

Orthofix Reports First Quarter 2021 Results

4/30/2021

- Net sales of \$106 million, up 1% compared to prior year, after a strong recovery in March
- U.S. Spinal Implants net sales grew 19% compared to prior year, as net sales increased for both Spine Fixation and Motion Preservation
- Performed the first cervical and lumbar procedures utilizing our new 3D-printed titanium interbody implants with Nanovate™ Technology
- Announced exclusive licensing agreement with Italy-based IGEA S.p.A. to expand our Bone Growth Therapies portfolio

LEWISVILLE, Texas--(BUSINESS WIRE)-- Orthofix Medical Inc. (NASDAQ:OFIX) today reported its financial results for the quarter ended March 31, 2021. Net sales were \$105.6 million, earnings per share ("EPS") was \$(0.30) and adjusted EPS was \$0.17.

"We are excited about the topline performance of the business during the first quarter, particularly as we continued to contend with the headwinds of the global pandemic and the added challenges of the recent severe winter weather-related disruption," said Orthofix President and Chief Executive Officer Jon Serbousek. "We are pleased with the positive revenue impact from initiatives we put into place in 2020, including a focus on new product introductions and the development of our U.S. commercial channel. Both our M6-C™ artificial cervical disc and the FITBONE® lengthening nail delivered during the quarter, and we saw positive revenue contributions from increased product adoption driven by new strategic distribution partners."

"Looking forward into 2021, we plan to continue to generate commercial momentum and execute future product launches to drive growth. An unrelenting focus on operational execution, product innovation and differentiation, and our commercial channel will continue to be core tenets of our growth strategy. We expect that products such as the M6-C artificial cervical disc, the FITBONE limb lengthening system, and our recently bolstered 3D-printed titanium spinal interbody portfolio to be important drivers of that growth."

Financial Results Overview

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

(Unaudited, U.S. Dollars, in thousands)	Three Months Ended March 31,			
	2021	2020	Change	Constant Currency Change
Bone Growth Therapies	\$ 42,947	\$ 45,443	(5.5%)	(5.5%)
Spinal Implants	25,701	22,926	12.1%	11.0%
Biologics	13,692	13,949	(1.8%)	(1.8%)
Global Spine	82,340	82,318	0.0%	(0.3%)
Global Orthopedics 1	23,253	22,505	3.3%	(2.5%)
Net sales	\$ 105,593	\$ 104,823	0.7%	(0.8%)

1 Formerly referred to as Global Extremities

Gross profit decreased \$1.7 million to \$79.7 million. Gross margin decreased to 75.5% compared to 77.7% in the prior year period.

Net loss was \$(5.8) million, or \$(0.30) per share, compared to net income of \$25.7 million, or \$1.32 per share in the prior year period. Adjusted net income was \$3.4 million, or \$0.17 per share, compared to adjusted net income of \$1.7 million, or \$0.09 per share in the prior year period.

EBITDA was \$1.8 million, compared to \$12.4 million in the prior year period. Adjusted EBITDA was \$14.0 million, or 13.3% of net sales, compared to \$11.4 million, or 10.9% of net sales, in the prior year period.

Liquidity

As of March 31, 2021, cash, cash equivalents, and restricted cash totaled \$95.1 million compared to \$96.8 million as of December 31, 2020. As of March 31, 2021, the Company had no borrowings under its five year \$300 million secured revolving credit facility. Cash flow from operations decreased \$10.0 million to \$2.4 million, while free cash flow decreased \$9.9 million to \$(2.3) million. Based primarily on the growth in M6-C artificial cervical disc sales volumes in the U.S., the company triggered a \$15.0 million milestone payment during the first quarter in relation to its 2018 acquisition of Spinal Kinetics. The payment will be made during the second quarter of 2021.

IGEA S.p.A ("IGEA") Exclusive License Agreement

Founded 40 years ago at the University of Modena, Italy, IGEA is a leader in the manufacturing and distribution of bone and joint cartilage stimulation systems and treats more than 20,000 patients every year. Orthofix entered into an exclusive license agreement to commercialize their innovative portfolio of bone, cartilage and soft tissue stimulation products in the U.S. and Canada. Under the terms of this agreement, Orthofix has the rights to pursue U.S. Food and Drug Administration approvals and commercialization of IGEA's platform of orthopedic products, which are not currently available in the U.S. These products, which will be marketed under the Orthofix brand, will expand Orthofix's bone growth therapies portfolio of Pulsed Electromagnetic Field ("PEMF") products with

additional treatment modalities and indications such as Low-intensity Pulsed Ultrasound (“LIPUS”) and Capacitive Coupling (“CC”) for fracture management. The license also includes new technologies designed to address joint inflammation, pain, and cartilage protection.

COVID-19 Impact

The global Coronavirus Disease 2019 (“COVID-19”) pandemic has significantly affected the Company’s customers, communities, employees and business operations. The pandemic has led to the cancellation or deferral of elective surgeries and procedures, restrictions on travel, the implementation of physical distancing measures, and the temporary or permanent closure of businesses. However, the Company remains focused on protecting the health and wellbeing of its employees, partners, patients, and the communities in which it operates while assuring the continuity of its business operations.

As of the date hereof, the Company expects the following net sales results for the year ended December 31, 2021, and for the quarter ended March 31, 2021, including the impact of any expected changes in foreign currency exchange rates:

(Unaudited, U.S. Dollars, in millions, except per share data)	Current 2021 Outlook			Previous 2021 Outlook		
	Low	High		Low	High	
Net sales	\$ 455.0	1 \$ 465.0	1 \$	445.0	\$ 460.0	
Adjusted EBITDA	\$ 52.0	2 \$ 56.0	2 \$	50.0	\$ 54.0	
Adjusted EPS	\$ 0.52	3 \$ 0.62	3 \$	0.45	\$ 0.55	

1Represents a year-over-year increase of 11.9% to 14.4% on a reported basis

2Represents a year-over-year increase of 9.2% to 17.6%

3Represents a year-over-year increase of 100.0% to 138.5%

The Company does not provide U.S. GAAP financial measures, other than net sales, on a forward-looking basis because the Company is unable to predict with reasonable certainty the ultimate outcome of legal proceedings, unusual gains and losses, acquisition-related expenses, accounting fair value adjustments, and other such items without unreasonable effort. 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 2021. Interested parties may access the conference call by dialing (833) 670-0709 in the U.S. and (343) 761-2533 outside the U.S., and referencing the conference ID 2675149. A replay of the call will be available for

three weeks by dialing (800) 585-8367 in the U.S. and (416) 621-4642 outside the U.S., and entering the conference ID 2675149. A webcast of the conference call may be accessed at ir.Orthofix.com.

About Orthofix

Orthofix Medical Inc. is a global medical device and biologics 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 over 70 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, 2020 (the "2020 Form 10-K"). 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, including (A) surgeries that use our products being delayed or cancelled as a result of hospitals and surgery centers being closed or limited to life-threatening and/or essential procedures, (B) portions of our global workforce being unable to work fully and/or effectively due to illness, quarantines, government actions (including "shelter in place" orders or advisories), facility closures or other reasons related to the pandemic, (C) disruptions to our supply chain, (D) customers and payors being unable to satisfy contractual obligations to us, including the ability to make timely payment for purchases, (E) general economic weakness in markets in which we operate affecting customer spending, and (F) other unpredictable aspects of the pandemic; (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, and (viii) 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 2020 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,	
	2021	2020
	(unaudited)	
Net sales	\$ 105,593	\$ 104,823
Cost of sales	25,914	23,409
Gross profit	79,679	81,414
Sales and marketing	50,785	54,313
General and administrative	16,444	17,865
Research and development	10,897	9,964
Acquisition-related amortization and remeasurement	4,469	(7,582)
Operating income (loss)	(2,916)	6,854
Interest expense, net	(417)	(423)
Other expense, net	(2,690)	(798)
Income (loss) before income taxes	(6,023)	5,633
Income tax benefit	207	20,032
Net income (loss)	\$ (5,816)	\$ 25,665
Net income (loss) per common share:		
Basic	\$ (0.30)	\$ 1.33
Diluted	(0.30)	1.32
Weighted average number of common shares:		
Basic	19,526,872	19,143,934
Diluted	19,526,872	19,299,820

Condensed Consolidated Balance Sheets

(U.S. Dollars, in thousands, except share data)	March 31, 2021 (unaudited)	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 94,569	\$ 96,291
Restricted cash	488	530
Accounts receivable, net of allowances of \$4,506 and \$4,848, respectively	69,680	72,423
Inventories	84,180	84,635
Prepaid expenses and other current assets	14,434	16,500
Total current assets	263,351	270,379
Property, plant and equipment, net	62,467	63,613
Intangible assets, net	57,634	60,517
Goodwill	83,513	84,018
Deferred income taxes	26,140	25,042
Other long-term assets	20,769	22,292
Total assets	\$ 513,874	\$ 525,861
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 21,056	\$ 23,118
Current portion of finance lease liability	2,514	510
Other current liabilities	75,491	80,271
Total current liabilities	99,061	103,899
Long-term portion of finance lease liability	20,283	22,338
Other long-term liabilities	39,712	42,760
Total liabilities	159,056	168,997
Contingencies		
Shareholders' equity		
Common shares \$0.10 par value; 50,000,000 shares authorized; 19,474,384 and 19,423,874 issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	1,947	1,942
Additional paid-in capital	297,629	292,291
Retained earnings	53,563	59,379
Accumulated other comprehensive income	1,679	3,252
Total shareholders' equity	354,818	356,864
Total liabilities and shareholders' equity	\$ 513,874	\$ 525,861

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," "Adjusted EPS," and "Free cash flow" that exclude items specified in the tables. 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.

EBITDA and Adjusted EBITDA

(Unaudited, U.S. Dollars, in thousands)	Three Months Ended March 31, 2021			
	Global Spine	Global Orthopedics	Corporate	Total Orthofix
Operating income (loss)	\$ 8,112	\$ (2,862)	\$ (8,166)	\$ (2,916)
Other income (expense), net	(616)	(1,438)	(636)	(2,690)
Depreciation and amortization	2,615	1,620	973	5,208
Amortization of acquired intangibles	1,784	451	—	2,235
EBITDA	\$ 11,895	\$ (2,229)	\$ (7,829)	\$ 1,837

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

Three Months Ended March 31, 2020

(Unaudited, U.S. Dollars, in thousands)	Global Spine	Global Orthopedics	Corporate	Total Orthofix
Operating income (loss)	\$ 18,559	\$ (2,706)	\$ (8,999)	\$ 6,854
Other income (expense), net	(25)	(541)	(232)	(798)
Depreciation and amortization	2,465	1,353	1,091	4,909
Amortization of acquired intangibles	1,418	—	—	1,418
EBITDA	\$ 22,417	\$ (1,894)	\$ (8,140)	\$ 12,383
Share-based compensation	1,524	626	1,609	3,759
Foreign exchange impact	51	509	13	573
Strategic investments	12	8	445	465
Acquisition-related fair value adjustments	(9,000)	—	—	(9,000)
(Gain) loss on investment securities	—	—	219	219
Legal judgments/settlements	(431)	221	376	166
Succession and transition charges	133	1,099	434	1,666
Medical device regulation	205	149	299	653
Business interruption - COVID-19	333	179	11	523
Adjusted EBITDA	\$ 15,244	\$ 897	\$ (4,734)	\$ 11,407

Adjusted Net Income

(Unaudited, U.S. Dollars, in thousands)	Three Months Ended March 31,	
	2021	2020
Net income (loss)	\$ (5,816)	\$ 25,665
Foreign exchange impact	2,662	573
Strategic investments	1,452	465
Acquisition-related fair value adjustments	2,564	(9,000)
Amortization of acquired intangibles	2,239	1,418
Loss on investment securities	—	219
Legal judgments/settlements	(59)	166
Succession and transition charges	30	1,666
Medical device regulation	1,824	653
Business interruption - COVID-19	23	523
Long-term income tax rate adjustment	(1,479)	(20,657)
Adjusted net income	\$ 3,440	\$ 1,691

Adjusted EPS

Three Months Ended
March 31,

(Unaudited, per diluted share)	2021	2020
EPS	\$ (0.30)	\$ 1.32
Foreign exchange impact	0.13	0.03
Strategic investments	0.07	0.03
Acquisition-related fair value adjustments	0.13	(0.46)
Amortization of acquired intangibles	0.11	0.07
Loss on investment securities	—	0.01
Legal judgments/settlements	—	0.01
Succession and transition charges	—	0.09
Medical device regulation	0.09	0.03
Business interruption - COVID-19	—	0.03
Long-term income tax rate adjustment	(0.06)	(1.07)
Adjusted EPS	\$ 0.17	\$ 0.09
Weighted average number of diluted common shares (treasury stock method)	19,950,740	19,317,150

Free Cash Flow

(Unaudited, U.S. Dollars, in thousands)	Three Months Ended March 31,	
	2021	2020
Net cash from operating activities	\$ 2,441	\$ 12,464
Capital expenditures	(4,781)	(4,944)
Free cash flow	\$ (2,340)	\$ 7,520

Constant Currency

Constant currency is a non-GAAP measure, which is calculated 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 is calculated 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 are calculated using the following adjustments:

- Share-based compensation – costs related to our share-based compensation plans, which include stock options, restricted stock, 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, 2021 for an allocation of these costs by consolidated statement of income line item; note that certain share-based compensation costs are instead included within succession and transition charges for 2020

- 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, ii) the amortization of an adjustment made to inventory acquired to reflect the expected selling price of the acquired inventory less the cost of expected selling efforts and a reasonable profit allowance for the selling effort for finished goods inventory, which is recorded as cost of sales, and iii) costs recognized 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 primarily consist of i) incremental costs incurred to enhance the safety and sanitation of our facilities in response to COVID-19, which are primarily reported in general and administrative expenses, and ii) inventory reserve adjustments in 2020 related to products that were set to expire, which were reflected in cost of sales
- Long-term income tax rate adjustment – reflects management’s expectation of a long-term normalized effective tax rate of 27% for 2020 and 2021 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 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 the ability to understand our performance based on a defined set of criteria. The non-GAAP measures reflect the underlying operating results of our businesses, which we believe is an important measure of our overall performance. We provide a detailed reconciliation of the non-GAAP financial measures to our most directly comparable GAAP measures, and encourage investors to review this reconciliation.

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 its historical operating results and internally evaluate the effectiveness of our operating strategies. 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.

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Orthofix Medical Inc.

Alexa Huerta

P: 214-937-3190

E: alexahuerta@orthofix.com

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