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Orthofix

Third Quarter 2020 Earnings Call

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Zach for Raj Denhoy, *Jefferies*

Destiny Hance, *Ladenburg Thalmann*

Jim Sidoti, *Sidoti & Company*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Orthofix Third Quarter 2020 Earnings Conference Call. I will now turn the conference call over to Alexa.

Alexa Huerta

Thank you, Operator, and good morning everyone. Welcome to the Orthofix Third Quarter 2020 Earnings call. Joining me on the call today are our President and Chief Executive Officer Jon Serbousek and Chief Financial Officer Doug Rice. I will start with the Safe Harbor Statement and then pass it over to Jon.

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 matters contained in such statements will occur.

The forward-looking statements we make on today's call are based on our beliefs and expectations as of today, November 5, 2020. We do not undertake any obligation to revise or update such forward-looking statements. Some factors that can cause 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-K for the year ended December 31, 2019, and our Form 10-Q expected to be filed later

today, as well as additional SEC filings we make in the future. If you need copies of these documents, please contact my office at Orthofix in Louisville, Texas.

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 U.S. GAAP. Please refer to today's press release announcing our third quarter 2020 results for reconciliations of these non-GAAP financial measures to our U.S. GAAP financial results.

At this point, I will turn the call over to Jon.

Jon Serbousek

Thank you, Alexa. Welcome everyone, and thank you for joining our third quarter 2010 results conference call. On today's call, I'll provide an update on the third quarter performance. I will then review the progress we've made within each of our strategic initiatives before handing the call over to Doug, who will provide the financial update. I will close with our perspective on the business going forward before opening the line for questions.

Shifting to the third quarter performance, total revenue for the quarter was down 2% on a reported basis and 3% on a constant currency basis compared to the prior year quarterly, largely driven by a decline in elective procedure volumes during the third quarter. Despite the year-over-year decline, we are very encouraged by our performance during the quarter, which reflects continued strong execution and leadership as we navigate uncertainty of COVID-19 and begin to carry out our strategic plan with the new team. Month-to-month performance was generally flat throughout the quarter, which we view as a positive indicator that we are returning to some level of normalcy.

On a sequential basis, revenue increased 52% over Q2, and we saw a positive trend across the businesses with procedure volumes rebounding and restrictions continue to be lifted across geographies we operate in.

Now let's turn to the performance within each of our business units.

Starting with bone growth therapies, sales were down 4% versus prior year, which is in line with the trends we observed in elective procedure volumes. Bone growth therapies continue to be impacted by COVID-19, driven by year-over-year declines in procedure volumes.

On a sequential basis, BGT was up 66% over the second quarter. The sequential growth of this business demonstrates our ability to work with our physician customers to identify the patients in need of our technology and provide flexible solutions to fit these patients to include remote virtual fitting when necessary.

Moving to global spinal implants, we are proud to report that sales were up 11% in constant currency versus the prior year. This was driven by an increase in our U.S. sales growing at 19% over prior year. As a reminder, this category is made up of our Spinal Fixation and Motion Preservation products, which are typically used in elective procedures. U.S. Motion Preservation sales were $5.2 million in the quarter, up 400% over the prior year, and also up 44% sequentially over the second quarter. We continue to see strong adoption trends for the M6-C artificial disc. Our sales training team was able to virtually train approximately 150 surgeons on the M6-C technology during the third quarter of 2020, and new surgeons as defined are surgeons performing their first M6 procedure in the third quarter of 2020 generated $1.1 million in revenue for the quarter. Since our 2019 launch of the M6-C artificial cervical disc in the U.S., we have trained over 650 surgeons.

In biologics, sales were down 7% versus prior year, primarily as a result of the reduction in elective procedure volumes during the quarter. Generally, our biologics business is in line with the market procedure volumes, but is coming off a double-digit growth in the third quarter of 2019 and continued ASP pressure. Sequentially, biologics was up 37% over the second quarter.

Moving to our extremities business, sales were down 9% on a reported basis versus the prior year and 12% on a constant currency basis, primarily as a result of negative impact of COVID on procedure volumes and distributor stocking patterns in certain geographies such as the U.K. and Brazil. We have seen a recent sales rebound in certain European countries, such as Italy and France, but the uptick in COVID cases in many regions may put pressure on elective procedures and volumes. Sequentially, extremities is up 54% over second quarter while certain procedures in the extremities business are not elective, especially trauma procedures, in larger portion is compromised due to deformity correction procedures, which are elective and can be postponed. Due to this mix of procedures, we believe this segment generally follows the elective procedure trends.

I would now like to provide a brief overview of the progress we have made within each of our four strategic focus areas, starting with our first initiative, structure and leadership.

As previously announced, we completed the integration of the biologics and spinal implant product categories under a single sales management team during the second quarter. Having now filled all key senior leadership roles in our global spine business, we are well positioned and seeing early positive results from the new structure. In September, we announced the employment of Paul Gonsalves as President of Global Extremities. Paul brings a wealth of global experience and proven leadership to the organization. Most recently Paul served as Corporate Vice President and Chief Commercial Officer at Integra LifeSciences. We are very excited to have him on board. He's a great addition to the team, and we believe his leadership can accelerate the growth of our global extremities business, but we still have a few hires to make within the organization.

We have effectively completed our structure and leadership initiative. With that effort behind us, we are now shifting our focus to execution and driving the business forward.

Moving on to our second initiative, operational execution, where we are also making meaningful progress. As we continue to manage through challenges associated with COVID, we have been able to consistently deliver for our customers, which is a testament to our team. We are currently 100% operational at each of our manufacturing facilities in California, Texas, and Italy and for the second straight quarter during this global pandemic, we had no manufacturing or supply disruptions. We continue to closely monitor procedure volumes to allow us to supply near-term demand, while at the same time, ensuring we will meet all future demands. While we have learned to manufacture and supply in the global COVID environment, we are now focusing our operational efforts on strengthening and enhancing our supply chain with the goal of working capital optimization while reducing our demand to stock timing for existing products and our pipeline of new product innovations going forward.

The third quarter, as well as the first part of the fourth quarter, has been significant for us in terms of new products and launches, which brings me to our third initiative, product innovation and differentiation.

As we mentioned in August, our new product innovation strategy has been ramping up and has gained traction. A great example of the progress we have made in spine is the presence we had at this year's virtual NASS conference, where we were able to launch our new campaign, Orthofix on the Move. We received positive feedback on this campaign and how we have positioned new Orthofix. In October, we announced an additional FDA clearance for the FIREBIRD SI Fusion System, specifically to the nanotechnology feature. The FIREBIRD SI Fusion System is designed to compress and stabilize the

sacroiliac or SI joint during fusion. The technology consists of a 3D printed porous surface that is designed to allow bone through growth to aid in the fusion process. While we have high expectations for the FIREBIRD SI Fusion System, we are still only in a limited launch release, but are excited for the markets to open up for the announcement of the new technologies, which has been a challenge in some institutions.

We also launched our new O-GENESIS Bone Graft Delivery System. This complete graft delivery system is designed to deliver allograft, autograft, or synthetic bone graft to orthopedic surgical sites. This product was developed to further drive the Trinity product line in MIS procedures. The company also introduced AlloQuent Structural Allograft Q-Pack, a hydrated, ready-to-use cervical lumbar spacer system which is available for immediate use.

While both O-GENESIS graft delivery and AlloQuent Structural Allograft Q-Pack are small revenue opportunities, they demonstrate our commitment to building the biologic portfolio in conjunction with our valued MTF Biologics partnership.

Beyond the new product launches, we had a strong podium presence with multiple clinical and scientific abstracts during NASS. We presented a variety of abstracts focusing on the M6-C artificial cervical disc, the 3D ELITE allograft with viable cells, the FIREBIRD SI Fusion System and various PEEK Titanium Composite or PTC Spacer Systems. Throughout the course of the meeting, we were very pleased with the participation and our virtual experience, and through this forum we were able to highlight our new products and share our scientific data, while gathering excitement from our surgeon customers and distributor partners. While we are just getting started under the new spine leadership team, we are very encouraged based on the outcome of our efforts at this meeting.

In late September, we announced an investment and partnership with Neo Medical SA, a privately held Swiss based spine company to develop and market innovative, outcome-driven procedural solutions. Specifically, the partnership focused on the co-development of a surgical platform, including single-use sterile pack procedure solutions designed to increase operator efficiency, reduce procedure times, reduce infection rates, and improve patient outcomes through novel device designs and techniques. Beyond those advantages, the associated instruments are ideal for forward-looking surgical settings including ASCs. We believe this collaboration will further position us as a leader in the cervical spine care market and expand our applicability within the growing ambulatory surgery center segment.

Moving on to extremities. We continue to make good early progress with FITBONE, our lengthening nail. While we remain on track with our integration plan, we are focused on training, bringing on new distributor partners, and adding new surgeon users and building out the inventory to position ourselves for a larger commercial impact in 2021. In our first six months and through COVID, we already exceeded our 2020 revenue targets despite the delays in deformity procedures.

In the third quarter, we launched the JuniOrtho Plating System globally. This innovative internal fixation system is designed to address the demands of treating advanced deformity of the lower extremities, specifically for pediatric patients. We started limited launch of the product in the third quarter, and the initial feedback was positive and focused on the advantages of the dedicated preoperative OrthoNext software planning system created for JuniOrtho. Since our initial launch announcement for the JuniOrtho Plating System, I'm happy to announce we recently achieved FDA clearance for the OrthoNext software platform. Surgeons had been pleased with the accuracy of the planning software and how it allows for a precise sequencing of surgical steps and created hospital efficiency.

With the addition of FITBONE, JuniOrtho Plating System, along with TLX (phon), eight-Plate limb reconstruction system and our preoperative planning platforms, we believe we have now established the industry-leading, most complex deformity care offering to address all pediatric extremity deformities.

Moving now to our fourth and final strategic initiative, commercial channel development. We continue to focus on adding and developing long-term strategic partnerships in the U.S. and moving away from transient transactional relationships. With our now complete spine and extremities commercial leadership teams, we continue to execute our plan over the near and long term.

I am pleased with the progress in partnerships with distributors that now carry multiple spine product lines and the extremity distributors that are adding our biologics and bone growth therapies product lines to their bags. This has positioned us well to capture synergies among our product lines in the U.S.

Outside the U.S., we are scoping our spine business and making investments and we look forward to sharing with you in future quarters.

Before handing the call over to Doug, I would like to comment on our recent activities around the FDA's proposed reclassification of bone growth stimulation devices. On September 8, the Medical Devices Advisory Committee Orthopedic Rehabilitation Device Panel recommended requiring robust and complete clinical data for the proposed reclassification of bone growth stimulators from Class III to Class II with special controls to ensure patient safety and therapy efficacy. We support the panel's decision requiring robust clinical evidence for the effectiveness of these devices as we believe there should be a high hurdle to prove that these products are beneficial to the patient. We continue to believe that if the proposed ruling is finalized as recommended by the panel—which could not likely issue any earlier than late 2021—there will be little impact on our business and we continue to maintain our market share position.

From the new product development perspective, we will embrace the change and consider pursuing additional bone growth stimulation indications.

In addition to our solid performance, we've made significant strides toward achieving each of our strategic focus areas. As an organization, we look very different than we did at the beginning of 2020. We've assembled a group of highly talented people to build on the existing talent base. We have restructured the organization to optimize our commercial and product development teams and we have initiated the strategies and processes that we believe will make us successful going forward.

Overall, I'm extremely happy with our progress during the quarter. With this solid foundation in place, we are well positioned to execute.

With that, I would now like to hand the call over to Doug for further commentary on our financial performance. Doug?

Doug Rice

Thanks, Jon, and good morning everyone. I'll provide additional details into our net sales and earnings results and then discuss some of our other financial measures. Many of the financial measures covered in today's call are on a non-GAAP basis. Please refer to today's earnings release for further information regarding our non-GAAP reconciliations and disclosures.

As Jon noted, total net sales for the quarter were $111 million, down 2% on a reported basis and 3% on a constant currency basis when compared to the third quarter of 2019. Sales in the U.S., despite a decrease in the elective surgery market, were up slightly during the third quarter. International sales were not as strong in the quarter, down 15% to prior year at constant currency. Gross margin in the third quarter of 2020 was 76% compared to 78% in the prior year period. The primary driver of this decrease was the increased non-cash inventory reserves on certain products due to lower procedure volumes, mainly resulting from the COVID impact. As mentioned last quarter, and as demonstrated in the third

quarter of 2020, we expect gross margins to trend back to historical levels as volumes rebound and revenue increases.

Sales and marketing expenses in the third quarter of 2020 were 48% of net sales, which was flat to the third quarter of 2019. This was in line with our expectations as we saw our sales rebound sequentially over the second quarter. We expect total sales and marketing expenses to normalize to prior year levels as revenue increases.

GAAP G&A expenses in the third quarter of 2020 were 15% of net sales, down from 19% in the prior year period. This decrease as a percentage of net sales was due to lower succession and transition related expenses in the third quarter as a result of the departures of two executives last year. Additional expense reductions were driven by lower spent on strategic initiatives as we now are more targeted in our business development approach. Many of our short-term expense savings actions continued into the third quarter of 2020 including travel restrictions and hiring, and project delays.

GAAP R&D expenses for the third quarter were 9% of net sales, up from 7% on the prior year period. This increase was primarily due to a continued build-out of our internal team to support accelerating our new product innovation initiative and complying with the new medical device regulations. As mentioned earlier in the year, we intend to ramp up our efforts to drive organic innovation and differentiation, and build robust product pipeline in both spine and extremities. This will cause our R&D spending as a percent of net sales to outpace revenue growth in the near term.

Adjusted EBITDA in the third quarter decreased to $19.7 million or 18% of revenue, down from $20.3 million or 18% of revenue in the third quarter of 2019. As a percent of revenue, Adjusted EBITDA on the quarter of 2020 is in line with 2019 and primarily benefited from our cost savings measures including reduced travels expenses in the COVID environment and the timing of NASS this year, which has offset our additional R&D investment in building out our new product innovation pipeline.

Now turning to tax, our GAAP effective tax rate for the quarter was 12% of income before taxes as compared to GAAP income tax benefit of 51% of income taxes in the same period of 2019.

For the third quarter of 2020, we reported GAAP earnings of $0.24 per diluted as compared to a loss of $2.14 per share in the third quarter of 2019. After adjusting for certain items and when normalizing for cash using a non-GAAP long term effective tax rate, adjusted earnings for the third quarter of 2020 was $0.31 compared to $0.41 in the third quarter of 2019. Day sales outstanding, or DSOs, were 61 days at the end of the third quarter 2020, down from 65 days at the end of third quarter 2019. This decrease was primarily due to the large reduction to the accounts receivable balance, although revenue was within 2% versus the prior year. We have continued to be successful in collecting from our customers amid the global pandemic.

Our inventory turns of 1.2 times at the end of the third quarter of 2020 were flat compared with the third quarter of 2019.

Regarding cash, cash equivalents, and restricted cash, we continued to maintain a strong liquidity position with $80 million at the end of the third quarter 2020 compared to $58 million at the end of the previous year's third quarter. As mentioned on the last call, we received $13.9 million in Medicare advanced payments as part of the CARES Act during the second quarter of 2020. We will commence repaying these advances in April of 2021 in accordance with government directives.

Late in the quarter we repaid the remaining $50 million outstanding on our line of credit. The company now has no borrowings outstanding under our $300 million secured revolving credit facility.

As Jon mentioned earlier, we announced a new partnership with Neo Medical to develop and market single-use spinal instrument solutions focused on improving patient outcomes. In early October, Orthofix invested $10 million in Neo Medical to support the ongoing partnership through a combination of a convertible term loan and an equity investment.

Net cash provided by operating activities was $22 million in the quarter, up $10 million compared to $12 million in the prior year due to an increase in cash-based earnings coming primarily from the cost savings initiatives put in place at the beginning of COVID and extending into the back half of the year. Our more targeted approach to business development has decreased excess spend on strategic initiatives and we've learned how to provide surgeon training and attend conferences virtually, which has also saved additional cash.

Capital expenditures were $3.4 million in the quarter compared to $4.5 million in the prior year period due to pushing out spend on certain IT projects to conserve cash due to COVID as well as reduced spending on facilities from the prior year.

Consistent with our increased operating cash flow, our free cash flow, which we define as cash flow from operations minus capital expenditures of $18.5 million during the quarter, was up $11 million from $7.2 million from the third quarter last year.

I'll now turn the call back over to Jon.

Jon Serbousek

Thanks, Doug. Shifting to our outlook for the remainder of the year, while we've seen a strong rebound in elective procedure volumes and the associated revenues in the third quarter, there's still great uncertainty about how the balance of the year will play out. In Q3, we saw trends move in the right direction with elective procedures being performed at volumes approaching those of 2019. But there still is a great deal of unknown regarding market procedure volumes within this COVID environment. Orthofix will continue to execute and drive our commercial execution with innovation and differentiation to be ready for the rebound in procedure volumes, which a key factor to this is the patient's willingness to schedule a procedure and head to the hospital or ASC to have that procedure performed. We have seen some stability in U.S. volumes, but our OUS business continues to have more variability. We will continue to adapt, drive new business, and take advantage of opportunities when they present themselves within the fourth quarter and beyond. With that said, because of the scope and duration of the COVID-19 pandemic and the timing of the global recovery remaining uncertain, we will not provide forward-looking guidance at this time.

It is important to note Q4 of last year included some large stocking orders that we would not expect to recur in the fourth quarter of 2020. Despite the challenging environment, we have made tremendous strides throughout the year and put ourselves in a great position to build success for many years to come. While the macro environment remains uncertain, Orthofix will continue to be ready to help patients improve their lives and help surgeons meet their patients' needs. Thank you to everyone at Orthofix and all the healthcare providers around the world working through this challenging environment to continue to provide patient care.

With that, I would like to now open the line for questions.

Operator

At this time, to ask a question you will need to press star, one on your telephone. To withdraw your question, press the hash or pound key. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Mathew Blackman with Stifel.

Mathew Blackman

Good morning, everyone. Can you hear me okay?

Jon Serbousek

Yes, Matthew. Good to hear from you this morning.

Mathew Blackman

Good. Well, first of all, really impressive 3Q result, so congratulations to the team. Maybe if I could start, Jon, just a couple of recovery questions. I know this is tough to tease out, but as we look at the strong results across all the franchises, is there a way to think about how much of 3Q was working through backlog versus a return of new patients to the funnel? And then, sort of a follow-on to that is, when I think about U.S. recovery from a regional standpoint, I assume it was broad-based across the country or are there still pockets of weakness? Then I've a couple of follow-ups.

Jon Serbousek

Thanks, Matt, for the question. As we look at the market trends coming back, it is still pocketed in certain areas. Let's be specific here as far as the U.S. versus outside, OUS. In the U.S., it's relatively harmonized, but there still are some pockets and we're still seeing some reluctance for channel chats with surgeons for patients to come back in and have procedures done, but that's becoming narrow—basically smaller. But outside the U.S., there are certain regions such as the U.K. and other countries that have been locked down for a period time, so those procedures have still been locked down. We're also starting to see some early signs of additional countries starting to basically restrict activities, including Germany, Italy, and Spain. We're monitoring that closely to watch flow, but on the baseline in the U.S., we've come back to near 2019 levels with the exception of those reluctant patients.

Mathew Blackman

I appreciate that. This is probably not a fair question, but I'm going to give it a shot anyway. If COVID isn't an incremental headwind in 4Q, do you think the business could be flat to up? Or are those stocking headwinds—and could you just remind us of the stocking headwinds you called out, the magnitude of that potential drag in the fourth quarter?

Jon Serbousek

That's a hard one because we are in a rebuilding mode as far as the number of our channels and activities. On the whole, we're seeing consistent months within a quarter and we're just monitoring the elective procedures. Those are the real drivers as far as performance will be, the elective procedures being available.

Mathew Blackman

Then the stocking headwinds, could someone just remind me what that drag is year-over-year, the magnitude?

Doug Rice

Matt, this is Doug. Last year, we had about $1.5 million of what I'd call lumpy or choppy stocking orders that we don't expect to recur this year in our extremities business.

Mathew Blackman

Okay. Thanks. Appreciate it. I'll get back in the queue.

Doug Rice

Thank you.

Jon Serbousek

Thanks, Matt.

Operator

Your next question comes from the line of Raj Denhoy with Jefferies.

Male Speaker

Hello, this is Zach on for Raj. Just a few for us. Can you talk about procedure volumes coming out of the quarter and what you've seen through October, and how the resurgence of COVID has played in that procedure volumes?

Jon Serbousek

Here again we need to basically break it between the U.S. and OUS. The procedure volumes in the U.S. were relatively consistent month-to-month throughout the third quarter. We basically had—excuse me, third quarter and then basically in the OUS, procedure volumes were choppy where we had some areas that accelerated in Italy in the third quarter, but we had other markets in the U.K. that basically were still locked down or restricted. You have to do it—handle it by region by region, country by country, but in the U.S., it was fairly consistent month-to-month on procedure volumes, as I stated. We're monitoring any effects as far as further lockdowns in regions of the U.S. as we go forward.

Male Speaker

Okay, great. Then on bone growth, do you anticipate any additional competition entering the market now that it has been down-classified to a Class II?

Jon Serbousek

Thanks, Zach. We have not seen any competitors in the market or new entrants into the market as we speak today. The reclass, as we've highlighted in our prepared remarks, it's still a good period away from being finalized and published, but we're monitoring closely. But even then, we're still very bullish in this market—on this product line and market space. We have all of the features as far as a very robust sales channel. We have all of our order cash. We have all of our contracts with payers, and we also have decades of clinical results, which we will basically continue to work on. And we're continuing to invest in additional IDEs and clinical trials to basically bolster this business. So, we will be prepared if there is a competitor coming forward, but we have not seen one as yet.

Male Speaker

Thanks.

Operator

Your next question comes from the line of Jeffrey Cohen with Ladenburg Thalmann.

Destiny Hance

Hi. Thank you for taking our questions. I'd like to go back to the Neo Medical agreement. Can you just remind us where development is today, and if there are any kind of near-term development milestones we should be aware of?

Jon Serbousek

Thank you for the question. It doesn't sound like Jeffrey. Who do we have on line?

Destiny Hance

Yes, it's Destiny. It's Destiny. Nice to talk to you, guys.

Jon Serbousek

Yes. The Neo Medical is a very sophisticated disposable-based company as far as preparing instruments and technologies. They already have an existing system that we're co-marketing and bringing into the ASC environment in a very limited co-marketing relationship, so we can learn about these markets going forward, so we have those activities. We did not do this as a revenue accelerator; we did this as a learning activity and so we'll be monitoring that activity in real-time in clinics and ASCs around the U.S.

On the co-development side, we've initiated developments already shortly after we closed the deal and those are ongoing, and we'll keep you apprised of those as we go forward in out quarters.

Destiny Hance

Okay. Thank you. I'm clear now. You know I love to talk about timing. So could you also give us an idea of when the full launch of some of these newly launched products like FITBONE, O-GENESIS, and AlloQuent could occur? What kind of headwinds or tailwinds are you seeing that could either slow the timing of those launches or maybe accelerate them?

Jon Serbousek

Thank you. O-GENESIS and AlloQuent are available now. They're being introduced into the market as we speak. Regarding FITBONE, we're currently commercial in that area in the U.S. and in Europe, and we're working through an integration plan right now, and we're basically building capacity. That is, actually, you might imagine, has been a unique situation working through COVID as you're doing integration of an acquisition, but we're on target in the integration activities and we look forward to having those products in the markets in 2021.

Destiny Hance

Okay. Thank you. I appreciate it. I'll jump back in queue.

Jon Serbousek

Thank you, Destiny.

Operator

Your next question comes from the line of Jim Sidoti with Sidoti & Company.

Jim Sidoti

Hi, good morning. Can you hear me?

Jon Serbousek

Good morning, Jim. We can hear you loud and clear.

Doug Rice

Good morning, Jim.

Jim Sidoti

All right. It's me for me, just so you know.

Jon Serbousek

It sounds like you.

Doug Rice

In the press release you called out M6 sales were $5.2 million in the U.S. Do you have a global number for that you can give me?

Doug Rice

Jim, this is Doug. We generally run just under $1 million a month or $3 million a quarter in OUS. Is the way I would think about it.

Jim Sidoti

Okay. In your comments, you said sales were flat month-to-month. Does that mean month-to-month relative to last year, or were sales pretty level in the quarter, July, August, September?

Doug Rice

I would say that during the third quarter, they were fairly consistent. On our second quarter call (inaudible) call out each month's performance as we recovered, but as we hit that threshold in July, August, and September, we saw performance become fairly consistent.

Jim Sidoti

Consistent with year-ago numbers.

Doug Rice

Versus, yes, year-over-year that is (inaudible).

Jim Sidoti

Okay. All right, I just wanted to be clear on that. I didn't hear the answer to the previous question. What is your timeline for the approval and the launch of the Neo Medical products? Is that something that's in the next couple of years? Or are those still going through trials and is that more three or four or five year out type thing?

Jon Serbousek

Tthe Neo Medical relationship has multiple parts to an investment, but also it's a co-marketing, where we're bringing their existing product into an ASC environment that is already FDA cleared, and then we also have a co-development where we're basically developing our cervical platform, which we've already initiated development, and we'll bring back dates as far as when they're going to come to market in the future calls.

Jim Sidoti

Okay, so there will be some products available in the near term, though?

Jon Serbousek

Yes, in the future, yes. We haven't set those dates on the development side yet, but they'll come in the future quarters.

Jim Sidoti

Okay. All right. Then a last one from me. It sounds like you're pretty much complete with the reorganization of the sales management or top level managers in the organization. How do you feel about the number of direct salespeople and the number of reps you have? Is that still an area where you're going to focus on expanding?

Jon Serbousek

So in our BGT area, we have a combination of distributors and direct reps and that channel is very, very strong and we're very pleased with how it's structured.

On the other side, on the spine side and the extremity side, we're still working in those areas. They have a number of high-quality distributors and we're also creating more strategic distributors as we go forward. We'll report back to you on our progress there, but we are now moving to our channel development since we have the sales leadership in place.

Jim Sidoti

Okay, so that's going to be the area of focus then for 2021 it sounds like?

Jon Serbousek

Yes, and beyond.

Jim Sidoti

Okay. All right. Thank you.

Jon Serbousek

Thank you, Jim.

Doug Rice

Thanks, Jim.

Operator

Thank you. I will now turn the call back over to Mr. Serbousek.

Jon Serbousek

Thanks, Operator. We appreciate everyone taking the time this morning and we look forward to updating you on our progress on our next quarterly call. Thank you everyone. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now all disconnect.