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Orthofix Medical, Inc. (OFIX)

CG Growth Conference

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CORPORATE PARTICIPANTS

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

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

OTHER PARTICIPANTS

Caitlin Cronin
Analyst, Canaccord Genuity LLC

MANAGEMENT DISCUSSION SECTION

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Good afternoon, everyone, and thank you for joining us at this year's Canaccord Genuity Growth Conference. My name is Caitlin Cronin, and I am one of the medical device analysts here at Canaccord Genuity.

I'm here today with Orthofix, a global medical device company specializing in orthopedic and spinal solutions. We're very pleased to be joined today by Massimo Calafiore, CEO; Julie Andrews, CFO; and Julie Dewey, Chief IR and Communications Officer.

And before we begin, I want to remind everyone of any relevant disclosures which can be found on our conference and/or from website.

We'll begin with a brief presentation by the Orthofix team followed by a fireside chat. And I'll try to leave a couple of minutes at the end for any questions from the audience.

And with that said, I'm going to hand it over to management.

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

Thank you. Good afternoon, everyone.

So, our forward-looking statement – okay.

For who doesn't know Orthofix, we are a leading global medtech company that participate in five specific markets. We have a biologic markets, spinal implant, enabling technology, bone growth therapy that we call BGT, and orthopedics. It's a very comprehensive portfolio that give us the opportunity to have multiple level of growth. And

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it's something that, right now, we are enjoying it given that give us the opportunity to be very consistent and dogmatic where we invest capital.

To make you understand better how we work, from the commercial perspective, you have a biologic, a spinal implant, enabling tech and bone growth therapy that use the same call point, and we have an orthopedic space that can share a call point with biologic and BGT. So, if you think about, yes, five distinct end market, but the opportunity to horizontally creating to leverage, let's say, multiple point of contact with surgeons. We participate on a $15 billion market that distill to $7 billion when you think about the product that we have right now on each segment.

So, why invest in Orthofix? Look. We have a company with strong foundation for strong fundamental, and we have a compelling growth opportunity among all of the different segment where we participate. So, if you want to think about us, we are a company that is growing faster than the market in all of the segment where we participate but in a very responsible way. So, in a way, that also create return for our shareholders in EBITDA and cash flow. We are very focused commercially. As said, we are taking the advantage of many synergies that we are creating horizontally among all of the business unit but, at the same time, a pretty strong innovation machine that create interest for our end customer.

I'm very proud to have a brand-new leadership team. I think that we have more than 250 years of experience in the space that we participate combined. Actually, tomorrow, we're going to announce also the new leader for orthopedics. So, I start this job six months ago. So, laser focus on, A, stabilize the company and to – and maintaining a strong growth trajectory; and as second part of my tenure on focusing on build the best team that we could. And it's very interesting that the quality and the caliber of the people we were able to attract was due to the fact that it's pretty well known that there is a big discrepancies between the quality of the company, the portfolio and the valuation that we have right now.

As said, the team has been very focused on executing. So, if you see a lot of interest and a lot of improvement already in the first six months of the year, and all of these drove us on EBITDA raise in both quarters that where we – the last couple of quarters of the year. So, a demonstration that we can grow, as said, above market but, at the same time, keep creating value focusing on the right stuff.

So, what are the key priorities for us entering in the second part of the year? As said before, profitable growth. If we want to position, let's say, Orthofix in this world of medtech, we can be an alternative to small companies that wants to grow at all cost, so very fast-growing company burning a lot of cash; or to companies that are much larger than us that have a growth profile lower than us but, of course, with a stronger EBITDA. So, we have a kind of – we want to be a nice blend between, as said, above-market growth and value creation. I think that how we differentiate if you think about our end customer given our portfolio, we can enter an account from different avenue. As said, yes, we have five different businesses but most of them share the same customer. So, an ability to enter from the spine side, from the enabling technology side, biologic, et cetera, et cetera. And at the end, a real focus on a strategic innovation.

I think one of the product that differentiate us in the market is that we have a very strong enabling technology platform with 7D. 7D pretty much is a navigation system that we use in the OR. This is a proprietary technology named FLASH technology. For who is familiar with the market, right now, if you want to do a robotic surgery or if you want to use a competitive system, you need to spend a good 20, 30 minutes before starting a case. Our 7D let the surgeon map the entire spine in 52 seconds. So, we are thinking about highly differentiable technology that deliver real advantage in the OR.

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So, where are we now? I think that as you inferred, the people who follow us, you can see that we're marching towards our goal. We are focusing on the area that are very profitable for us. I think that we start to talk – from the innovation side, we start to talk about investing, for instance, the spine in deformity, in open deformity which is a market that is very lucrative. All of this because the combination between the 7D technology and our hardware, I think that the multiple contact that we have in the account also let us go deeper and create a much better return per surgery, not just the selling more product than a specific segment, but creating – following the patient in this continuum of care. Because we can work and address the pathology [indiscernible] (00:07:33). But with bone growth therapy, we can also address – we can follow the patient post-op until the fusion. Again, I think that we have a very strong platform that is creating all the commercial synergies right now.

And again and I think that we are building up a company with a solid foundation for our bright future because we are not focusing on specific top line growth but also a real focus on value creation with EBITDA and cash flow. So, as said, we're being very consistent right now and focusing on delivering the best technology that we can to our end user, the best technology that we can to our commercial partner, but without forgetting what is important for all of the investor community so creating value for an organization. So, this is our story. Thank you.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Great. Well, thank you, Massimo.

QUESTION AND ANSWER SECTION

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Maybe let's just start with the Q2. Really strong quarter for you, guys, and you also raised revenue guidance. What really gives you the confidence to do so? And how do you expect revenue to really ramp in the second half?

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

A

Yeah. Look, I think that, for us, we're starting to see – we are seeing like a strong demand for our product and a lot of interest, plus we keep learning about the team, our ability to execute. And as said the fact that we have multiple point of contact with the surgeon, the fact that we can keep following the patient for a long time is giving us the opportunity to go much deeper. So, I think that where you see – where we are increasing our revenue per case vertically. But at the same time, I think that there is a lot of interest to attract very strong partner and distributor. So, I think that we had some thesis when we enter, let's say, the beginning of the year and we're start to see that what we're thinking in January is actually happening today.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And you also announced that you expect positive free cash flow for the second half, which was an increase from your prior expectations for just the Q4. What helped you drive this increased expectation?

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

A

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Yeah. I think, so we're seeing more drop-through from an EBITDA perspective, cash conversion, as well as working capital improvement. So, specifically some DSO efficiency as well as inventory and instrument efficiency in turn. So, that – those things kind of gave us the confidence that we'll exit the back-half of the year cash flow-positive.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And maybe let's just touch on your spine business. You grew US spinal fixation in Q2, 12%, which is very strong number. What really drove this growth?

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

A

Yeah. I said before, it is a combination of two factor. A, we are keep getting more money per procedure. The fact that we can sell the hardware in the account, that we can sell the biologic in the account, and the fact that our portfolio with the combination of SeaSpine and Orthofix let us address more than 90% of the procedure, the procedure also increasing us the revenue that we see per – the revenue [ph] we see (00:11:08) per case. But at the same time, I think that we are seeing a big improvement on the quality of our distribution. I think that we are getting partner that can manage our scale and partner that are helping us to utilize our resources better. And you could see, as Julie said, on the drop-through on our EBITDA and an improvement on asset management. So, I think the combination of stronger commercial footprint and the ability to go deeper with our technology.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And maybe just touching on 7D, you mentioned it earlier. But what are really the key points that make this technology differentiated versus other spinal navigation platforms?

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

A

Yeah. I think that 7D is based on what we call FLASH technology, which pretty much if you go in the OR and you see the lightning that is used, so it's a similar for the footprint is very similar and had a technology utilize LED to map the open spine. This mapping that we call registration pretty much is happening is less than a minute. So, you can appreciate how the fact that you can have a fully free X-ray, let's say you can create a fully X-ray procedure, a procedure that is faster compared to all of the technologies that are out there. So, I think that the combination of the quality of the system that – the quality of the performance that we can give with the fact with the speed, with the ease of use is creating a lot of interest on the marketplace. And the fact the leveraging this – the technology that we have, over time, we can bring some more add-on development with the FLASH technology that will further differentiate us from competition.

So, the interesting part for us is that it's not anymore, okay, you buy 7D or you buy a robot. I think that the technology so differentiable that you can see multiple account, our technology with a robotic technology or whatever, [indiscernible] (00:13:33). So, is very compelling for us is – and it is one of the ability that we're going to have to create stickiness in the account.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And just jumping off of that, what are you seeing from a capital demand perspective and what's kind of the purchasing strategy that you have for hospitals?

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

A

Yeah. So, we are very flexible on how we sell the capital to the hospital. I think that one of the changes that we made has been, first of all, before the entire capital infrastructure was separated from spine. Now, we created a unique vertical between commercial spine, biologic and 7D. So, let's say, we are creating a more, let's say, synergy between the commercial team. Our favor right now is, of course, to create placement of 7D into account. So, I have hospital, they can pay for the device through earnout. I think that the earnout, yes, is going to have a lower impact commercially short-term but is going to create more longevity stickiness into account. But in general, I think that we are very flexible about how we go into – how we sell our device.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Maybe let's just turn to orthopedics, why is your product offering here differentiated than some other large ortho players?

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

A

So, in orthopedics instead, we have very focused strategy. If you think about us, so we are the company that can solve the most, let's say, complex trauma cases out there. I think that we are the only company that, right now, combining the ability to address all of the worst cases for surgeon with internal lengthening, so internally and externally with our external fixation. So, again, a very strong presence overseas. Right now, 80% of our revenue for Orthofix is coming from there. Orthofix was born in Verona, was born in Europe, so a big strong presence there. But in United States, we start to see – we start to find our place given the fact that, again, we are unique on how we address complex trauma and complex trauma reconstruction. And again, we have a very small market presence and we are very excited about the leader that we're bringing on board because it's going to bring a lot of experience of managing a scale in the USA market. So, I think that the combination of better and larger distribution with the product, we see the opportunity to grow multiple of the market in orthopedics as well.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

That's great. And then, maybe just a quick one on Bone Growth Therapies. I think you noted that you were a leader in the space and growth here has been very impressive as well. Can you touch on your two channels within BGT and their respective distribution strategies?

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

A

Yeah. So, as said, so BGT on the spine side, we are the market leader. We are the only PMA product for cervical indication and we have a distribution as we have a commercial infrastructure. This is a blend between direct and distributor. We are seeing, let's say, a very healthy growth right now given despite, let's say, our market-leading position because we are leveraging, as said, this horizontal synergies between the touch point that we have in spine with our bone growth therapy. So, I think that this is like a demonstration of the thesis of the merger between SeaSpine and Orthofix that is creating, let's say, a real benefit from the commercial point of view. So, very happy about how the team are collaborating and working together.

On the fracture side instead, we entered the market recently. We are already 20% on market share. And again, similar infrastructure that we have for spine and we start to see – we are [indiscernible] (00:25:34) about creating even deeper synergies between the commercial infrastructure that we have in orthopedics and BGT. So, we are

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very excited about what we are doing right now. We have the opportunity even in orthopedics to address both acute trauma and malunion. And thinking about scale, we are creating economy of scale because if you think about it, yes, we have two different segment, but the back office infrastructure is the same. So, the opportunity to leverage expertise we already have and grow into different market.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And just touching on your commercial strategy more broadly, I think the merger was a year-and-a-half ago and you're now graduating to a more focused combined commercial strategy. Can you just talk a little bit about the strategy and its three components? I think you've talked about going deeper into existing accounts, utilizing commercial access points, and then also leveraging 7D going forward.

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

A

So, on top of these, if you think about what the merger brought us is the opportunity now to have a portfolio that address the vast majority of cases out there. All of this is driving us – is giving us the opportunity to start to create more exclusivity with our distributor. So, what we are working on right now really start to think about more scale. So, to bring a partner that again can scale within the market, can be more focused on us, and improving utilization of the asset that we have. So, what you're going to see from us keep, let's say, bringing quality distributor in-house, test where we can so more direct distribution, and eliminate all of the small distributors that can just create a lot of inefficiencies for us.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Makes sense. And, Julie, I just want to make sure I give you some airtime on the financials. So, I know you're now a year-and-a-half from the merger. Where do you stand on your goal of achieving $50 million in synergies post the merger?

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

A

Yeah. So, we've achieved $38 million to-date. We announced that in Q2. And so, we feel like we're making really good progress on achieving our synergies of $50 million. The $12 million we have left, the majority of that, we believe, will come from gross margin – in the gross margin area, a little longer tail projects so into 2025 when we think we'll realize that. But making good progress and we're encouraged by what we're seeing.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

That's great. And then, can you speak to the working capital management improvements you're driving, specifically inventory and instrument utilization, DSO efficiency, et cetera?

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

A

Yeah. So, I think last year, the company made an outsized investment in inventory and instruments in terms of ramping up for distributor conversions. And so, we're able to use that this year to fund our growth, as well as looking at kind of turn improvements that are sustainable over time. The company had kind of built up, I'd say, a bolus of inventory in warehouses through COVID and a number of other things that we're bringing back into line

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into kind of a normalized days on hand. So, a lot of opportunity there this year. And we see kind of going forward that we'll be operating at a different level.

And then, from a DSO perspective, just focusing on the basics, collecting over 90 days and reducing our DSO. [ph] Less up (00:21:35) that's more kind of a near-term opportunity, but then we expect to maintain that.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And as you near cash flow profitability, where are you sitting from both a cash burn and a cash on balance sheet perspective at this point?

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

A

Yeah. So, we finished Q2 with just under $29 million on the balance sheet, almost breakeven for the quarter at $700,000 and free cash flow usage. And again, back-half, we expect to be free cash flow positive. So, we feel good about where we are and where we're going. We also announced that we'll be free cash flow positive for the full year of 2025.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

That's great. Any questions from the audience? Okay. Well, maybe just to wrap it up, I would love if you could leave us with some words of wisdom about where Orthofix is going and what you want to leave investors with.

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

A

Yeah. Look, as said, we are a very exciting company right now with the space because I think that we are blending, let's say, three different theses. We're exciting because we can grow above market. We're exciting because we have a very strong enabling technology platform and a very good innovation pipeline. But again, we are not bounded [ph] to growth our cost (00:22:59). I think that we are right now making, I think, the smart choices to balance, again, the innovation that give to our customer, but also the return of investment that we give to all the people that are believing on us. And at the end, if you see the Street is kind of liking it, our story. And for us, for the strong management team that we have, is going to be just to be laser-focused on executing and improving that – proving the thesis that I just said. So, again, I think that we have the innovation engine and the people to make everything that I said happen. So, I think that we're going to write a very good story here.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

That's great. Well, thank you all for your time.

Julie B. Andrews
Chief Financial Officer, Orthofix Medical, Inc.

[indiscernible] (00:23:46). Thank you.

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