10-Mar-2025

Orthofix Medical, Inc. (OFIX)

Canaccord Genuity Musculoskeletal Conference

Copyright © 2001-2025 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Massimo Calafiore
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 morning everyone and thank you for joining us at this year's Canaccord Genuity Musculoskeletal Conference. My name is Caitlin Cronin and I'm on the medical device team here at Canaccord Genuity.

I'm here with Orthofix, a global medical device company specializing in differentiated orthopedic and spinal solutions. And we're very pleased to be joined today by Massimo Calafiore, CEO; Julie Andrews, CFO, and Julie Dewey, Chief Investor Relations 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 from Massimo, followed by a fireside chat, and I will try to leave time for a few minutes for questions from the audience.

And with that, turn over to Massimo.

Massimo Calafiore

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

Good morning, everybody. Thank you for having me here, having us here. And thank you to all of you to be here to hear our story. So, just to start, our usual forward-looking statement, you can read it at your leisure.

But who is not familiar about Orthofix, we are a global MedTech company founded in Italy in 1980, and now we are globally in more than 50 countries, 1,600 employees. And as Caitlin said, we are differentiated in different business segment.

So, the majority of our revenue comes from our spine vertical. So, spine biologic product and enabling technologies. And we have a very successful bone growth therapy business and orthopedics. But orthopedics is,

Copyright © 2001-2025 FactSet CallStreet, LLC

let's say, from where everything started in Orthofix in 1980. We have some different offices worldwide, but our headquarters is in Lewisville.

So, we enter in a very successful Q4, a Q4 that was a culmination of our ability to execute quarter-over-quarter since we took the leadership of the organization.

Just to give you some time reference, I'm in role just slightly more than one year. Like Julie joined me right after. So, it's been a pretty fast journey in the first six months to build up the leadership team that is in place right now.

So, as Q4, like we did in the previous quarter of working together, all of the businesses grow way faster than the market. So, great success in all of the different vertical.

But at the same time what we show a great responsibility on managing the business, so a very healthy free cash flow generation, an increase of EBITDA, our EBITDA keep increasing much faster than our revenue.

So, not just, let's say – so we were able to in just four quarter deliver what everybody that are investing in Orthofix want to see, a company can change patient life day in day out, but at the same time create real value for the shareholders.

So, what they're expecting from us moving forward. Like I said, our main, main business is to change patient lives. So, laser-focused on investing only in differentiated technology areas. I think that we are being very diligent and very deliberate on how we invest our capital.

That one is like order number one, what we are doing very well that we were not doing before. It is really capitalizing on our ability to go in an account and start to enter through different areas.

Because just to give you an example, our spine team can access an account from the biologics side, enabling tech, BGT or spine. On orthopedics the same. We can leverage our orthopedics devices or our BGT device so the ability to have multiple point of access.

As said before, we are being very disciplined on working on our margin expansion, our EBITDA expansion and on free cash flow generating and all of these to create the basis for a very strong foundation.

So, for people that follow our story, our balance sheet, at the beginning of our tenure today change night and day. So again, a foundation to start to do a lot of stuff moving forward as well.

And this one, I think that is the slide that exemplify our progress. We move from in 2023 to be more than $100 million of free cash flow negative. We enter Q2 2024 with a generation of $21 million.

So again, this is just an example of how that you can grow in this market in a profitable way. And I think that actually I start to see – and this is why investors appreciated our story and this is why more and more people are interested in what we are doing.

So, in Q3 we presented our three years long range of business plan, which pretty much follow what I just said. A growth of the organization in all of the different businesses faster than market, that on a combined basis is going to be between 6.5% and 7.5% net sales CAGR, an increase of our EBITDA to the mid-teens.

Copyright © 2001-2025 FactSet CallStreet, LLC

So, we're expecting 300-basis-point of gross margin expansion between now and 2027. And as said before, at the same time, keep being focused on free cash flow generation.

So, as said this discipline is a discipline on managing our finance and deliberate on our capital investment, on creating technology in areas where we can win, where we believe we can win is going to be what Orthofix is going to be in the future.

So, at the end, why to invest in us? Why to believe that we can generate value? Strong fundamentals and you saw the success that we had on managing our company. A very focused commercial strategy, I believe that creating multiple access point into account, is creating a lot of value for us, even in areas where we are like the clear number one market player, like in bone growth therapy.

At the end, everything happened because of people. So, our leadership team just in less than a year was able to make all of these changes and create all of this value for us.

As said discipline on capital allocation, at the same time, with relentless execution. And of course, everything to make sure that we keep deliver what we said that we deliver. So, consistency on this year is just a demonstration to all of the people, all of the investor that wants to believe in Orthofix, that we can deliver year in, year out, consistent results at different levels from 2025 to 2027.

So, I couldn't be more excited about what we're doing. I couldn't be more excited about the technology that we're bringing there and how disciplined we have been.

And with that, let Caitlin ask us some questions.

QUESTION AND ANSWER SECTION

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Thanks, Massimo. So, you guys announced results recently. Could you highlight for us what you want investors to really understand coming out of the Q4 results?

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

A

Yeah. Look, I think that 2024 has been a fantastic year for us. Imagine that, at the same time we had to keep creating value, keep going deeper in the market by way of making a lot of changes in the organization.

So, for many that have been in my seat, you can appreciate how difficult it can be. But we didn't lose momentum and we are very excited because all of the changes that we made are bringing us in 2025 with much stronger footing.

So, our commercial discipline, our financial discipline, our differentiated technology, all of the different markets is creating a very compelling opportunity for us.

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

A

Copyright © 2001-2025 FactSet CallStreet, LLC

Yeah. And just a couple of the numbers to highlight. We grew our US Spine Fixation business 14%. Our US Orthopedics business grew 16%. We had a record number of 7D placements in the year, 150% growth in that. And then we improved our EBITDA margins by over 200 basis points.

And then also, we're free cash flow positive in the second half of the year of $21 million. So, just a fantastic year overall, 7% growth for the full year. So, very pleased with the performance.

Caitlin Cronin
Analyst, Canaccord Genuity LLC
Q

That's great. And Massimo, as you alluded to, you guys announced some portfolio management decisions on the earnings call. Maybe let's touch a little bit on the M6 discontinuation and just the rationale there.

So, demand had been decreasing. I mean, why was that the case? Anything from a product efficacy standpoint that would cause a decrease in demand or influence your decision to discontinue the product?

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

Yeah. So, as said, disciplined capital allocation is what we did. We need to make sure to invest in area that we can win. And besides motion preservation, other areas of orthopedics were not area where we saw that we could make difference for our patients.

So, we discontinued a few product lines in orthopedics, and we decided to phase out them [indiscernible] (00:11:09) that after changing lives of 100,000 patients, we start to see a decrease of interest.

And so that one, I think, drove the decision for us. But still, let's say, the technology is still there available. There is a pocket of surgeons that like the technology, so we're going to keep, let's say, decreasing – going to let them access the available inventory until it's going to be phased out.

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

Yeah. And with M6, back to Massimo's point on just the disciplined capital allocation, so it was not only a drag on our revenue growth, but also it was negative from a profit standpoint and a use of cash.

And again, our focus is making sure that we're investing in areas that we believe we have competitive advantage and with our 7D enabling technology and how that flows through spine fixation, that's really our focus going forward in the Spine business.

Caitlin Cronin
Analyst, Canaccord Genuity LLC
Q

And you noticed divesting other orthopedic lines as well. Do you have plans for divesting anything else going forward?

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

No, I think that we feel pretty good about where we are in 2025. Our goal was to arrive at the beginning of this year thinking about what is the basis, finally, that we want to create that we can use to build upon and enabling technologies in an area where we can win.

Copyright © 2001-2025 FactSet CallStreet, LLC

We believe that spinal deformity is an area that we can win in orthopedics. We have all of this great opportunity to redefining limb reconstruction. So, a lot of excitement there.

At the same time, we keep investing on our commercial infrastructure and technology for bone growth therapy. So, we feel very strongly about where we are today.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Great. Maybe let's turn to long-range expectations that you announced on your Q3 call. Think 7% growth at the midpoint now, expected for the life of the plan with the M6 divestiture. Do you view this as aspirational or conservative?

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

A

This is what we commit to deliver. So, consistency and discipline has been a word common to our lingo around now in Orthofix. So, the growth rate on our long range business plan is something we are confident we can achieve.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And then you're also expecting expansion to mid-teens adjusted EBITDA and free cash flow generation as well. Can you talk about the cadence of these improvements over the life of the plan? Do you expect the improvements to be linear, more stepwise?

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

A

Yeah. We expect them to be a little bit more stepwise, and particularly we talked about the gross margin improvement, near some pretty large projects in there.

And so, the benefits will be a little bit back end loaded. We've talked this year, our guidance was implied. EBITDA margin expansion of about 130 basis points in 2025. And so that kind of sets you up for our future expansion growth being a little bit more stepwise into 2026 and 2027.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

That's great. And then where do you stand from a balance sheet perspective? And how does this help you achieve your long-range goals?

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

A

Yeah. So, I mean, we ended the year in a much better position. We refinanced the company in November. We have a $275 million credit facility in place, finished the year with $85 million in cash on our balance sheet and $115 million in our credit facility that we have access to, should we want to do something with that, and so improved our cash position by about $50 million from $35 million at the end of 2023 to $85 million at the end of 2024.

Copyright © 2001-2025 FactSet CallStreet, LLC

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Great. And then maybe let's turn to the commercial strategy. I think sharpening your commercial focus has really been one of your key LRP initiatives as you look to leverage your broad portfolio across your multiple call points.

Could you give the audience a little bit more color on how you're sharpening your commercial focus across your Spine, Ortho and BGT commercial orgs?

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

A

Yeah. So, let's start to the Spine business. In Spine, we go through third-party distributor, our commercial partner. So, one of the focus since the beginning of my tenure has been, okay, how can we create – how can we start to leverage now the combined portfolio of Orthofix and assist Spine to create more exclusivity.

So, a great deal of focus on bringing larger distributors. They can be exclusive with us selling the entire portfolio, including biologic, But also a team that can have a very good use of our asset, our resources.

So, from the strategic point of view, we start to go deeper in the account leveraging the different technology, but also wider, start to find partners that could actually scale with us.

And if you see this year, there was a direct conversion on our improvement on inventory management that led also to a very good use of cash. So, once we start to see that, investing on distributor can scale – can bring a lot of opportunity to us.

If you see when we move into Orthopedics, really redefine more clearly our mission to be a company that can access, can redefine how limb reconstruction is thought, is helping us to find also distributors that can sell our mission in a more effective ways in the account. So, this is why you can start to see accelerated growth in this specific market, because we are redefining the market.

And when you go to Bone Growth Therapies, literally leveraging our state-of-the-art infrastructure that we have in Lewisville, our state-of-the-art commercial team that we can control, let's say, much better because we have – more than 50% is direct.

So, in every single business segment that we are, we keep evolving our commercial thinking so we can start to leverage all of the technologies that we're investing on much better.

And finally, we close the loop, start to really leverage 7D. One of the things that we did different, start to drive a lot of earn-outs with our 7D technologies. The fact that we are having more earn-outs is creating more stickiness into the account. We're having a lot of success.

Just to giving you an example, the majority of our earn-outs, almost 80% of our earn-out agreements is way ahead of what's the contractual obligation, so this is just show the quality of the implants that we have on one hand and the quality of the enabling technology that we have on the other.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

Copyright © 2001-2025 FactSet CallStreet, LLC

And you touched on your progress on getting larger distributors in Spine. I mean, any risk here to losing distributors given the M6-C discontinuation?

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

No, because what we noticed is that the market segment was highly differentiated. Surgeons that were accessing M6 were mostly just focused on motion preservation, so not a lot of cross-selling between the two.

Caitlin Cronin
Analyst, Canaccord Genuity LLC
Q

Got it. Maybe. Let's turn to your Spine portfolio and strategy there. So, I guess another strong quarter in US Spine Fixation, double-digit growth. Do you think this is sustainable? What is driving this high growth in the US?

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

Yeah. I think that we are bringing – the basis of being a sustainable business are there, like the technologies there. In the last few years, we launched more than 50 products. We have right now a very fresh portfolio, especially on our interbody. Interbody, so anterior axis and lateral are a very good growth for us.

At the same time, the combination between a fresh portfolio with 7D is creating the stickiness that we want in the implant. But look, at the end, it's just the beginning for us.

If you see the evolution on the technology perspective, it still is thinking about all new products that you can use in conjunction with 7Ds to create even an enhanced experience.

So, what you're going to see with our focus in deformity and fixation, a series of launches that are not just helping us to propel the company forward from a pure revenue perspective, but also to enhance this procedural approach that we want to bring, combining implant with enabling tech with access and the combination all of these, if you create the real value in the OR for surgeons at the end of that one is what really matters. It's going to help us to create much more interaction with our products.

But at the same time, again, we sell biologics. We have a great positive steam business with our bone growth therapy team. So, if you start to think about us as a company, you can start to follow the entire continuum of care of the patient.

Our patient doesn't leave us when they leave the OR. It stay with us post-op with bone growth therapy and – so being a MedTech, highly differentiated company as we are is giving us more leverage to create the stickiness that we want.

Caitlin Cronin
Analyst, Canaccord Genuity LLC
Q

Maybe let's touch a little bit further on deformity. And you've talked about leveraging your deformity capabilities to drive share gains. I mean, how are you leveraged to deformity currently?

And then what, from kind of an implant innovation perspective, are you planning on doing to fill any gaps or just improving on your current offering?

Copyright © 2001-2025 FactSet CallStreet, LLC

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

A

It's going to be few-fold. Right now, let's say, we are very competing in the format mostly through 7D. 7D, state-of-the-art for open surgery right now in in different accounts globally.

Actually, one of the interesting statistic for us is that we are so different that we are kind of agnostic of any enabling technology that is already there in the hospital, so you can see 7D even if there is a robot, 7D if there is a competitor. Just because in the specific market we are winning.

So, that one is like Phase number 1. Phase number 2 is going to be still investing on enhancement of the enabling technology platform, but at the same time, investing on the spinal screw system.

This is going to be fully designed from the ground up as integrated with 7D. So again, if you keep deliver – if we can keep delivering differentiable technology associated with a much smoother experience with the surgeons, we can see how we can keep winning in this specific space.

Caitlin Cronin
Analyst, Canaccord Genuity LLC

Q

And then maybe just a minute or two on 7D. Aside from deformity, any color on how you're innovating there? And in terms of the placements, talk about where you're seeing placements. Are these competitive conversions for you or are you placing 7D into kind of legacy Orthofix accounts?

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

A

So, 7D already can be used into brain. So again, it's another value that you bring into the hospital system. So, you have an enabling technology platform that has multiple use.

At the same time, we just got the approval for our EVD device, which helps the surgeon to [indiscernible] (00:23:51) in brain in case you need to address such a post-trauma accident.

It's interesting that is a very widely large market with a procedure that is considered by many as, let's say, routine. The reality in the hospital system is that the majority of this procedure are done in acute and most of the time from surgeons that are like at the beginning of their career, so the actual complication factor is very high. But even if it's not our direct competency, again is another way that we go to the administration to show value.

And [indiscernible] (00:24:41) given the small footprint is just the beginning of a new phase of 7D, scaling down the form factor that may help us to access ASCs. So, a lot of excitement there.

There are things that we're going to start to introduce on 7D in the next the quarter so that are very highly differentiable and I'm very excited about the future there.

At the present time, I talked before about earn-outs. And most of the time, it's all new revenue for us. So, the vast majority of the 7D placement are done in accounts where we are not present yet or accounts that are looking to increase the utilization of our device. So, every single dollar of revenue we bring from there is all new for us.

Copyright © 2001-2025 FactSet CallStreet, LLC

Caitlin Cronin

Analyst, Canaccord Genuity LLC

It's great. I think we'll end it there. Thanks, everyone.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.