

Orthofix Reports First Quarter 2022 Results

5/6/2022

- Net sales of \$106.4 million, an increase of 1% on a reported basis and 2% on a constant currency basis over prior year
- New product sales drive solid growth in Biologics, Spinal Implants, and Orthopedics
- FDA grants PMA for AccelStim™ bone growth stimulator — LIPUS technology expands our indications into fresh fracture care
- FDA clearance received for the TrueLok™ EVO Ring Fixation system, which enables clear radiographic visualization
- Reaffirming 2022 guidance

LEWISVILLE, Texas--(BUSINESS WIRE)-- Orthofix Medical Inc. (NASDAQ:OFIX) today reported its financial results for the quarter ended March 31, 2022. Net sales were \$106.4 million, earnings per share ("EPS") was \$(0.22), and adjusted EPS was \$(0.10).

"We're very pleased with our financial and operational performance in the first quarter given the COVID-19 and labor headwinds, ongoing global supply chain disruptions, and macro financial impacts stemming from political instability in Europe. The strategic investments we have made over the last two years, including a focus on new product innovation and the development of our global commercial organization, continue to pay dividends," said Orthofix President and Chief Executive Officer Jon Serbousek. "Performance was again driven by growth in Biologics, Spinal Implants and Orthopedics with the continued adoption of innovative products such as the M6-C™ artificial cervical disc and our Fitbone™ intramedullary limb lengthening system."

"We are extremely excited about the expansion of our bone growth stimulation portfolio with the AccelStim bone healing therapy device, which gives us access to a large new market for fresh fracture healing. Looking ahead, we expect to execute on our growth transformation and deliver mid-single digit constant currency top line growth for the full fiscal year 2022, and exit the year at high single digit growth," continued Serbousek. "In addition to the AccelStim device, we expect that our growth will be fueled by continued disciplined investments made across the business using our strong balance sheet, particularly in areas where we have a competitive advantage, with an eye towards accelerating profitable topline growth in 2023 and beyond."

Financial Results Overview

The following table provides net sales by major product category by reporting segment:

Three Months Ended March 31,					Constant Currency Change
(Unaudited, U.S. Dollars, in thousands)	2022	2021	Change		
Bone Growth Therapies	\$ 41,948	\$ 42,947	(2.3%)		(2.3%)
Spinal Implants	26,615	25,701	3.6%		4.2%
Biologics	14,092	13,692	2.9%		2.9%
Global Spine	82,655	82,340	0.4%		0.6%
Global Orthopedics	23,763	23,253	2.2%		7.2%
Net sales	\$ 106,418	\$ 105,593	0.8%		2.0%

Gross profit decreased \$1.6 million to \$78.1 million. Gross margin decreased to 73.4% compared to 75.5% in the prior year period.

Net loss was \$(4.5) million, or \$(0.22) per share, compared to net loss of \$(5.8) million, or \$(0.30) per share in the prior year period. Adjusted net loss was \$(2.0) million, or \$(0.10) per share, compared to adjusted net income of \$3.4 million, or \$0.17 per share in the prior year period.

EBITDA was \$3.5 million, compared to \$1.8 million in the prior year period. Adjusted EBITDA was \$7.1 million, or 6.7% of net sales, compared to \$14.0 million, or 13.3% of net sales, in the prior year period.

Liquidity

As of March 31, 2022, cash and cash equivalents totaled \$71.9 million compared to \$87.8 million as of December 31, 2021. As of March 31, 2022, the Company had no borrowings under its five year \$300 million secured revolving credit facility. Cash flow from operations decreased \$10.2 million to \$(7.7) million, while free cash flow decreased \$11.0 million to \$(13.4) million.

Business Outlook

The Company continues to monitor and evaluate the impact the global response to the COVID-19 pandemic has had, and will continue to have, on its operations and financial results. As of the date hereof, the Company expects the following net sales results for the year ended December 31, 2022. These expectations are based on the current foreign currency exchange rates and do not include any additional exchange rate changes that may occur this year.

(Unaudited, U.S. Dollars, in millions, except per share data)	Current 2022 Outlook					
	Low			High		
Net sales	\$	475.0	1	\$	490.0	1
Adjusted EBITDA	\$	56.0	2	\$	61.0	2
Adjusted EPS	\$	0.58	3	\$	0.73	3

1 Represents a year-over-year increase of 2% to 5% on a reported basis and increase of 4% to 7% on a constant currency basis

2 Represents a year-over-year decrease of 9% to 0%

3 Represents a year-over-year decrease of 33% to 15%

The Company is not able to provide expectations of operating income, the closest comparable GAAP measure to Adjusted EBITDA and Adjusted EPS (each of which are non-GAAP measures), on a forward-looking basis because the Company is unable to predict without unreasonable efforts the ultimate outcome of matters (including legal proceedings, acquisition-related expenses, accounting fair value adjustments, and other such items) that will determine the quantitative amount of the items excluded from the applicable non-GAAP measure, which items are further described in the reconciliation tables and related descriptions below. These items are uncertain, depend on various factors, and could be material to the Company's results computed in accordance with U.S. GAAP.

Conference Call

Orthofix will host a conference call today at 8:30 AM Eastern time to discuss the Company's financial results for the first quarter of 2022. Interested parties may access the conference call by dialing (844) 200-6205 in the U.S., (833) 950-0062 in Canada, and (929) 526-1599 all other locations, and referencing the access code 428610. A replay of the call will be available for three weeks by dialing (866) 813-9403 in the U.S., 0204 525 0658 in the U.K., (226) 828-7578 in Canada or +44 (204) 525-0658 all other locations, and entering the access code 122503. A webcast of the conference call may be accessed at ir.Orthofix.com.

About Orthofix

Orthofix Medical Inc. is a global medical device company with a spine and orthopedics focus. The Company's mission is to deliver innovative, quality-driven solutions while partnering with health care professionals to improve patient mobility. Headquartered in Lewisville, Texas, Orthofix's spine and orthopedics products are distributed in more than 60 countries via the Company's sales representatives and distributors. For more information, please visit www.orthofix.com.

Forward-Looking Statements

This communication contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, relating to our business and financial outlook, which are based on our current beliefs, assumptions, expectations, estimates,

forecasts and projections. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “intends,” “predicts,” “potential,” or “continue” or other comparable terminology. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict, including the risks described in Part I, Item 1A under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”), and in Part II, Item 1A under the heading Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022. Factors that could cause or contribute to such differences may include, but are not limited to, (i) risks relating to the effects of the COVID-19 pandemic on our business, (ii) our ability to maintain operations to support our customers and patients in the near-term and to capitalize on future growth opportunities, (iii) risks associated with acceptance of surgical products and procedures by surgeons and hospitals, (iv) development and acceptance of new products or product enhancements, (v) clinical and statistical verification of the benefits achieved via the use of our products, (vi) our ability to adequately manage inventory, (vii) our ability to recruit and retain management and key personnel, (viii) global economic instability and potential supply chain disruption caused by Russia’s unlawful invasion of Ukraine and resulting sanctions, and (ix) the other risks and uncertainties more fully described in our periodic filings with the Securities and Exchange Commission (the “SEC”). To the extent that the COVID-19 pandemic continues to adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in Part I, Item 1A under the heading Risk Factors in our 2021 Form 10-K, such as our ability to generate sufficient cash flows to run our business and our ability to protect our information technology networks and infrastructure from unauthorized access, misuse, malware, phishing and other events that could have a security impact as a result of our remote working environment or otherwise. As a result of these various risks, our actual outcomes and results may differ materially from those expressed in these forward-looking statements.

This list of risks, uncertainties and other factors is not complete. We discuss some of these matters more fully, as well as certain risk factors that could affect our business, financial condition, results of operations, and prospects, in reports we file from time-to-time with the SEC, which are available to read at www.sec.gov. Any or all forward-looking statements that we make may turn out to be wrong (due to inaccurate assumptions that we make or otherwise), and our actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date hereof, unless it is specifically otherwise stated to be made as of a different date. We undertake no obligation to update, and expressly disclaim any duty to update, our forward-looking statements, whether as a result of circumstances or events that arise after the date hereof, new information, or otherwise.

ORTHOFIX MEDICAL INC.
Condensed Consolidated Statements of Operations

(U.S. Dollars, in thousands, except share and per share data)	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
Net sales	\$ 106,418	\$ 105,593
Cost of sales	28,318	25,914
Gross profit	78,100	79,679
Sales and marketing	54,137	50,785
General and administrative	19,328	16,444
Research and development	11,212	10,897
Acquisition-related amortization and remeasurement	(3,499)	4,469
Operating loss	(3,078)	(2,916)
Interest expense, net	(375)	(417)
Other expense, net	(936)	(2,690)
Loss before income taxes	(4,389)	(6,023)
Income tax benefit (expense)	(71)	207
Net loss	\$ (4,460)	\$ (5,816)
Net loss per common share:		
Basic	\$ (0.22)	\$ (0.30)
Diluted	(0.22)	(0.30)
Weighted average number of common shares:		
Basic	19,897,695	19,526,872
Diluted	19,897,695	19,526,872

ORTHOFIX MEDICAL INC.
Condensed Consolidated Balance Sheets

(U.S. Dollars, in thousands, except share data)	March 31, 2022	December 31, 2021
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 71,917	\$ 87,847
Accounts receivable, net of allowances of \$5,389 and \$4,944, respectively	72,466	78,560
Inventories	88,832	82,974
Prepaid expenses and other current assets	21,888	20,141
Total current assets	255,103	269,522
Property, plant and equipment, net	58,513	59,252
Intangible assets, net	50,171	52,666
Goodwill	71,317	71,317
Deferred income taxes	1,930	1,771
Other long-term assets	24,959	22,095
Total assets	\$ 461,993	\$ 476,623
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 27,448	\$ 26,459
Current portion of finance lease liability	610	2,590
Other current liabilities	60,152	76,781
Total current liabilities	88,210	105,830
Long-term portion of finance lease liability	19,730	19,890
Other long-term liabilities	18,478	13,969
Total liabilities	126,418	139,689
Contingencies		
Shareholders' equity		
Common shares \$0.10 par value; 50,000,000 shares authorized; 19,841,822 and 19,836,937 issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	1,984	1,983

Additional paid-in capital	318,213	313,951
Retained earnings	16,540	21,000
Accumulated other comprehensive loss	(1,162)	—
Total shareholders' equity	335,575	336,934
Total liabilities and shareholders' equity	\$ 461,993	\$ 476,623

ORTHOFIX MEDICAL INC.

Non-GAAP Financial Measures

The following tables present reconciliations of operating income (loss), net income (loss), EPS, and net cash from operating activities, in each case calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), to, as applicable, non-GAAP financial measures, referred to as "EBITDA," "Adjusted EBITDA," "Adjusted net income (loss)," "Adjusted EPS," and "Free cash flow" that exclude items specified in the tables. The GAAP measures shown in the tables below represent the most comparable GAAP measure to the applicable non-GAAP measure(s) shown in the table. A more detailed explanation of the items excluded from these non-GAAP financial measures, as well as why management believes the non-GAAP financial measures are useful to them, is included following the reconciliations. The non-GAAP adjusted results shown below and within this press release, which exclude the items specified in the reconciliation tables below, should not be construed as a substitute for or a better indicator of the Company's performance than the Company's GAAP results.

EBITDA and Adjusted EBITDA

Three Months Ended March 31, 2022				
(Unaudited, U.S. Dollars, in thousands)	Total Orthofix	Global Spine	Global Orthopedics	Corporate
Operating income (loss)	\$ (3,078)	\$ 11,367	\$ (4,272)	\$ (10,173)
Other income (expense), net	(936)	75	(741)	(270)
Depreciation and amortization	5,291	2,622	1,521	1,148
Amortization of acquired intangibles	2,225	1,829	396	—
EBITDA	\$ 3,502	\$ 15,893	\$ (3,096)	\$ (9,295)
Share-based compensation	4,248	1,454	601	2,193
Foreign exchange impact	1,242	373	711	158
Strategic investments	970	63	145	762
Acquisition-related fair value adjustments	(5,500)	(5,500)	—	—
Loss on investment securities	65	—	—	65
Legal judgments/settlements	193	6	184	3
Succession and transition charges	10	10	—	—
Medical device regulation	2,036	1,406	636	(6)
Business interruption - COVID-19	343	328	15	—
Adjusted EBITDA	\$ 7,109	\$ 14,033	\$ (804)	\$ (6,120)

Three Months Ended March 31, 2021				
(Unaudited, U.S. Dollars, in thousands)	Total Orthofix	Global Spine	Global Orthopedics	Corporate
Operating income (loss)	\$ (2,916)	\$ 8,112	\$ (2,862)	\$ (8,166)
Other income (expense), net	(2,690)	(616)	(1,438)	(636)
Depreciation and amortization	5,208	2,615	1,620	973

Amortization of acquired intangibles	2,235	1,784	451	—
EBITDA	\$ 1,837	\$ 11,895	\$ (2,229)	\$ (7,829)
Share-based compensation	3,721	1,508	526	1,687
Foreign exchange impact	2,662	624	1,401	637
Strategic investments	1,411	—	1,100	311
Acquisition-related fair value adjustments	2,564	2,564	—	—
Loss on investment securities	—	—	—	—
Legal judgments/settlements	(59)	(51)	46	(54)
Succession and transition charges	30	30	—	—
Medical device regulation	1,824	503	507	814
Business interruption - COVID-19	21	2	6	13
Adjusted EBITDA	\$ 14,011	\$ 17,075	\$ 1,357	\$ (4,421)

Adjusted Net Income (Loss)

(Unaudited, U.S. Dollars, in thousands)	Three Months Ended March 31,	
	2022	2021
Net loss	\$ (4,460)	\$ (5,816)
Foreign exchange impact	1,242	2,662
Strategic investments	965	1,452
Acquisition-related fair value adjustments	(5,500)	2,564
Amortization of acquired intangibles	2,231	2,239
Loss on investment securities	65	—
Legal judgments/settlements	193	(59)
Succession and transition charges	10	30
Medical device regulation	2,036	1,824
Business interruption - COVID-19	345	23
Long-term income tax rate adjustment	856	(1,479)
Adjusted net income (loss)	\$ (2,017)	\$ 3,440

Adjusted EPS

(Unaudited, per diluted share)	Three Months Ended March 31,	
	2022	2021
EPS	\$ (0.22)	\$ (0.30)
Foreign exchange impact	0.06	0.13
Strategic investments	0.05	0.07
Acquisition-related fair value adjustments	(0.28)	0.13
Amortization of acquired intangibles	0.11	0.11
Loss on investment securities	—	—
Legal judgments/settlements	0.01	—
Succession and transition charges	—	—
Medical device regulation	0.10	0.09
Business interruption - COVID-19	0.02	—
Long-term income tax rate adjustment	0.05	(0.06)
Adjusted EPS	\$ (0.10)	\$ 0.17
Weighted average number of diluted common shares (treasury stock method)	19,897,695	19,950,740

Free Cash Flow

	Three Months Ended March 31,	
(Unaudited, U.S. Dollars, in thousands)	2022	2021
Net cash from operating activities	\$ (7,709)	\$ 2,441
Capital expenditures	(5,667)	(4,781)
Free cash flow	\$ (13,376)	\$ (2,340)

Constant Currency

Constant currency is a non-GAAP measure, which we calculate by using foreign currency rates from the comparable, prior-year period, to present net sales at comparable rates. Constant currency can be presented for numerous GAAP measures, but is most commonly used by management to analyze net sales without the impact of changes in foreign currency rates.

EBITDA

EBITDA is a non-GAAP financial measure, which we calculate by adding interest income (expense), net; income tax expense (benefit); and depreciation and amortization to net income. EBITDA provides management with additional insight to its results of operations. EBITDA is the primary metric used by our Chief Operating Decision Maker in managing our business.

Adjusted EBITDA, Adjusted Net Income and Adjusted EPS

These non-GAAP financial measures provide management with additional insight to its results of operations and reflect the exclusion of the following items:

- Share-based compensation expense – costs related to our share-based compensation plans, which include stock options, restricted stock, performance-based or market-based restricted stock awards, and our stock purchase plan; see the share-based compensation footnote in our Form 10-Q for the quarter ended March 31, 2022 for an allocation of these costs by consolidated statement of income line item; note that certain share-based compensation costs are instead included within medical device regulation for 2021 and 2022
- Foreign exchange impact – gains and losses related to foreign currency transactions, which are recorded as other income (expense), net
- Strategic investments – costs related to our strategic investments, such as due diligence and integration costs, which are primarily recorded as general and administrative expenses
- Acquisition-related fair value adjustments – comprised of (i) gains and losses related to remeasurement of contingent consideration to fair value, which are recorded as operating expenses and (ii) recognized costs related to acquired in-process research and development assets, which were expensed immediately.
- Amortization of acquired intangibles – amortization of intangible assets acquired in business combinations or asset acquisitions, including items such as developed technologies, customer relationships, trade names, manufacturing agreements, and other intangible assets, which are recorded in cost of sales or operating

expenses

- Loss on investment securities – net gains or losses recognized (realized or unrealized) within other income (expense), net relating to certain of our investments
- Legal judgments/settlements – adverse or favorable legal judgments or negotiated legal settlements, which are recorded as general and administrative expenses
- Succession and transition charges – costs related to the transition of certain named executive officers and certain targeted restructuring costs, including any cessation and onboarding amounts, accelerated share-based compensation expense, consulting services, and other related expenses, which are primarily recorded as general and administrative expenses
- Medical device regulation – incremental costs incurred (i) to establish initial compliance with the regulations set forth by the European Union Medical Device Regulation (“MDR”) and the U.S. Food and Drug Administration related to our currently-approved medical devices, which are recorded primarily as research and development expenses, and (ii) related to rationalization of certain product lines that we do not expect to continue to market subsequent to the effective date of these regulations, which are recorded primarily as costs of sales
- Business interruption – COVID-19 – gains and losses related to the realized effects the COVID-19 pandemic has had on our business operations, which consist primarily of (i) certain legislative relief received as a result of the COVID-19 pandemic, (ii) costs associated with the redesign of certain products in response to supply chain disruption, and (iii) incremental costs incurred to enhance the safety and sanitation of our facilities
- Long-term income tax rate adjustment – reflects management’s expectation of a long-term normalized effective tax rate of 27% for 2021 and 28% for the fiscal year 2022 results and outlook, which is based on current tax law and current expected adjusted income; actual reported tax expense will ultimately be based on GAAP earnings and may differ from the expected long-term normalized effective tax rate due to a variety of factors, including the resolutions of issues arising from tax audits with various tax authorities, the ability to realize deferred tax assets, and the tax impact of certain reconciling items that are excluded in determining Adjusted Net Income and Adjusted EPS

Free Cash Flow

Free cash flow is a non-GAAP financial measure, which is calculated by subtracting capital expenditures from cash flow from operating activities. Free cash flow is an important indicator of how much cash is generated or used by our normal business operations, including capital expenditures. Management uses free cash flow as a measure of progress on its capital efficiency and cash flow initiatives.

Usefulness and Limitations of Non-GAAP Financial Measures

Management uses non-GAAP measures to evaluate performance period-over-period, to analyze the underlying trends in our business, to assess performance relative to competitors and to establish operational goals and forecasts that are used in allocating resources. Management uses these non-GAAP measures as the basis for

assessing the ability of the underlying operations to generate cash. In addition, management uses these non-GAAP measures to further its understanding of the performance of our business units.

Material Limitations Associated with the Use of Non-GAAP Financial Measures

The non-GAAP financial measures used in this press release may have limitations as analytical tools, and should not be considered in isolation or as a replacement for GAAP financial measures. Some of the limitations associated with the use of these non-GAAP financial measures are that they exclude items that reflect an economic cost and can have a material effect on cash flows. Similarly, certain non-cash expenses, such as share-based compensation, do not directly impact cash flows, but are part of total compensation costs accounted for under GAAP.

Compensation for Limitations Associated with Use of Non-GAAP Financial Measures

We compensate for the limitations of our non-GAAP financial measures by relying upon GAAP results to gain a complete picture of our performance. The GAAP results provide management with the ability to further understand our performance based on a defined set of criteria. Management believes that the non-GAAP measures reflect the underlying operating results of our businesses and provide an important measure of our overall performance. We provide detailed reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures above and encourage investors to review these reconciliations.

Usefulness of Non-GAAP Financial Measures to Investors

We believe that providing non-GAAP financial measures that exclude certain items provides investors with greater transparency to the information used by senior management in its financial and operational decision-making. Management believes it is important to provide investors with the same non-GAAP metrics it uses to supplement information regarding the performance and underlying trends of our business operations in order to facilitate comparisons to our historical operating results and internally evaluate the effectiveness of our operating strategies. We believe that disclosure of these non-GAAP financial measures also facilitates comparisons of our underlying operating performance with other companies in the industry that also supplement their GAAP results with non-GAAP financial measures.

View source version on **businesswire.com**: <https://www.businesswire.com/news/home/20220506005093/en/>

Orthofix Medical Inc.

Alexa Huerta

P: 214-937-3190

E: alexahuerta@orthofix.com

Source: Orthofix Medical Inc.