believe that our 7D FLASH navigation system represents a unique opportunity to drive surgeons and hospital account interest in the broader Orthofix portfolio. As announced last quarter, we have reorganized parts of our commercial structure such that 7D FLASH navigation will be under the leadership of our spine team. This

commercial innovation has positioned 7D FLASH as an asset to drive growth across our portfolio, as evidenced by our success in Spine Fixation.

As the world's first Machine-vision, image-guided surgical system, 7D continues to revolutionize spinal navigation, making it faster, more efficient and radiation free. With the capability for registration in mere seconds versus 30 minutes or more for competitive systems, and requiring no intraoperative radiation, 7D technology is proving compelling to surgeons, especially those performing open surgeries.

Keep in mind that, open surgery still represents approximately 80% of total current spine interventions. Positioning 7D as a key driver of incremental navigated procedure penetration. The Ambulatory Surgery Center Market for 7D is also of interest to us, since some spine surgery procedures have been slowly moving into the ASC settings. We believe the 7D system is well-positioned for MIS procedure in the ASC with a smaller relative footprint, efficient workflow, and pricing. Although still in the very early stage, we've been able to gain some initial experience in the ASC, with a few accounts where we have placed our 7D system.

With the evolution of our 7D strategy, we are more confident than ever in its increasingly significant role in our portfolio. Additionally, this shift will allow our Enabling Technologies team to drive software innovation and then hence product integration alongside the R&D pipeline as we launch impactful products across all our franchises. We are highly motivated by the opportunity to differentiate ourselves through the combination of our hardware portfolio with our enabling technology platform system.

Our surgeons and patients have become the product focus and we will continue to provide them with a unique approach to navigation in the OR. Overall, Orthofix is in a great position to capitalize on our recent product launch successes, and deliver meaningful innovation to improve outcomes, and efficiencies for our patients and surgeon customers. We remain the market leaders in Bone Growth Therapies, have a comprehensive market, leading biologic portfolio and differentiated products in several specialized orthopedic markets, such as complex trauma, reconstruction and deformity correction.

Additionally, our broadened spine portfolio is best-in-class and fully supported by the highly differentiated and compelling enabling technology. In summary, I'm pleased with our second quarter performance and remain optimistic about the opportunities ahead. Based on continued positive momentum, the strength of our differentiated and expanding product portfolio, which continues to win share and our confidence in sustainable growth trends, we are raising our full year net sales and adjusted EBITDA guidance.

And as I mentioned earlier, we are on track to achieve positive free cash flow for the second half of this year, much earlier than we originally anticipated. With a clear line of sight, I believe we are well-positioned to achieve our objectives this year and beyond. We are not letting up on the operational efficiencies and strategic execution it will take to deliver long-term value for customers, patients and shareholders. I am looking forward to a productive second half of 2024 and what's to come for Orthofix.

With that, I'll now turn the call over to Julie to review our second quarter financial results and updated guidance.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

Thank you, Massimo, and good morning, everyone. Orthofix had a strong second quarter delivering total company net sales of \$198.6 million or 6% constant currency, top line growth and adjusted EBITDA margin expansion of approximately 310 basis points. For my commentary, I'll go through each of our business units and review financial results for the quarter as well as provide an update to our guidance for the full year 2024.

Bone Growth Therapies revenue grew 12% to \$59.1 million in Q2 and marked the sixth consecutive quarter of double-digit growth for the BGT franchise. This growth was driven by above market performance in both the spine and fracture channel.

In the BGT spine market, where we hold the number one market share position, we continued to take share with more than 50% of the growth coming from new customer acquisitions. In addition, investments in the fracture market sales channel drove 14% growth in fracture with the AccelStim Bone Growth Therapies device continuing to outperform the market. As a reminder, the fracture market represents an opportunity of more than \$200 million, and we are still in the very early innings of building our position in that market.

Global Spinal Implants, Biologics and Enabling Technologies second quarter revenue was \$108.9 million, with year-over-year growth of 3%. US Spine Fixation revenue grew 12%, well above market growth rates, driven by deeper penetration of existing accounts and expansion of our customer base. Additionally, in the US biologics business, we saw a positive impact of new distributor partnerships as well as cross-selling initiatives, which drove growth in-line with the overall market.

The global Orthopedics business grew 6% in the second quarter, led by 7% growth in the US as a result of strong performance across our portfolio, as well as distributor expansion and sales channel investments. The international business grew 6% versus prior year, primarily due to recent line extension in our Galaxy Fixation Gemini System.

Due to the nature of this business, particularly around the timing and volume of stocking distributor orders, we expect to see variability from quarter-to-quarter in growth rate. Moving on to some detail below the sales line, starting with our Q2 non-GAAP adjusted gross margins, which were 71.3% for the quarter compared to 71.6% in Q2 2023. Non-GAAP sales and marketing expenses were 50% of net sales for the second quarter, compared to 52% of net sales for Q2 2023. The decrease as a percent of sales was primarily driven by the realization of cost synergies and a lower effective commission rate due to product mix.

Non-GAAP general and administrative expenses were 14% of net sales for Q2, compared to 16% in the same quarter prior year. The decrease as a percent of sales was primarily driven by the impact of cost synergies and a reduction in stock-based compensation. Non-GAAP research and development expenses were relatively flat at 9% of net sales for the quarter.

Below the operating income line, non-GAAP interest expense and other was \$4.8 million for the quarter. Altogether, this resulted in non-GAAP adjusted EBITDA of \$16.6 million or 8.4% of net sales for the quarter, a 310 basis point expansion over Q2 2023 due to the capture of merger related synergies and driving leverage on sales growth. This represented a 58% drop through on incremental revenue dollars.

We remain encouraged by these results as we are seeing the impact of merger related synergies and our ability to drive leverage on sales growth materialize. From a cash standpoint, our total cash balance, including restricted cash at the end of Q2, was approximately \$28.9 million. Our free cash flow usage was \$700,000 in the quarter, a significant improvement over the first quarter of this year. Adjusting for the annual bonus payment and one-time merger related retention payments, free cash flow improved approximately \$10 million over Q1 2024. This was a result of higher EBITDA as well as improvements in DSO and inventory utilization.

We have achieved \$38 million in annualized synergies to-date and are confident in our ability to achieve \$50 million in synergies three years post-close of the merger. Overall, we are pleased with our second quarter results and we continue to be confident in our ability to drive profitable revenue growth moving forward.

Moving on to 2024 full year guidance, as Massimo stated, we are increasing our guidance for full year net sales to range between \$795 million and \$800 million, representing implied growth of 6.7% to 7.4% year-over-year on a constant currency basis compared to our previous guidance of \$790 million to \$795 million or 6% to 7% growth.

Please note our expectations are based on current foreign exchange rates and do not account for rate changes that may occur through 2024. We are also increasing our full year 2024 non-GAAP adjusted EBITDA to \$64 million to \$69 million compared to our previous guidance of \$62 million to \$67 million. Finally, we are continuing to focus on improving our working capital management, specifically our inventory and instrument utilization and DSO efficiency.

With these efforts, as well as continued execution of merger-related cost synergies, we now expect to be free cash flow positive in the second half of 2024 earlier than we had originally anticipated. While we do not provide quarterly guidance, I will provide directional commentary on the expected cadence of our business to assist you in modeling our quarterly performance. These comments remain in line with the directional remarks provided on our fourth quarter call in March.

We expect Q3 net sales growth to be at the high-end of the guidance range due to disruption in the prior year as we close the quarter and the impact of one additional selling day in 2024 versus 2023. For gross margin, we continue to expect 2024 full year gross margin to be in the 71% range in line with 2023. We also expect operating expenses to decrease approximately 200 basis points to 300 basis points to leverage on incremental sales and additional cost synergies.

To assist you with modeling EBITDA, we reiterate our outlook for depreciation expense, which for the full year, 2024 is in the range of approximately \$36 million to \$37 million. Stock-based compensation expense is now expected to be in the range of \$33 million to \$35 million. Below the operating income line, our expectation for interest and other is approximately \$5 million per quarter. We expect adjusted EBITDA margin improvement of approximately 200 basis points for the full year with margin expansion in the second half of the year to be slightly lower over prior year as we annualize the bulk of 2023 synergies in the first half of 2024. Q3 adjusted EBITDA margin expansion is expected to be less than in Q4.

Now before we open up the call for questions, let me turn it back to Massimo for concluding comments. Massimo?

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

Thanks, Julie. In closing, I want to express my appreciation to our entire Orthofix team for their efforts in Q2. Their contribution have been instrumental in driving our performance, and I'm very proud of the progress we have made. With our full leadership team in place, it is now time for us to continue executing against our commitments, drive sustained profitable growth and expand the shareholder value. The fundamentals are strong and we have an innovative mindset to carry us forward. I'm encouraged by what we have achieved and excited for what's to come.

Operator, let's now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We also ask that you limit yourself to one question and one follow up. Your first question comes from Mathew Blackman with Stifel. Please go ahead.

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everybody. Can you hear me okay?

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

We can. Hi, Matt.

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Hi Matt.

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi. Hello, everybody. Julie, I've got a couple for you. Julie Andrews to be precise. You talked a little bit about at the end of your comments, but can you talk a little bit more about the levers you pull to get to cash flow positive faster than expected, and maybe more importantly, how much more opportunity there may be in those levers or others?

And then maybe I'll just throw it out here just some clarification on that free flow guide. Should we expect positive free cash flow in 3Q and 4Q or just in the second half, in sum, and then with the exception maybe of the seasonally heavier spend in 1Q 2025, should free cash flow stay positive from here out?

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Okay. Thanks, Matt. So, I'll start with your first question. The free cash flow usage and the improvement. We saw a really good drop through on our EBITDA. That was one driver, as well as we're seeing improved working capital efficiency with inventory utilization improvement there as well as DSO improvement as well. Those were the main drivers within the quarter.

We do still think that there is opportunity within of course with adjusted EBITDA as that increases that we'll see a good conversion to cash there. And then we still think that there's opportunity within our inventory lines and lot of opportunity with DSO efficiency, but some there as well. And that's really what's driving kind of our outlook on the back half of the year, being free cash flow positive. We're not guiding to Q3 and Q4 individually being free cash flow positive, Q4, we are, with the back half -- full back half of the year. And then...

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Sorry.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Your second question was about.

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Sustainability.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Yeah. Sustainability. Yeah, we I mean, we believe, we will be free cash flow positive for 2025. It won't be every quarter as you mentioned, Q1 has seasonal payments that we make and that won't be a free -- we wouldn't expect that to be free cash flow positive.

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And if Julie Dewey will allow me one follow-up question. I think the implied and this is for you, Julie Andrews, again, the implied drop through, I think in the second half is something like 40% something in that neighborhood. Is that how we should be thinking about drop through as a rule of thumb beyond 2024 or does it go lower than that as you annualize some of these cost synergies and maybe some of the initial initiatives? Thanks.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Yeah. I mean, generally, we would expect to be in the 30% – 35% range as we annualize our synergies and we won't maintain the 40% range over time. We haven't specifically given numbers.

Mathew Blackman

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. I'll get back in queue. Thank you so much.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Thanks, Matt.

Operator: Your next question comes from the line of Ryan Zimmerman with BTIG. Please go ahead.

Ryan Zimmerman

Analyst, BTIG LLC

Q

Good morning. Thanks for taking our questions and congrats on all the progress this quarter, guys.

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Thank you, Ryan.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

Thank you, Ryan.

A

Ryan Zimmerman

Analyst, BTIG LLC

I want to ask you two questions on products, if I may. First, as I look at the overall spine growth, particularly in hardware, biologics and enabling tech, appreciate the color on the hardware, the commentary on biologics. I wonder if you could spend a little bit on enabling tech, Massimo, kind of how is that shaping up relative to the growth of that segment?

Q

And what do you see for the pipeline in terms of 7D demand and just how to think about kind of know going forward that contribution to that segment in enabling tech? And then I have a question on STIM after that? Thank you.

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

Yeah. Look, great question. We discussed this multiple times and we see 7D as a fundamental for us on creating sustainable growth. There is a lot of interest around 7D and a lot of focus that we've put in there right now on creating more replacement of the -- of our machine for earnouts.

A

Actually, there was a very strong effort by the team on the stuff to be focused on that because we believe that creating a more earnouts out there is going to drive higher implant utilization and a sustainable growth because you can, I've said multiple times the 7D is a unique technology that really creates a differentiable experience in the OR and all of this is translating and is going to translate for us on bringing -- bringing more surgeon on board.

At the same time from the R&D perspective, we are very excited about what we can do with 7D. There's going to be a very focused investment on 2025 and beyond around the technology because we believe that we can add piece that no other company can add to given our proprietary Machine-vision. So in brief, again, great focus on development on 7D, great focus on creating earnouts opportunities out there to become an alternative not just to other navigation system, but also to robotic system out there.

Ryan Zimmerman

Analyst, BTIG LLC

Okay. Next question on Stim, you see you continue to, I think, surprise not just myself, but everyone on your continued success in Stim, six quarters in a row double-digits, very impressive. Part of that is a benefit, I would imagine, from cross-selling particularly from the legacy SeaSpine business. Where do you think you're at in that in terms of that penetration?

Q

I mean, how much more can you benefit from cross-selling bone stim into the legacy SeaSpine customer base? And, again, if this is a market that's growing low single-digits at some point I worry maybe not you guys, but I worry that growth may slow. And so, help me understand kind of how long these tailwinds do you think in your mind can continue?

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Yeah. It is a great question because it is a question that we ask ourselves. So right now, you can see that we are like at the infancy of our merger with SeaSpine. So, I think that for the foreseeable future, we keep seeing the opportunity to leverage, as you said, the synergistic approach that we are bringing up on the cross-selling within our segment given that the [indiscernible] (35:35) point is the same.

Over time, I think that, given our dominance in the market that we're going to see a slowdown, a natural slowdown of the growth to, let's say, market rates or above market rates. But, as I said before, we are still at the infancy of our merger. So, I think that there is still room to drive our synergies, let's say, to drive and leverage the synergies that you're seeing right now. But again, I think that you are seeing [indiscernible] (36:11).

Ryan Zimmerman

Analyst, BTIG LLC

Q

Well, congratulations again.

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Thank you.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

A

Thanks, Ryan.

Operator: [Operator Instructions] Your next question comes from Jason Wittes with ROTH MKM. Please go ahead.

Jason Wittes

Analyst, ROTH Capital Partners LLC

Q

Hi. Thanks for taking the questions. Maybe just a quick follow up on 7D, in your commentary, it sounds like most of the growth or placements are focused on open surgical procedures and MIS is still sort of a work in progress. But is that the right interpretation or how should we think about 7D especially for MIS and percutaneous applications?

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Yeah, Jason, thank you for the question. Look at the end of day one as I said before and I said on my remarks, you know, we also -- 7D given the footprint is poised to be a machine that can be easily used in the ASC setting where we are going to see, where we are expecting over time that a switch on the MIS procedure. So, right now you need to see 7D as a system that for MIS is compatible to all of the system out there in the market. Of course we -- we talk about certain procedure because on the specific, for the specific market 7D is the state-of-the-art.

But again, given that we believe on MIS, we are investing in the MIS on the hardware side and we want to create that type of connection between the hardware and software, you see that as -- as an investment on the specific MIS modules that they're going to bring 7D if not at the same level, let's say, of 7D for open procedure.

So the system right now, again, you can do MIS. It performs as well as others but over time, as I've said before, given that we believe that for open procedure we have state-of-the-art, over time we going to work for make our MIS capability even better than competitors out there.

Jason Wittes

Analyst, ROTH Capital Partners LLC

Q

Okay. Thanks. That's very helpful. And then on distribution, I think at least that was my read that, until you go to cash flow breakeven, you're going to be somewhat selective and pretty careful on distribution. I guess two questions about that. One, can you give us an update in terms of what's happening with your sales force this quarter in terms of adds? And then secondly, am I right to assume that when the cash position improves, which sounds like it's certainly happening at a faster pace, there may be more aggressive increase in the sales force?

Massimo Calafiore

President, Chief Executive Officer & Director, Orthofix Medical, Inc.

A

Look, this is a great question. We don't -- we don't give specifics about our distribution network is -- how the distribution network is today. What I can tell you is that, look our philosophy about commercial -- our commercial strategy is not going to change. It is not going to be dependent on our ability to spend. I think that I've said multiple times that we want to create sustainable growth and we will not -- we will not force our commercial leaders to find the growth just for the sake of growth.

Look, what has made me very proud right now is not how much we are growing, but the quality of revenue that we're bringing to the organization. At the end of the EBITDA pull through that you saw this quarter, it's just a function of our ability to be very dogmatic on how we are doing.

So, if you want to see us, if you want to imagine us in the future, this is a company that is going to keep focusing on growing above market rate. That is going to make, let's say it's going to trade accelerated revenue to decrease EBITDA profitability and is going to stay always focused on being the best partner that we can find because at the end of the day, success is not just, is not just the growth rate, but also our ability to utilize the asset that we have in the best way as possible. And we can do that if we have a very good commercial partner.

Jason Wittes

Analyst, ROTH Capital Partners LLC

Q

Great. Congrats on a solid quarter. I'll jump back in queue.

Operator: And that concludes our question-and-answer session, I will now turn the conference back over to Julie Dewey.

Julie Dewey

Chief Investor Relations and Communications Officer, Orthofix Medical, Inc.

Thank you. We appreciate all of you joining us and we look forward to talking with you next quarter. This now concludes our call.

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