



Orthofix Medical

Third Quarter Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Jeff Cohen, *Ladenburg*

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P R E S E N T A T I O N

Operator

Good morning. At this time, I would like to welcome everyone to the Orthofix Medical Third Quarter Earnings Conference Call.

Thank you. Alexa Huerta, you may now begin your conference.

Alexa Huerta

Thank you, Operator, and good morning, everyone. Welcome to the Orthofix Third Quarter 2022 Earnings Call. Joining me on the call today are our President and Chief Executive Officer, Jon Serbousek; and Chief Financial Officer, Doug Rice.

I'll start with a 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 earning guides we provide and any statements about our plans, beliefs, strategies, expectations, goals, or objectives. Investors are cautioned not to place undue reliance on such forward-looking statements, as there is no assurance that the matter contained in such statements will occur. The forward-looking statements we will make on today's call are based on our beliefs and expectations as of today, November 3, 2022. We do not take any obligation to revise or update such forward-looking statements.

Some factors that could cause actual results to be materially different from the forward-looking statements made by us on the call include the risk factors disclosed under the heading Risk Factors in our Form 10-K for the year ended December 31, 2021, and Form 10-Q for the quarter ended September 30, 2022, filed this morning, November 3, 2022, 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 Lewisville, 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 2022 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 2022 Results Conference Call. On today's call, I will provide an update of our third quarter performance, review progress against our strategic initiatives and discuss the plan merger with SeaSpine before handing the call over to Doug, who will provide our financial update. I will close the call with our perspectives on the balance of 2022 and near term growth drivers before I open the line for questions.

Starting with our third quarter performance. As announced in October, total revenue for the quarter was \$114 million, increasing 1% over 2021 on a reported basis and 5% on a constant currency basis. Our strategic investments in our commercial channel and innovation pipeline are paying off as Global Orthopedics, Biologics and Bone Growth Therapies continue their strong performance, despite lingering macro headwinds.

Specific to innovation, we're encouraged by the several new products we introduced this year. The AccelStim Bone Healing Therapy, TrueLok EVO, Galaxy Gemini, our next-generation (inaudible) system and the Virtuos Lyograft have been very well received in the market.

Turning to the performance of each of our product categories, starting with Bone Growth Therapies, or BGT, sales for the quarter were \$46.5 million or 3% on both a reported and constant currency basis compared to third quarter of 2021. Growth was driven by higher order volumes as well as revenue from AccelStim, which initiatives launched in the second quarter of this year.

Moving to spinal implants, which includes both spine fixation and motion preservation. Revenue was down approximately 8% on a reported basis and 7% on constant currency basis compared to the third quarter of 2021. The decline was due to a change in the procedure mix in the U.S., large international orders in 2021 that did not reoccur, as well as global competitive headwinds in the motion preservation area. However, motion preservation exited the quarter with year-over-year growth in September in the U.S.

Turning to our Biologics portfolio, revenue was up 8% on a reported and constant currency basis as compared to 2021. The successful launch of new products like FiberFuse and Virtuos contributed to the strong performance.

Lastly, in our Global Orthopedics business, revenue for the third quarter was up 6% on a reported basis and 19% on a constant currency basis over 2021. Double-digit growth at constant currency in both our

U.S. and international businesses was driven by strategic investments in our commercial channels and momentum of new product introductions. Our Orthopedics business is performing well and five of the last six quarters have shown double-digit growth.

Now moving on to our strategic initiatives. Let's start with product innovation and differentiation. In the third quarter, we continued our rollout of Virtuos Lyograft as show stable complete autograph substitute surgeon feedback has been positive and we continued to work on getting Virtuos added to our existing and new accounts. We also saw initial cases of Legacy, our new demineralized bone matrix produced in our partnership with MTF Biologics. Both Virtuos and Legacy DBM are examples of our continued commitment to expand biologic offerings and strengthen our partnership with MTF Biologics to meet the needs of surgeons and their patients.

Our AccelStim Bone Growth Therapy is gaining traction and we are seeing high rate of physician interest, with access to new prescribing doctors. Early adoption has tracking ahead of plan and we are encouraged by these results. We have added sales reps and sales management to grow our fracture channel with both fresh and non-union fracture indications. With addition of payer coverage of over 40 million lives starting in October 1, we expect our positive trajectory to continue.

I would also like to give a quick update on Orthofix's participation at NASS just last month in Chicago. First off, we sure created a buzz at the conference with the merger announcements with SeaSpine. We are very encouraged by the positive surgeon, distributor channel and future partnered conversations. They see the value of the combined portfolio and are excited about what lies ahead and the opportunities for the new organization's position for both growth and profitability.

Turning to a few key events at the conference. Orthofix hosted a successful clinical symposium to discuss long-term clinical evidence, radiographic classification and clinical management of cervical disc arthroplasty. We are pleased to be leading this important effort to gather surgeon and research leaders from around the world to develop and share best practices. This will provide clinical experiences and data to support market expansion of cervical motion preservation in our technology leading M6-C cervical disc.

On an exciting note, we received a 2020 Spine Technology award from *Orthopedics This Week*, the most widely read publication in the orthopedics industry, for the Virtuos Lyograft. Virtuos is the first this kind shell stable and complete autograph substitute for spine and orthopedic procedures, which was launched in partnership with MTF Biologics late in the second quarter of this year.

Lastly, at a celebration held at our booth, we're able to commemorate with CGBio, our new partnership, to commercialize Novosis rhBMP-2 bone graft solutions in the U.S. and Canada.

Turning to our second initiative, the ongoing development of our commercial channel to expand patient and search access to our products worldwide. In Q3, our U.S. strategic channel partners, which we define as distribution partners that carry multiple Orthofix product categories such as hardware and biologics generated, over one third of our spinal implants, biologics, and orthopedics' U.S. revenue. Year to date, the strategic group has grown double digits when compared to the prior year.

We'll continue to invest in the development and optimization of these channels to support our growth initiatives moving forward. We appreciate how well our team has managed the ongoing macro headwinds throughout the quarter and how we progressed with our transformation, building the framework for long-term growth and innovation while maintaining operational execution.

Before turning the call over to Doug, I want to touch on the recently announced agreement to merge with SeaSpine. The combined company will be a leading global spine and orthopedics company with highly

commentary portfolios of biologics, innovative spinal hardware, bone growth therapies, specialized orthopedic solutions, and a leading surgical navigation system.

With products that will be distributed in 68 countries worldwide, a global R&D and manufacturing footprint, and revenues of nearly \$700 million, we are positioned to become the six largest global spine business. This merger significantly advances our objective to become a surgeon's partner of choice in their efforts to increase patient mobility by enabling us to develop creative quality-driven solutions. The combined company's unique profile of scale, growth and profitability, broad portfolio of technology, expanded commercial capabilities and ability to make greater investments in innovative differentiated solutions provides a clear roadmap to sustainable top-tier growth and increasing competitive across global markets and a broad spectrum of products and services.

The combination of these two innovative and ambitious companies is incredibly exciting. The combined company will ultimately, and most importantly, provide surgeons with the best resources, technologies, products and procedures needed to improve patient outcomes.

I'll now turn the call over to Doug to review our financial performance.

Doug.

Doug Rice

Thanks, Jon, and good morning, everyone.

As 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.

Starting with revenue, as Jon noted earlier, total net sales in the quarter were \$114 million, reflecting 5% growth at constant currency when compared to the third quarter of 2021. In the U.S., total net sales were \$88 million or 77% of total net revenue, up approximately 2% versus the prior year. The primary drivers were growth coming from the BGT new product introduction of AccelStim, Biologics' new product introductions of FiberFuse last year and Virtuos in the second quarter, and finally, investments in the commercial sales channel within U.S. Orthopedics.

International total net sales of \$26 million or 23% of total revenue for the quarter were at 13% in constant currency over the third quarter of 2021 as a result of strong growth from international direct orthopedic markets and sales to international stock distributors.

GAAP gross margin in the third quarter of 2022 was 73% compared to 75% in the prior year period due primarily to increase non-cash inventory reserve expenses related to set builds for an expanding sales force and increased safety stock requirements driven by the risk of global supply chain disruption.

For the Full Year 2022, we expect GAAP gross margin to be approximately 74%.

GAAP sales and marketing expenses in the third quarter were 49% of net sales down from 50% in the third quarter of 2021. This decrease is primarily due to a reduction in event spending and sales training due to the timing of events. These were offset somewhat by increased commissions from changes in our sales mix.

For the Full Year 2022, we believe GAAP sales and marketing expenses will be around 50% of net sales.

GAAP G&A expenses in the third quarter were 17% of net sales, up from 15% in the prior year period. The increase reflects higher spending on legal and professional fees related to the merger transaction expenses between Orthofix and SeaSpine.

GAAP R&D expenses for the third quarter stayed approximately flat at 11% of net sales compared to the prior year period. Our focus on R&D continues to be on bringing innovative and differentiated new products to the market. We still expect Full Year 2022 GAAP R&D expense to be approximately 11% of net sales, including an impact of about 200 basis points related directly to our EU MDR implementation efforts for which we adjust within our non-GAAP financial metrics.

Adjusted EBITDA margin in the third quarter increased to 13% of net sales compared to 11% in the third quarter of 2021, driven by increased revenue and decreased sales and marketing expense due to the timing of events and training. We continue to expect our Adjusted EBITDA margin for the Full Year 2022 to be approximately 11.5% of net sales.

Now turning to tax. We had GAAP income tax expense of \$1.3 million or 14% of the loss before income taxes in the quarter as compared to the prior year benefit of \$400,000 or 14% of loss before income taxes in the same period of 2021. The tax rate in both periods is driven by timing of earnings as well as GAAP losses without a corresponding tax benefit.

For the third quarter, we report a GAAP loss of \$0.53 per share as compared to a GAAP loss of \$0.11 per share in the third quarter of 2021. After adjusting for certain items, and when normalizing for tax using our non-GAAP long term effective tax rate of 28%, adjusted EPS for the third quarter was \$0.13 as compared to an adjusted EPS of \$0.10 in the third quarter of 2021.

Regarding cash, our liquidity position remains strong with \$52 million at the end of the third quarter of this year compared to \$83 million at the end of the third quarter of 2021. This decrease is primarily related to the increase in net inventory and over \$7 million in contractual milestone payments related to our partnerships with EJF (phon), CGBio, FITBONE and end view (phon) to accelerate revenue growth.

Capex was approximately \$6 million in the quarter compared to \$3 million in the prior year period. Capex increased due primarily to investments in operations, the expansion of our manufacturing capabilities, as well as an improved customer training and experience center for our partners at our headquarters in Louisville, Texas.

We now expect capital expenditures to be in the \$24 million to \$25 million range for 2022.

Now, shifting to guidance for the Full Year of 2022, we now expect reported revenue to be in the range of \$457 million to \$463 million, which when utilizing current FX rates represents 1% to 2% growth at constant currency. This revenue guidance reflects an \$11 million to \$12 million or 2% to 3% anticipated FX headwind to our top line for the full year of reported rates due to the strengthened U.S. dollar compared to the 2021 FX rates.

From a macro perspective, we continue to expect an overhang through the end of the year and into 2023 related to hospital staffing issues and patient sensitivity to the inflationary environment. Key products like AccelStim and Virtuos are gaining initial momentum, but we do not expect to see significant contributions to revenue from these new products until 2023.

For the Full Year 2022, we now expect our Adjusted EBITDA will be in the range of \$52 million to \$54 million, or approximately 11.5% of revenue, and our adjusted EPS is expected to be between \$0.40 and \$0.50.

I would now like to turn the call back over to Jon.

Jon Serbousek

Thanks, Doug.

Looking to the remainder of 2022, we remain highly focused on solidifying ourselves as the leader in the regenerative healing technologies in the spine and orthopedic space with our leading Biologics and Bone Growth Therapy portfolios. We're also delivering sustainable, profitable growth driven by innovation and differentiation within our product portfolio, as well as through the optimization of our commercial channel.

In the near term, we'll continue to advance several of our growth drivers, including the launch of key spine fixation products, continued focus on our fractured channel and BGT with the AccelStim launch, increasing our channel expansion, product launches to expand our leading platforms in orthopedics with FITBONE and Truelok, expanding Biologics portfolio, and then continued focus and expanded adoption of M6-C artificial cervical disc.

I'd like to provide a quick update on each of these products. Starting with the spine fixation new product introductions, we continue to work towards our five key long-term spine R&D projects. These projects are developing spine product innovations and solutions for anterior clamp support, minimally invasive lumbar spinal fixation, our next-generation posterior cervical system, a comprehensive deformity correction system, and the fit spine remote telemetry deformity technology platform.

We anticipate these developments to be introduced beginning in 2023 and phase into 2024. These five key products will build upon Orthofix's and SeaSpine already highly complemented portfolio of innovative spine solutions.

Next up is our growth coming from our BGT fracture channel through market share capture. In the quarter, we completed the full launch of AccelStim, our ultrasound product for acute fracture, bone healing, and non-union fractures. We have now finished training the salesforce and are on a good trajectory in getting the product into our payer contracts.

In 2023 and beyond, we are anticipating more significant contribution to revenue from a AccelStim as it continues to gain commercial traction. We have been experiencing double-digit growth already in our Orthopedics business through channel investment efforts and product launches that expand our already market-leading platforms.

With regards to the FITBONE and limb linking system, we anticipate higher revenue growth in 2023 and beyond as a result of recently obtained French Government reimbursement and the launch of additional products in the FITBONE platform, including the introduction of a Centronail in mid-2023 for U.S. pediatric surgeons.

For Biologics, we foresee an increase in demand across our portfolio during the balance of 2022 and into 2023 due in part to the early excitement following the launch of Virtuos Lyograft. Our Biologics offering is one of the most comprehensive in the industry for spine and orthopedics thanks to our well established Trinity Elite CDM, FiberFuse, Virtuos, Legacy DBM, and our Opus portfolio of advanced synthetic graft materials.

With a view to the future, we are excited about our investment in the U.S. clinical trial activities for Novosis rhBMP-2 in conjunction with our new partner, CGBio.

Our final near-term growth driver is our differentiated artificial cervical disc, the M6-C. We continue to believe in the growth of the artificial cervical disc replacement market and the value that our next-generation uniquely designed M6-C brings to the market.

At NASS, and at Eurospine in October, we sponsored the presentation of data supporting the clinical evidence of cervical disc arthroplasty, including five-year data from our U.S. IDE study. Results from the (inaudible) analysis of the M6-C based on 16 years of real-world evidence suggest a global cumulative survivorship of 99% at 10 years, consistent with other proven joint arthroplasty devices. We believe the cervical market will continue to move towards motion versus fusion for the indicated cases.

In conclusion, we remain optimistic about the future of Orthofix and, ultimately, the new company formed by the combination with SeaSpine. We continue to see the positive impacts of our new product innovation and commercial channel initiatives and expect those to accelerate moving forward. We look forward to executing over the near term to set the organization up for long term success.

In closing, I would like to thank the dedicated Orthofix team members for their commitment and extraordinary efforts to deliver these results in creating a platform for future accelerated success. Well done and thank you.

With that, Operator, could you please open the lines for questions.

Operator

Your first question comes to line of Dave Turkaly from JMP Securities. Your line is open.

Dave Turkaly

Hi, good morning.

Jonny, you talked a lot about—hey, how are you—the commercial channel initiatives and investments. Now, I was wondering if there's be a way that you might quantify some of those for us, possibly, like either feed on the street, or number of distributors, or anything like that that would be a little more granular, and I'd also love your thoughts on SeaSpine and their distribution efforts and how you kind of look at those two coming together. What would you keep all these new investments after that deal closes?

Jon Serbousek

Dave, thanks for all the questions.

Regarding channels for Orthofix, you need to break them down and let's talk about BGT. Over the last 18 months, we've been building this fracture channel. It's comes to delivering for not only fracture, but non-union care. We've been investing that with not only feet on the street direct, but also managers and as well as distributors. We're seeing the results of that effort as far as in the fracture areas goes.

On Orthopedics, we've been investing not only in the U.S. but all U.S. and putting people not in our subsidiaries around the world, but coming to the U.S. and building that channel with managers and with feet on the street. You're seeing the results of that as far as an Orthopedics business with the 19% growth we posted in Orthopedics. Then this buy side, we highlighted that a third of our revenue is coming from our strategic partners we've put in place and we look forward to that group growing over a period of time. We're seeing the investment—the results of the investment, and we still have work to do as we go forward.

As we look forward to our partnership with SeaSpine, they have a great momentum in this area as far as building strategic channel partners, and we're really looking forward to combining those two efforts, because they're both works in process and we see the one on one equals even greater results as far as the combined effort.

Dave Turkaly

Great. Thank you.

Then a quick follow-up. You called out something about that, the mix in the spine fixation and then you think I read something about levels per case, and I was just curious if I could get your thoughts. I mean, is that saying that there's more or I guess less complex procedures being done as we emerge from COVID or I'd just love to get your thoughts on why that would be the case. Thank you.

Jon Serbousek

Yes, Dave, it's an interesting dynamic right now. We saw our procedures increase in the quarter, but we saw levels per procedure decrease, and we're still mapping out where that's coming from, and a lot of it depends on who your distributors are, which surgeons you are basically working with that point in time, and so we're analyzing that. We see the same macro headwinds in the world that everybody else does from staffing to the inflationary activities and patient copays that basically drive behavior when it comes around to somewhere products specifically in the BGT area where there are copays that go with well, but we also know that when you start having large complex procedures, sometimes those copays can get quite large and some patients will basically resist making that investment at that point in time.

It's an odd situation, but we talked to clinicians and they're seeing it their practice where patients will defer or basically postpone towards the end of the year, looking for when their copays may be less because they've accumulated more in their deductibles.

Dave Turkaly

Got it. Thank you.

Operator

Your next question comes from the line of Mathew Blackman from Stifel. Your line is open.

Mathew Blackman

Good morning, everybody. Thanks for taking my questions.

I've got two. Maybe to start on a AccelStim. As we go into 2023 with a full launch, broader coverage, and contracting, how should we think about the overall BGT portfolio growth profile? Does it step up, and does the AccelStim have a halo effect on the broader portfolio? Any thoughts there? Then again, one follow-up.

Jon Serbousek

Yes, thanks, Matt.

AccelStim has been a nice shot in the arm in our acute or fracture channel that we've been investing in. We'll see that continued growth and gaining market share in that area. On the balance of the BGT area, in

our lumbar area, we're seeing growth as well, and we'll see more growth of those complex cases re-emerge.

Then in the cervical side, we have work to do there, because as we move more to cervical discs in that nature, as those disc (inaudible) are not necessarily AccelStim, but there's plenty of marketplace out there for us to go drive and build that channel. What we're seeing is that people are continue—and we're investing in, but we're also seeing that certain are seeing the value of Stim, whether it be in the cervical, lumbar, or in fracture. It's incumbent upon us to continue to invest and grow that channel and that basically that information base is out there.

Mathew Blackman

Thanks. Got it.

Then just a question on M6-C, I think you said it grew in September, but does that mean it was down for the full quarter? You also mentioned some clinical data. We heard at NASS that there'll be some more real-world data coming out over the next, I don't know, 12, 18 months. How should we think about M6-C growth until the clinical community sees a true counter-narrative to the paper out of Australia?

Thanks.

Jon Serbousek

Yes, Matt.

We've been spend a great deal of time basically developing that clinical data. We published our five-year IDE clinical data, which is actually very successful. From that standpoint, we have that, and we're now collecting our seven-year data as well in that area. We are continuing to invest in our real-world evidence and collecting data out in Europe and Australia and other countries in the world, basically, that have 10-plus-year experience. We had not only seminars at NASS, we had it also at Eurospine and had surgeons coming to present their data there, which we're looking forward to publishing going forward.

This is a longer-term activity. Whenever there's data that has been put out there that's highlighted a one clinical episode, you have to basically build your real-world evidence, and we're spending a great deal of time investing in that right now.

On the competitive headwinds, we've highlighted there's been competitive headwinds out there, and we're dealing with it with data, we're dealing with investments, we're dealing with basically bringing experts from around the world to basically share not only their cervical experience, but also bringing researchers and experts from outside the space from the large joint area that have lived through these activities and bringing their information and data forward. We would think we're in a good place to basically not only assist in sharing our M6-C data, but expanding the cervical disc market, and it's incumbent upon us, and we're really pleased that we're leading in this effort to basically to invest here. The cervical disc market has a growth opportunity in the future, and so that's where we're focused at right now.

Operator

Your next question comes from the line of Jeff Cohen from Ladenburg. The line is open.

Jeff Cohen

Hi, Jon, Doug, and Alexa, how are you?

Jon Serbousek

I'm doing great, hi, Jeff.

Jeff Cohen

I did want to follow up with Matt's question on the M6-C. Any update for us as far as the two-level study that's ongoing?

Jon Serbousek

Yes, Jeff.

We continue to add sites and add patient's enrollment in that. We found that clinical trials are taking a little longer in this environment that we're living in right now, but we've have increased our effort there and increased our spend towards enrolling those patients, and we're on track now.

From that standpoint, we'll look forward to completing that study enrollment as fast as possible, and we'll have to come back to you with the results that come forward. We have seen, though, in our real-world evidence, we're collecting not only one-level, but two-level data. We'll have a data set coming out as far as two-level experience in our rural world evidence to compliment our U.S. IDE study.

Jeff Cohen

Got it. Would you expect enrollment to complete middle of '23?

Jon Serbousek

We haven't set that date. We haven't announced that date. We basically have a trajectory going forward to have that done in the 2023 timeframe.

Jeff Cohen

Okay, got it.

Then could you talk a little bit about MTF and the partnerships, and the updates on the partnerships, as far as how that might look as the merger goes through with SeaSpine, and I guess I was referring to a number of their platforms, including the Legacy.

Jon Serbousek

Yes. As we looked at the, the combination of merger with SeaSpine, we believe we have one of the broadest and most inclusive portfolios in the biologic and regenerative space. We look at opportunities when even highlighted as far as whether this is a surgeon preference business, and what this combined portfolio allows us to address the surgeon preferences across not only the spine, but the orthopedics area as well, whether that be with CDM cellular based, whether that be with DBMs, whether that be with synthetics.

Because we have the broader base of both spine and orthopedics, we think the portfolio's incredibly well positioned and we value the MTF relationship, and we'll continue to grow that relationship, as well as with

SeaSpine we'll continue to grow the overall Biologics portfolio and the adoption of that portfolio within the market.

Jeff Cohen

Okay. Got it.

Then lastly for us if you could briefly talk about the European commercial organization and the reaction about the merger and probably their excitement about 7D. I'm sure they're somewhat aware of in some of the other opportunities for the merger through...

Jon Serbousek

Yes, this is one of the true synergies of the merger going forward. We've spent time and energy building our international distribution channel, and comes down to that they are excited about the products that will come to them. Whether it be 7D, or whether it be Biologics. We also see a great deal of cross-selling opportunity going forward. When it comes down we see the expanded breadth of the portfolio for distributor conversions as well and assisting in that, whether it be an international or in the U.S.

We also have this whole area of complimentary revenue that we fit, whether it be motions preservation, or 7D or BGT that creates great pull through opportunities in the U.S., and we're looking for that opportunity outside the U.S. It comes down to that we see this as a really powerful combination because of the portfolio, because of the commercial channels that both parties have and globally looking at it. We're looking forward to digging in further and basically seeing those synergies as we move forward post signing of the deal.

Jeff Cohen

Super. Thanks for taking our questions.

Doug Rice

Thanks, Jeff.

Jon Serbousek

Thanks, Jeff.

Operator

Your next question comes to the line of Jim Sidoti of Sidoti and Company. Your line is open.

Jim Sidoti

Hi, good morning, and thanks for taking the questions.

A lot of interest in the merger. I think most investors feel confident that from a product point of view there's not much overlap and that it makes sense. But on the distribution side, can you just talk a little bit more about that now? Currently, you guys have separate channels for your for your Stim line and your Orthopedic line. I assume that'll continue after the merger.

But on the distribution for the final products and the biologics, is there a lot of geographic overlap there? What happens? Will there be more than one distributor in the same territory, in areas where there isn't—where you do have two distributors now?

Jon Serbousek

Yes, Jim. Thanks for the question. Let me break that down just a little bit.

The first item as far as BGT and then Orthopedics, they will remain separate, but we see significant opportunity to leverage in that area. BGT has a very specific both direct and indirect channel, but they take opportunities to have partnerships with other distributors that basically work in the spine and orthopedic space. We see that as a positive opportunity in the merger going forward.

On the spine side, when we look at this deal, we actually looked at not only we created our own channels individually about where there might be overlap and we didn't see a significant overlap, and then we had a third party run a ZIP Code analysis that looked at overlap, and we saw minimal overlap as far as in the spine and biologics area. That gave us comfort. As we looked at it, we say even if you have two distributors in area, we're small, sub-5% market share players. We have the opportunity to be very nimble in those marketplaces and minimize the disruption.

We've already talked to distributors that carry both SeaSpine and Orthofix, and we have others distributors that have basically we work with that are looking for bigger channel, bigger portfolio, which this merger brings to us. It also helps not only as far as efficiencies around inventory, asset utilization, things of that nature when the merge company comes together as we get efficiencies there which help, and distributor partners are looking for that now.

You could be an individual small distributor and carry five lines or five different companies; when you have an organization like our merged company will be with SeaSpine and Orthofix, they can come to a one stop shop and get all of those technologies in one area. That creates a very powerful position to recruit, expanded strategic channel and also build a product line, a portfolio that when you're in a surgery, you can basically sell more than one product, and distributors like that. Your average products per procedure goes up as well. We see this as very synergistic from the spine and biologics area, not only because of the breadth of the portfolios, but that the opportunity it gives those distributors out there to come consolidate with one organization.

Frankly, both SeaSpine and Orthofix think about this in a very similar way. As we looked at this deal every time we looked at who we behaved the most like in the industry, we'd behave like SeaSpine and SeaSpine our business go-to-market model is very much like the Orthofix. This is the power of the combination going forward. We're excited about that from both product, people, surgeon and really our end goal is to basically bring more technology, more products to the market so that we can provide those physicians with products and services, portfolios or procedures to care for their patients.

Jim Sidoti

All right. Then one other question. Were there any one time expenses in the quarter related to the merger that you think go away in the next couple quarters? Will those continue as you proceed through this merger?

Doug Rice

Good question, Jim. This is Doug.

You'll see us continue to adjust sort of what we would characterize as the transaction costs that will go away over time. You'll see an increase in our strategic spend adjustment line in the back of our earnings release to the tune of about \$3 million in Q3. We would expect that to continue into 2023. Not only the transaction costs around all the closing activities and preparation, but also the cost to achieve synergies as we get in to that over the next few quarters.

Jim Sidoti

Okay. Roughly \$3 million a quarter?

Doug Rice

I think it'll vary, but all the transaction costs will be done at closing. As you can imagine, it's a big effort to merge the two companies and we've got a lot of integration planning occurring now. But in terms of going forward, I would sort of—we talked about the cost to achieve synergies when we announced the deal at around the same amount of the synergies, about \$40 million. But we would expect that most of the cost to achieve synergies would be incurred in year one as we sort of set the stage for all the synergies going forward.

Jim Sidoti

Got it. All right. Thank you.

Doug Rice

Thank you, Jim.

Operator

There are no further questions at this time. I'd like to hand back to our presenters for closing comments.

Jon Serbousek

Yes, I'd just like to thank everyone for joining the Orthofix call this morning, your continued interest in Orthofix, and your ongoing interest our merge company with SeaSpine as (inaudible) closed. We look forward to exciting activities going forward in a really powerful organization.

Thank you for your time and have a great day.

Operator

This concludes today's conference call.