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Orthofix Medical, Inc. (OFIX)

Q3 2024 Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Jason Wittes
Analyst, Roth Capital Partners, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Orthofix Third Quarter 2024 Earnings Call. I am Fran, and I'll be the operator assisting you today. 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 would like to turn the call over to Julie Dewey. Please go ahead.

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

Thank you operator, and good morning everyone. Welcome to the Orthofix third quarter 2024 earnings call. We appreciate you joining us. I'm Julie Dewey, Orthofix's Chief IR and Communications Officer. Joining me today on the call are President and Chief Executive Officer, Massimo Calafiore; and Chief Financial Officer, Julie Andrews. Before we get started, please note that our earnings release and the supplemental presentation accompanying this call are available on the events and presentations page of the Investors section of our corporate website at Orthophix.com. We will be referring to this investor presentation during this earnings call. So I encourage you to download it for easy reference.

Also this call is being broadcast live over the Internet to all interested parties, and an archived copy of this webcast will be available in the Investors section of our corporate website shortly after the conclusion of this call. 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. We do not undertake any obligation to revise or update such forward-looking statements. Factors that could cause actual results to differ, materially are discussed in our most recent filings with the SEC, and may be included in our future filings with the SEC.

In addition, on today's call, we will refer to various non-GAAP financial measures. Please refer to today's news release announcing our third quarter 2024 results for information regarding our non-GAAP results, including our

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reconciliation of these non-GAAP financial measures to our US GAAP. results. Additionally, all revenue percentage changes discussed will be on the constant currency year-over-year basis, and all results of operations that we will refer to will be on a non-GAAP as adjusted basis.

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

Massimo Calafiore

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

Thank you, Julie. Good morning, everyone, and thank you for joining us for our third quarter earnings call. I'll spend some time providing business updates, and outlining our long-term strategic initiative before I turn it over to our CFO, Julie Andrews, to cover the specifics of our Q3 results, guidance and our new three-year financial goals. The third quarter represents an important inflection point in this new chapter for Orthofix, including record performances in our U.S. Orthopedics business and in the number of 7D earnouts agreements. We also matched our record for the highest number of 7D unit placements in any quarter to date, and keep seeing strong demand for our Spine Fixation products.

As shown on slide 5, we continue to deliver above market growth led by strength in our USA markets. The entire company is focusing on innovation and responsible growth. We had another quarter of strong adjusted EBITDA margin expansion with positive free cash flow of $5.9 million, reaching the significant milestone earlier than we expected. All of this keeps us on a clear course to achieve our 2024 financial targets. Our operating and financial discipline allows our team to execute on our key growth initiatives, and reinvest in our innovation priorities. I can confidently say that the business fundamentals are excellent and we have positive momentum to continue leveraging our strategic advantages in 2025 and beyond.

Our third quarter net sales results of $196.6 million represents year-over-year growth of 7% on a constant currencies basis. Growth was led primarily by strength in our U.S. Spine Fixation and Bone Growth Therapies or BGT businesses, as well as continued market penetration in U.S. Orthopedics. U.S. Spine Fixation had an outstanding quarter and grew 18%, more than triple the market rate with healthy double-digit growth across all three of our franchises, cervical fusion, interbody, and thoracolumbar fixation. Revenue growth was driven by continued strong market demand of the recently launched Reef and WaveForm interbody products, along with the onboarding of new experienced distribution partner.

More specifically, our ALIF, Lateral and MIS portfolios all grew in excess of 35%, and significantly outperformed the market due to increased focus on procedural selling. New product introductions are a driving force and continue to open doors to new surgeons. The combination of our access instrumentation, 7D, our biologic portfolio, and the new interbody designs that features Orthofix proprietary advanced surface technologies is supporting our differentiation in the marketplace. We are committed to our surgeon and patients that look to our technology to increase speed, improve accuracy, and advance outcomes. BGT grew 9% overall, and 13% in fracture, further highlighting the benefit of cross-selling in our integrated spine and orthopedics channels.

We already hold the number one market share position in BGT spine market, and continue to take share with more than 50% of the growth coming from new customer acquisitions. In addition, investment in the fracture market sales channel drove 15% growth in BGT fracture with the AccelStim bone growth therapy device continuing to outperform the market. As a reminder, the fracture market represents an opportunity for more than $200 million, and we're still in the very early innings of building our position in the market with a clear goal to become the number one player. U.S. Orthopedics benefited from strong execution and grew 15%.

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Growth was led by the combination of our TrueLok and Fitbone products, as well as growth in the OSCAR product family, which facilitates the removal of bone cement during joint revision. As a result, I'm happy to report that our U.S. Orthopedics business delivered a record revenue quarter. In Enabling Technologies, we entered into a record number of 7D FLASH Navigation system earnouts agreements and matched the record for the highest number of 7D unit placements in any quarter to date. We are leveraging our differentiable platform to create long standing relationships with our surgeon partners. In addition to reiterating our full year 2024 financial guidance, we are also introducing our new 2027 financial targets which reflect our confidence in sustainable growth trends, the strength of our differentiated and expanded product portfolio, which continues to win share, and our commercial strategy and focused execution.

Julie Andrews will discuss these in detail later in the call. I believe, we are very well positioned to accelerate our positive momentum and delivering on our commitment to drive disciplined, profitable growth and innovation, while increasing long-term shareholder value. In summary, I'm pleased with our third quarter performance and remain optimistic about the opportunities ahead. It's clear that Orthofix's focus on executing the clear strategy for profitable growth is delivering compelling results, through our focus on bringing to market a comprehensive portfolio of transformative solutions and delivering unmatched customer service, which collectively are helping us drive more profitable sales. We have significantly improved our operating and financial position and paved the way for sustainable growth.

As we look to 2025 and beyond, we plan to build on our progress by; one, further sharpening our commercial focus and discipline for margin expansion; two, continue to innovate our Enabling Technologies platform to support our renewed focus on spine deformity; and three, ensuring we are well-positioned to create value for our shareholders over the long-term. As outlined on slide eight in the presentation, we have continued to successfully execute this transformative agenda, and are now at an inflection point in our journey that is focused on strategic innovation and operational and financial discipline. With our world-class executive leadership team in place and reinvigorated by our new vision and mission, it's time to introduce our long-term strategy and financial goals, which build on our strong foundation and set us on a clear course for profitable growth.

I would like to provide more detail on the multiple levers and vital few initiatives in our long range plan that we believe will fuel profitable growth and propel our business forward. These include an innovation focus and continued development of differentiated products to meet diverse surgeon preferences, commercial strategy enhancement to drive deeper market penetration through comprehensive portfolio offerings, technology leadership that harness advanced systems for improved surgical outcome efficiencies, emphasis on high quality revenue streams, and operational excellence for growth, sustainability, and disciplined cash flow management and strategic financial planning to sustain positive free cash flow.

At high level our strategy will capitalize on our clear competitive advantages in addressable markets of approximately $15 billion that are outlined on slide 11 and 12, and 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. We are poised to unlock the company's full potential in each of these respective markets, with a highly capable team that is ready to execute and deliver on our commitment to disciplined, profitable growth by providing life changing solution and maximizing value creation.

First, referring to spinal implants on slide 13, we believe we are well-positioned to serve over 90% of the spine surgeon's needs with a comprehensive product portfolio, which includes spinal hardware, biologics, and enabling technology. We also believe that our comprehensive portfolio and steady cadence of innovation will enable us to attract top sales talent, increase [indiscernible] (14:18) distributor relationships, and drive stickier relationships

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with surgeons and hospital accounts, which we expect to result in incremental product pull-through as well as ASP lift from mix benefits.

Moving to slide 14, our BGT business is focused on maximizing our number one market position with the most comprehensive portfolio and most indication of bone growth stimulation devices in the market. We will continue to focus on cross-selling with orthopedics and spine, add new market channels with established sales representatives and drive penetration in the fracture market with AccelStim. Our biologics portfolio featured on slide 15 is growing from a position of strength. We are a market leader with the number two shares position in biologics, with solutions to enhance the fusion process and promote bone repair, and growth in each of the major bone grafting categories. Supported by a strong foundation of long-term clinical research, we will continue to leverage opportunities for growth by capturing share with our current biologic offerings in spine and orthopedics.

Now turning to orthopedics on slide 16. We are redefining the category of limb reconstruction with our unique portfolio of solutions that address the most challenging orthopedic conditions in patients of all ages. We are just beginning to expand into the US orthopedics market, which presents incredible growth opportunities given our unique and innovative product lines. Our focus is on areas where we can win, particularly in deformity correction, limb restoration and limb lengthening. We have received recent 510(k) clearances for a number of products that are now in limited market launch, and are expected to capture additional market share, including the Fitbone transport lengthening nail, the only bone transport nail available in United States.

Finally, as shown on slide 17, we believe that our 7D FLASH Navigation system represents a unique opportunity to drive surgeon and hospital account interest, and growth across our broader Orthofix portfolio. The reorganization of our 7D commercial structure under the leadership of our Spine team is already paying dividends, as evidenced by the record number of 7D earnouts agreements, a unique placement in 3Q. As the world's first radiation-free machine vision image-guided surgical system, 7D continues to revolutionize spinal navigation, making it faster and more efficient. With the capability for registration mere seconds versus 30 minutes or more for competitive system and requiring no intraoperative radiation, 7D technology is proving compelling to surgeon.

While we offer both MIS and open surgery solutions, keep in mind that open surgery still represent approximately 80% of the total current spine interventions, positioning 7D as a key driver of incremental navigator procedure penetration. With the evolution of our 7D strategy, we are more confident than ever in its increasingly significant role in our portfolio. This shift will allow our Enabling Technologies team to drive software innovation and enhance 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.

Surgeons and their patients remain our primary focus, and we will continue to provide a differentiated, unique approach to navigation in the OR. Underpinning our business strategies are significant cross-portfolio commercial opportunities that are highlighted on slide 18. The breadth and depth of Orthofix spine and orthopedics offerings provide multiple path to grow the business as sustained above market rates. For example, we are already taking advantage of opportunities to cross-sell our BGT products into spine accounts, as well as introducing spinal hardware, biologic and navigation to our spine BGT surgeons. We also have additional opportunities with our biologics and fracture stimulation products through our orthopedics channel.

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 surgeon customers and their patients. We remain the market leaders in Bone Growth Therapies, have a comprehensive market leading biologics portfolio and

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differentiated products in several specialized orthopedic markets, such as complex trauma reconstruction and limb deformity correction. Additionally, our broadened spine portfolio is world-class and is fully supported by the highly differentiated and compelling Enabling Technologies. Looking forward, I believe, we are uniquely positioned to accelerate our profitable growth engine, which is reflected in our goals for consistent above-market growth, improved profitability and positive free cash flow.

As shown on slide 21, we intend to invest in differentiated technologies in areas where we can lead and win with innovation. We will take a systematic approach to driving innovation with rigorous allocation of resources to higher return opportunities. Over the course of our plan, we anticipate investing approximately 8% to 9% of sales each year in R&D which we expect to fuel our regular cadence of meaningful high impact new product launches and support sustained share capture in our U.S. Spine, U.S. Orthopedic businesses. Turning to slide 23, we believe we can continue to capitalize on a number of axis points that we already have with surgeons to grow the business. For example, we see plenty of opportunity to introduce additional products from our portfolio, such as BGT, Biologics and 7D, to accounts that already use our spine or orthopedics product.

This not only provides us with new entry points and cross-selling opportunities, but also enable us to develop stickier surgeon relationships, solidify our presence in the account, and widen our competitive moat. In summary, we have successfully executed and improved our financial and organizational matrix over the last three quarters, and we expect the positive momentum to continue. Our new leadership team and the entire company is well-positioned to implement our strategic plan and achieve sustainable, profitable growth across the portfolio. We are on a strong positive trajectory, and I continue to be optimistic as I look forward. Our new financial targets reflect our confidence in sustainable growth trends, in our commercial strategy and execution. I believe we are set up well for above market net sales growth, significant EBITDA margin expansion, and improving levels of free cash flow generation in 2025 and beyond.

With that, I'll now turn the call over to Julie to review our third quarter financial results and outline our new financial targets.

Julie B. Andrews

Chief Financial Officer, Orthofix Medical, Inc.

Thank you, Massimo, and good morning, everyone. Orthofix had a strong third quarter delivering total company net sales of $196.6 million or 7% constant currency top line growth. Adjusted EBITDA was $19.2 million with adjusted EBITDA margin expansion of approximately $6 million or approximately 250 basis points. I'll now review financial results for the quarter for each of our business units and then discuss our full year 2024 guidance and new 2027 targets. Bone Growth Therapies revenue grew 9% to $57.9 million in Q3, and 13% in the BGT fracture market driven by investments in the fracture market sales channel. This growth was driven by above market performance in both the spine and fracture channels. We do expect our BGT growth to remain above market growth rates, but should moderate somewhat as we move forward in the fourth quarter and beyond.

Keep in mind, that we hold the number one market position with more than 50% market share in our BGT spine business. This unrivaled leadership position coupled with the impact as we anniversary gains from surgeons acquired in Q3 and Q4 of last year impacts our ability to maintain the pace of growth that we have been enjoying over the past several quarters. We will continue to focus on adding new surgeons and competitive surgeon conversions in BGT spine. At the same time, we will also continue our commercial focus in the BGT fracture market where we are significantly less penetrated and see a substantial opportunity to drive new business with orthopedic surgeons. Global Spinal Implants, Biologics and Enabling Technologies third quarter revenue was $108.2 million, with year-over-year growth of 7%. U.S. Spine Fixation revenue grew 18%, over 3 times the market growth rate, driven by deeper penetration of existing accounts and expansion of our customer base.

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As Massimo said earlier, we entered into a record number of 7D FLASH Navigation system earnout agreements and match the record for the highest number of 7D unit placements in any quarter to date. Our US biologics business grew below the overall market in the third quarter as we accelerated our distributor transformation, which had a disproportionate impact on our Biologics business. We expect this performance to get back to an above market pace as we continue to focus on new distributor partnerships, cross-selling initiatives, and the launch of new products such as Osteostrand Plus C and OsteoCove, which were featured at the recent NASS meeting. The global orthopedics business grew 3% in the quarter, led by 15% 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 declined 2% versus prior year. As we've previously said, due to the nature of this business, particularly around the timing and volume of stocking distributor and tender orders, we expect to see variability from quarter-to-quarter in the growth rate. Adjusting for non-recurring tender orders, international sales were in line with market growth. Non-GAAP adjusted EBITDA of $19.2 million was driven by the capture of merger-related synergies and driving leverage on sales growth, and represented a 45% 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 Q3 increased to approximately $32.6 million.

As shown on slide 27, our free cash flow generation was $5.9 million in the quarter, a significant improvement over the first half of this year. This was a result of higher EBITDA as well as improvements in working capital usage. We also announced today that we successfully completed a new $275 million financing to replace our existing credit facility, which will further optimize the company's capital structure to support long-term profitable growth. Summarized on slide 28, the completion of this refinancing initiative is an important step in Orthofix's trajectory, and provides us with more favorable terms and a lower cost of capital under which we can continue to invest in the growth and evolution of the company. Overall, we are pleased with our third quarter results and our performance to date, which has been characterized by steady improvements throughout the year, including significant progress in adjusted EBITDA and becoming free cash flow positive, both of which underpin our confidence in our ability to drive long-term profitable growth.

Moving on to 2024 full year guidance on slide 29. We are maintaining our guidance for full year net sales of $795 million to $800 million, representing implied growth of 6.6% to 7.2% year-over-year on a constant currency basis. Please note, our expectations are based on current foreign exchange rates and do not account for rate changes that may occur through 2024, or contemplate any potential impacts to elective procedures as a result of IV fluid shortages or other hurricane-related effects. We are also maintaining our full year 2024 non-GAAP adjusted EBITDA of $64 million to $69 million, and expect to be free cash flow positive for the remainder of 2024. For the remainder of the year, we expect gross margin, operating expenses, depreciation expense, stock-based compensation expense, interest and other expense, and adjusted EBITDA margin improvement to remain in line with the directional remarks we provided on our second quarter call in August.

Now, I would like to discuss our new three-year financial targets for 2025 through 2027. These are outlined on slide 30. We are still early in our journey focusing on the vital few initiatives Massimo outlined earlier and that we believe will enhance operational excellence and drive business performance. We also have a strong infrastructure in place with plenty of available runway to drive higher margins and profitability across the company. Importantly, we believe these targets build on the positive momentum we've generated, and put us on an accelerated path to profitability with a stronger financial profile to maximize value creation. First, we expect to deliver 6% to 7% net sales CAGR from 2025 through 2027. This assumes sustained market demand with weighted average market

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growth of 4% to 5% that includes a negative pricing impact of 1% to 2% and no material change in the reimbursement or regulatory environment.

We expect mid-teens non-GAAP adjusted EBITDA as a percent of net sales for the full year 2027. This assumes approximately 300 basis points of gross margin expansion over the period, capture of about $10 million in remaining merger synergies, fixed cost leverage and moderating expense growth. We anticipate positive free cash flow generation from 2025 through 2027. This assumes continued adjusted EBITDA improvement, reduction in inventory days on hand and improved instrument utilization. With a compelling combination of profitable above market growth and a stronger financial profile, we believe our focused commercial strategy and broad differentiated technologies, combined with a robust innovation pipeline and our pace-setting enabling technologies position us well to achieve these targets and deliver increased value to our shareholders.

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, and our committed commercial partners for their effort in Q3. Their contribution have been instrumental in driving our performance. We have made great progress year-to-date with more than triple the market growth rate in spinal fixation, healthy double-digit growth across all three of our spine franchises, orthopedics back on track, strong demand for our Enabling Technologies, commercial transformation that is very well underway and already paying dividends, strengthening our profitability profile, and reinforcing our commitment to expanding gross margin, growing adjusted EBITDA, sustaining positive free cash flow and increasing our liquidity at a better cost.

I'm confident the building blocks for sustainable, profitable growth and life-changing innovation are in place. We are moving forward as one team, and are not letting up on the operational efficiencies, a strategic execution it will take to deliver sustainable, profitable growth across our portfolio, and drive long-term value for surgeons, patients and shareholders. I'm confident we have the people, the technology and the strategies to unlock the company's full potential in each of our respective markets, and realize our vision to be the rival partner in med-tech delivering exceptional experiences and life-changing solutions.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes Mathew Blackman with Stifel. Please go ahead.

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everybody. Can you hear me okay?

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

A

Yes.

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

A

We can, Mat.

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks for taking the questions. I've got three for you, Julie. Maybe just to start, if we think about the key metrics in the [indiscernible] (35:35), what's going to keep you up most at night between now and 2027, or maybe said another way, where's the biggest list to get to those targets? And then I got a couple of follow-ups.

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

A

Well, Mat, we are confident in our ability to hit these targets. Of course, we've always got to work with in the market we're working within. So market growth and what the market is doing will be a key thing that we'll keep our eye on. But we're confident in our ability to deliver our mid-teens adjusted EBITDA and positive free cash flow.

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Good. That's a good segway on that mid-teens EBITDA by 2027. Should we think about that as a milepost or a final goalpost? I think standalone Orthofix got the roughly 20% EBITDA back in the day. Is that still structurally feasible over time? Is that still a structurally feasible target over time?

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

A

Yeah. I would view this as a milestone, not a goalpost. Of course, we're not going beyond 2027 in our guidance, and the construct of Orthofix is different than what it was historically when it was at 20%. But we don't believe that the mid-teens number is a stopping point.

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. And then my final question, just how are you thinking about the magnitude of outyear cash generation? Are you targeting any sort of cash conversion metric? Are you comping yourself against any of your peers that we

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should use as a proxy? Just any sense of how you're thinking about the magnitude of cash generation over the next several years.

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

A

Yeah. I think that, I mean, we're looking at it internally in terms of cash conversion. We didn't go out with that as a metric and a target because we do want to maintain optionality to make strategic investments if we need to or feel like it's going to move the needle for us. Things like, potentially in-sourcing manufacturing and those types of things that may come with a little bit higher cash burn. But that is something we are focused on. And at the right time, we'll provide that as we dial in a little bit more.

Mathew Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

All right. Thank you so much.

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

A

Sure. Thank you, Mat.

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

A

Operator, we're ready for the next question.

Operator: Ryan Zimmerman from BTIG. Please go ahead.

Q

Hi, everyone. Good morning. This is [ph] Izzy (38:00) on for Ryan. So thank you for taking the questions. I was just hoping to stay on the long range plan if we can. So just to start out, I was wondering if you guys can talk a little bit about what's going to allow you to sustain above market growth rates in each of the segments as we go through the long range plan.

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

A

Sure. Thank you [ph] Izzy (38:20) for the question. So I think, if you think about where we stand, I'm going to start with spine from a market share perspective in the US, we are a 3% market share player. With the strength of our portfolio and our Enabling Technologies, we believe that we have an opportunity to outgrow, outpace market growth at an accelerated rate. So that's one key. Then as we move to the orthopedics business, we're in a similar position in the US where the split of the business between international and US is approximately 70% of our business is outside the US. And again, we see an opportunity to focus on limb reconstruction, really creating a segment, and take outsized share and create a market within that, within the U.S. Orthopedics business. So I would point to those as two of our key drivers in terms of our growth going to market in our long range plan.

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

A

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Yeah. And [ph] Izzy (39:16), if you see, we are creating a lot of strength on our P&L, and this will allow us to keep investing in innovation. I think that the platform that we have is becoming pretty wide, and having 7D as an anchor can make us one of the leading company on enabling tech. So I think that we have all the building blocks to keep growing above market rates.

Q

Very helpful. Thank you both. And then, Julie, I heard your commentary around the assumptions that are going into the adjusted EBITDA margin expansion. But I was just wondering what the actual drivers will be, or if you could provide any more color on that, especially when we consider where the Street is currently modeling top line growth through 2027. What margin levers can you guys pull on to help get to that mid-teens?

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

A

Yes. So one of the key drivers is gross margin expansion. So we have opportunity there as the companies came together, there's some friction that we're working through and some opportunities that we have in terms of sourcing our product and distribution that will improve our gross margins over time. We have additional merger-related synergies to capture. And then finally, in terms that we have scale on, our G&A costs that will not grow at the same pace of revenue, and then leverage overall from our higher revenue number that will be able to drop through a higher, a good amount of that incremental revenue to EBITDA.

Q

Okay. Thanks for taking the questions.

Operator: And your next question comes from Jason Wittes from Roth. Please go ahead.

Jason Wittes
Analyst, Roth Capital Partners, LLC

Q

Hi. Thanks for taking the questions and I appreciate the long-term guidance here. In terms of 7D, could you kind of give us a sense of who the main customers are for that, and how they're using it right now, and how you expect they'll be using it in the future?

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

A

Yeah. So our main customer, so 7D can be used as both in brain and spine. But I think that our major customers are focusing on utilization into spine. 7D has been created at the beginning to be used on open surgery. And remember, open surgery represents right now still 80% of the market, but we're doing a lot of progress also in developing our MIS solution, which is giving us the opportunity to create a footprint on the ASC. So from the market penetration perspective, you see the demand keep increasing because the way our 7D can be utilized, it's keep increasing. In the future, and as said, we're going to be focused on keep developing our synergistic approach between implant and 7D to be used in deformity.

And deformity is going to be one of the key drivers for our expansion into spine. And we can do proprietary things that we're going to talk about in the future, that are going to create the uniqueness around the opportunity of 7D. But overall, we are very pleased about the demand that we're seeing today, mostly driven by the fact that there's

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an actual utilization of the device in the OR. So we will save time, the ability to have a registration done in less than a minute is very important, especially in a moment where time in the OR, OR utilization is pivotal for many surgeons. So again, very pleased about where we are with the platform. And this is just the beginning for us.

Jason Wittes
Analyst, Roth Capital Partners, LLC

Q

Sounds great. Okay. Thank you. And the question for Julie, if I heard correctly, you mentioned guidance is exclusive of hurricane and Ivy shortage impact. Did I hear that correctly or, and related to that, do we expect any impact from those items?

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

A

Yes. You did hear that correctly. And at this point, we're not seeing any impact from those items.

Jason Wittes
Analyst, Roth Capital Partners, LLC

Q

Okay. Thanks for the clarification. And then maybe another clarification, I guess, I have no doubt you guys can grow above market growth, especially in spinal implants. Did you specify kind of where you think your growth might land? I mean, clearly above market, I think, that's almost a given your portfolio and your position, et cetera. But did you specify kind of where you think it might land relative to that sort of 3% to 4% market growth, which is kind of the normalized growth?

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

A

Yes, Jason, we said 6% to 7% CAGR over three-year time period. Yes.

Jason Wittes
Analyst, Roth Capital Partners, LLC

Q

Okay. Thank you again for that clarification. Okay. Thank you all. Again, I appreciate the guidance or the outlook for 2027. I'll jump back in queue.

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

A

Thanks, Jason.

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

A

Operator, we're ready for the next question.

Operator: There are no further questions at this time. I would like to turn the call back over to Julie Dewey for closing comments. Please go ahead.

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

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Thanks, everybody, for joining us today. We appreciate your time and interest. If you have more questions, please reach out and we'll look forward to talking to you next quarter. This concludes our call.

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