

09-Jan-2024

Treace Medical Concepts, Inc. (TMCI)

JPMorgan Healthcare Conference - Fireside Chat

CORPORATE PARTICIPANTS

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

OTHER PARTICIPANTS

Robbie Marcus

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Robbie Marcus

Analyst, JPMorgan Securities LLC

Good afternoon, everyone. I'm Robbie Marcus, Medtech Analyst at JPMorgan. Really happy to introduce our next session. John Treace, the CEO of Treace Medical. John, I'll hand it over to you, and then, we'll do some Q&A.

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

Great. Great. Thanks. Thanks, Robbie, and good afternoon, everyone. Thanks for joining us here today. It's great to be at the JPMorgan Healthcare Conference and have the opportunity to talk about Treace Medical.

Since our IPO in 2021, we've continued to execute on our strategic plan, resulting in US growth of 32% during 2023, encouraging EBITDA progress and continued gains in our operating metrics reaffirming once again, we have the right strategies in place to expand the market penetration of our differentiated technologies.

Safe Harbor disclosure here, please refer to our website. Our non-GAAP reconciliations are also on the website. So, Treace Medical is a high-growth medtech company focused on improving surgical outcomes for patients with bunions and midfoot related deformities. We pioneered and patented the Lapiplasty 3D Bunion Correction system to bring better outcomes for patients suffering from these painful life-limiting deformities.

The surgical treatment of bunions has been our specialty since day one, and we still have a sizable market to tap. Lapiplasty is backed by strong IP, compelling datasets and is marketed by the industry's only bunion-focused direct sales channel. Meanwhile, our growth has been strategic, focused on continuous improvements to our flagship Lapiplasty system, while also introducing complementary procedures and technologies that expand our market opportunity while allowing us to maintain our focus.

Our business has shown strong momentum since our first commercial sale in late 2015, and we recently pre-announced preliminary 2023 revenues, representing 32% growth over prior year, which we believe to be

significantly above our foot and ankle peers. As a high gross margin company, targeting a large and underserved market with a clear pathway to near-term profitability, we believe Treace Medical represents a compelling opportunity for investors.

Our disruptive Lapiplasty procedure targets a \$5 billion plus addressable market in the US with continued strong adoption by the broad foot and ankle surgeon community. With one in four adults in the US affected by bunion deformities, we believe this represents one of the most compelling opportunities in medtech today. Bunions are hereditary and progressive in nature and result in about 4.5 million Americans seeking medical attention each year for their bunion pain, and we estimate that about 25% of these patients are symptomatic surgical candidates. And it's this group of just over 1 million patients that constitutes our \$5 billion plus US TAM. That said, less than half of these surgical candidates are opting to have surgery, and we believe that's largely due to the deficiencies of current surgical treatments.

So, there's a misconception that a bunion is just a painful growth of bone on the side of the big toe. In actuality, bunions are complex, three-plane deformities caused by an unstable joint in the middle of the foot, and it's this unstable joint that allows the long metatarsal bone to shift and rotate outwards, creating the visible, painful bump. There are three planes involved in most bunion deformities, as shown in the illustrations on the right-hand side of the slide. And modern research demonstrates how important correcting this third frontal plane is on surgical outcomes as failure to properly correct it can result in 10 to 12 times greater risk the patient's bunion will return over time, and it's this third frontal or rotational plane of the bunion that's been historically unrecognized and unaddressed in conventional surgical treatments until our company and surgeon advisor team targeted the problem and developed a novel solution over eight years ago.

So, here, we have the two conventional surgical approaches. The metatarsal osteotomy accounts for around 75% of procedures today. This procedure targets the bump itself, cutting the metatarsal bone below the bump and shifting the bump inward. On the positive, it's a relatively straightforward procedure for the surgeon, and the patient can begin to bear weight on the operative foot within days to a couple of weeks post surgery. But because it does not address the third frontal or rotational plane, nor the unstable joint, it's associated with some of the higher recurrence rates in the clinical literature, some as high as 63% to 78%.

The traditional Lapidus Fusion is the alternative procedure, and because it does secure the unstable joint in the middle of the foot, it's generally associated with lower recurrence rates than osteotomies. But since the traditional Lapidus is a much more challenging freehand operation to perform for the surgeon and requires a much longer and much more restrictive recovery period for the patient, often six to eight weeks in a cast. It's typically reserved for the most severe bunions, only those in osteotomies can't fully address.

So, with Lapiplasty, now surgeons and patients have a new option, one that offers a 3D fix for the 3D problem, and one that addresses the root cause of the bunion by fusing the unstable joint in the middle of the foot and one that allows patients to start bearing weight on their operated foot within a matter of days post-surgery. As shown in these illustrations, Lapiplasty offers proprietary instrumentation and a surgical method that allows a surgeon to confidently and reproducibly correct the entire bunion deformity and three planes of the bunion in four straightforward steps. Without the patent – patented Lapiplasty tools and methods, this is a very challenging procedure for surgeons to perform freehand.

So, what we've effectively done is created a paint by numbers approach to three-point bunion correction. And in doing so, we've enable Lapiplasty to be adopted, embraced by the broad surgeon community and used to treat virtually any severity of bunion. Lapiplasty is uniquely supported by leading clinical evidence in a large number of

clinical datasets and publications. In fact, we believe we're the only industry participant with this level of clinical data and evidence on a surgical bunion technology today.

We've recently presented our two year primary endpoint data from our flagship ALIGN3D Lapiplasty study. ALIGN3D is a robust 7 center, 13 surgeon prospective study, and it's demonstrating sustained significant improvements in pain, radiographic correction, and in validated patient reported outcome scores in patients treated with the Lapiplasty procedure. At the end of December, we submitted our ALIGN3D three-year outcomes data for publication in a top tier peer review foot and ankle journal. This is a milestone culmination of events that started over five years ago.

We believe the positive data from our differentiated ALIGN3D study resonates strongly with surgeons and patients and is reinforcing further market adoption of the Lapiplasty procedure. We've also expanded our footprint in the market by adding complementary procedures such as Adductoplasty and now, Hammertoe Correction. These have opened up new revenue opportunities and meaningfully expanded our TAM by 15%. We believe both opportunities complement our business strategy and bolster our multiyear growth plans without diluting our focus on the bunion deformity and our core Lapiplasty procedure.

Speaking now to Adductoplasty, our focus on the bunion is – led us to identify other clinical problems related to the bunions such as metatarsus adductus. This is a deformity of the midfoot that presents in up to 30% of bunion patients. And clinical research indicates that bunion recurrence rates are higher in patients with this deformity if it's left unaddressed. So, just as we did with Lapiplasty, we were the first to offer an instrumented system and procedure called Adductoplasty, designed to deliver reproducible results for this technically challenging operation of the midfoot. And to this point, this is an operation that's been largely unaddressed by the broad surgeon community until now. We're excited about the benefits Adductoplasty offers to surgeons, their patients, and our business. Surgeon adoption has been extremely positive and user surveys indicate that our surgeons foresee applying Lapiplasty in up to 15% of their Lapiplasty cases.

Adductoplasty adds well over \$4,000 in incremental revenue per Lapiplasty case. So, it's highly supportive of our blended ASP as our penetration increases over time. The combination of Adductoplasty and Lapiplasty is having a compounding effect on our business, driving new surgeon user interest and our blended ASP higher. We also initiated the rollout of our new hammertoe offering in Q4 of 2023. This is a sterile-packed procedure kit that expands our reach into the high-volume hammertoe correction space. With no such prior offering in our portfolio and approximately 700,000 procedures in the US each year, we believe this launch positions us nicely for additional gains in blended ASP and continued above peer revenue growth.

Though still early in our rollout, surgeons who have used this implant have commented on its ease of use and expressed a clear willingness to adopt this in our Treace cases. We estimate about 30% of bunion procedures also involve a hammertoe correction, which is why we believe this represents an important addition to our portfolio that will support additional revenue growth over time while maintaining our sales team's focus on our core bunion and midfoot markets.

Our goal is to establish Lapiplasty as a standard of care for bunion surgery. We believe we've made significant progress towards this goal, increasing our surgeon customer base from 997 active surgeons in 2019 to nearly 2,900 active surgeons in 2023. This represents a 30% CAGR in surgeon user growth over the past four years. We added 164 new surgeons in Q4, 468 new surgeons during 2023, and we exited 2023 with approximately 29% of the estimated 10,000 surgeons in the US performing bunion surgery, having used Lapiplasty in their practice over the past 12 months. This indicates we're definitely well into the early majority portion of the technology adoption curve.

We grew our top line 32% in 2023, leading the way for foot and ankle growth amongst our peers. Our revenue growth is driven by increased utilization from our growing surgeon user base, increasing productivity of our direct sales force, and growth in our blended ASP, which increased 10% for full-year 2023 over 2022. The robust growth in our blended ASP, reflects increasing surgeon adoption of our expanding portfolio of complementary products such as Adductoplasty and our sterile instruments, as well as some early impact from our SpeedPlate and Hammertoe offerings as our direct channel continues to expand our procedure access across our Surgeon base.

We have a highly focused product line that allows us to scale our business in a very capital-efficient manner. This is a very unique model in orthopedics. While traditional orthopedic extremity companies may offer 5,000, 10,000 or more sellable products, we support our business with just 40 today, and this focus allows us to rapidly innovate our lead products to drive deeper market penetration and defend our market leadership positions.

On the left is our instrument tray that contains all the reusable instrumentation needed to perform the Lapiplasty procedure. This tray is about the size and weight of a MacBook Air laptop, just for reference, so it's easy for our sales reps to transport and easy for facilities to process. On the right-hand side are our high margin sterile implant kits. These are the items we actually sell, and the economics here are such that the margin from just one implant kit sale covers the capital costs of one of our reusable instrument trays, and these trays can service 30 or more procedures per year, generating on average \$6,300 per case. So, this unique model and positive margin generated by it has allowed us to penetrate our larger identified opportunities in a very efficient manner and continue to support the growth of our business.

We believe our focus and our speed is a significant strength and powerful competitive advantage and our product development timeline typically less than two years from start to finish, plays a key role in our ability to deliver sustained top tier growth. An excellent example of our speed of innovation is our new SpeedPlate fixation platform, Like Lapiplasty and Adductoplasty, this is yet another exciting first and only from Treace Medical.

SpeedPlate is our latest implant system designed to deliver the strength and stability of a titanium lock plate with the speed of insertion and compression of a staple. This is a very attractive combination to surgeons, and SpeedPlate is allowing us for the first time to attract a new audience of surgeons, those who currently prefer to use nitinol staples for fixation. Feedback on SpeedPlate has been overwhelmingly positive, with users highlighting the time savings, the dynamic bone compression, as well as its broad applicability across not just Lapiplasty and Adductoplasty, but many other common fusion procedures within the foot.

The SpeedPlate platform, combined with Lapiplasty and Adductoplasty, has created another exciting catalyst for our sales team and is driving new momentum across all fronts of our business. We believe our SpeedPlate platform has the ability to set the standard for fixation in bunion and midfoot corrections, and over time, achieve broad adoption across many other foot and ankle procedures. We expect SpeedPlate to be fully available to our customer base as we exit Q1, and we look forward to bringing SpeedPlate technology to many more surgeons and their patients in the months ahead.

A core arm of our R&D strategy is focused on making Lapiplasty less invasive, smaller incisions with less tissue dissection and trauma, which we believe can translate to quicker patient recovery. We've innovated our instrumentation and implant technology rapidly three times now over the last couple of years, starting with a 7 centimeter incision with our traditional Lapiplasty, then cutting this to 3.5 centimeters, and now, down to just 2 centimeters with our Micro-Lapiplasty technology as we enter Q1. Micro-Lapiplasty leverages new innovative instrumentation and our premium ASP SpeedPlate implant platform. This represents another major market

differentiator for Treace, strengthening our relationships with our surgeons by broadening the range of Lapiplasty solutions they can provide to their patients.

We're really excited about the potential benefits that this Micro-Lapiplasty SpeedPlate combination can bring to patients. As with any procedure that involves smaller incisions and less tissue dissection and trauma, we believe that can translate to quicker patient recovery with less pain and less swelling.

A big part of what's driving our confidence in sustained 20% plus top line growth is our new product pipeline, with 10 new product launches between second half of 2023 and full-year 2024, a result of that nimble development cycle I outlined earlier. In addition to SpeedPlate and Hammertoe launches that I discussed, I want to – I want to highlight two new exciting technology platforms slated for the second half of 2024. First, our RedPoint PSI technology. Patient-specific instrumentation, which we believe can make our procedures even faster and also make more challenging operations of the bunion and midfoot more approachable to more surgeons. And beyond this, we plan to introduce a significant new platform that we believe will increase our penetration into the bunion market and can drive higher utilization. We look forward to communicating more on that new, exciting platform in the months ahead.

In addition to product innovation, a powerful competitive advantage we have is our rapidly growing bunion-direct salesforce, the only such we're aware of in the medtech industry today. Our direct channel has been an area of significant recent investment. As we increase the size of this team during 2023, exiting the year with 227 quota-carrying sales reps. That's a 35% increase over 2022 and roughly 82% of our revenues in the fourth quarter coming from our direct channel.

When you include our associate sales reps, clinical specialists, sales managers, our total employee fleet in the field totaled approximately 340 employees at the end of 2023 versus 291 at the end of 2022. So, as we enter 2024, we have a much larger team in place working to support our customers every day and driving our growth. We will continue to expand this specialized team appropriately during 2024 to ensure strong surgeon coverage and support and continued market penetration.

As the pioneer of the management of bunions as three-plane deformities, our medical education efforts are focused on training surgeons, how to correct the deformities using our instrumented Lapiplasty 3D approach. We use highly experienced faculty and company staff to deliver both online webinars and national in-person labs across the country throughout the year. We offer both introductory courses and advanced events, where surgeons can learn to next level skills and our newer procedures such as Adductoplasty and Micro-Lapiplasty.

And given that hands-on training is a requirement for any new surgeon prior to live use of Lapiplasty or Adductoplasty, we also support smaller lab events using our fleet of expert clinical specialist employees. With the increasing awareness of Lapiplasty and its clinical success, we continue to see strong demand for our training events. Our 2023 events were fully subscribed and produced 468 new surgeon users during the year. Moving forward, we'll continue to keep training new surgeons and see a reasonable baseline of adding 250 to 300 new surgeons each year.

As I mentioned earlier, our key innovation here is addressing the root cause of bunions with a comprehensive, innovative surgical solution Lapiplasty. This procedure is well on its way to becoming a standard of care, as evidenced by patients asking for it by name and our increasing market penetration rate, which has nearly doubled since 2021, and we've built a deep and wide competitive moat that puts Treace in a very advantageous position in the market. Our direct sales team is only part of that competitive moat, which also includes rapid R&D innovation and strong IP, differentiated clinical datasets and targeted patient outreach.

Our intent is to have Lapiplasty patients asking for it by name. So, for several years now, we've invested in targeted outreach initiatives for patients, directing those patients to our website where they can become educated on Lapiplasty and connect with qualified surgeons in their area performing our procedure, with a comprehensive mix of social media, Google paid search, PR and other media, including targeted TV campaigns with strong metrics showing active patient engagement on our website, further supported by regularly conducted surgeon surveys. Our investment in DTC is resulting in hundreds of thousands of patients visiting our website each month and tens of thousands of patients each month searching for doctors. We believe we have a highly effective and scalable DTC strategy in place, with more patients asking for Lapiplasty by name when visiting their surgeons than ever before.

Here's an example of one of our DTC initiatives. We recently sponsored the US National Pickleball Championships. Not only is Pickleball the fastest growing sport in America, it also has high overlap with our targeted patient demographic, who tend to be predominantly female with active lifestyles and broad access to care. With strong viewership and a boost on our website traffic, this event generated high awareness and exposure to the Lapiplasty procedure brand in a very cost efficient manner.

We've made significant progress on our pathway to profitability. We expect operating leverage to continue to improve in coming quarters and are driving towards adjusted EBITDA breakeven for full-year 2024 and positive cash flow in 2025.

In closing, we delivered another significant year of progress in 2023 and remain on track to drive strong growth and profitably scale our business in the years ahead. We are driving a market conversion in a large underserved market as the fastest growing company in the foot and ankle reconstructive space. We believe we're in a great position strategically with best-in-class bunion, midfoot and complementary offerings and expanding TAM with the addition of new technologies including Adductoplasty, hammertoe, and our SpeedPlate, and more innovations to come supported by differentiating clinical studies, continued strong additions to our surgeon base and a powerful focused commercial organization.

We look forward to aggressively pursuing these significant opportunities to drive the performance of our business and believe we have all the right elements in place for a successful 2024 and beyond. Thank you.

QUESTION AND ANSWER SECTION

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Great. Well, there's a lot to talk about there. Do you want me to do this one? There's a lot to talk about in the presentation. First off, nice quarter, 25% growth in the quarter came in about \$3 million or so above the Street. Maybe just talk to the trends you were seeing, Lapiplasty plus some of the other procedures, how those trended in the quarter. And we could take them there?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

Sure, sure. I think within the quarter, we began to see bunion season return as we normally do off of soccer summer. And the strong surgeon adds were one component of that lift. We had some early access and usage of SpeedPlate, which contributed. We had the additional reps that we brought on earlier in the year that were beginning to get a little bit of their footing and produce. And you combine it all together, and it produced some nice upside in the quarter. So, we're very pleased with it.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Maybe we can rewind a little bit to third quarter. There was a bit of a reset. Fourth quarter ticked down a little bit, part of it was SpeedPlate, part of it was seasonality. Versus your expectations in the guidance for fourth quarter, maybe talk to what you saw and what drove the upside relative to the range you provided?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

I think the – in the fourth quarter, during that summer softness, our patient demographic, which tends to be the 30- to 65-year old female, there were two groups. One group decided to travel, unlike we've ever seen in eight years of doing this. And the other side said, I'm concerned about the economy, am I out-of-pocket? I want to have my procedures later in the year when my deductibles [ph] are met (00:22:45).

So, what happened was we were training the same number of surgeons throughout the year, but the patients weren't coming in necessarily saying, I want surgery right now or the summer, and they were deferring to later in the year. So, the combination of the patients, getting off their travel, coming back and asking for surgery, this base of trained surgeons that boosted up the surgeon count in Q4 and produced those upside cases relative to the guidance.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

So if I think back at something high-20s, 30% of procedures for bunions are typically done in fourth quarter. As we think about our models for 2024, leaving the actual revenues aside for a second, how do you want people to set their models for seasonality because bunions are not typical ortho spine type of seasonality. So, what should we be thinking in our models, first to second, second to third, third to fourth?

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

And maybe Robbie, I'll jump in there a little bit. Yeah, just as John talked about some of the seasonality in 2023 was a little bit different with some softness in the Q3. But then, again, what we refer to as bunion season or that strong demand in the fourth quarter when deductibles are met. So, we think – as we think about 2024, we think it's going to be much more traditional seasonality levels where there's typically, and we've always experienced a step-down from the higher levels of Q4, we step down to Q1, and then, historically and traditionally, there's a step-down from Q1 into Q2, and then, another step-down from Q2 to Q3, with a rapid increase in Q4 again.

So, again, Q4 will be our biggest quarter of the year. We'll have more volume there, and it will be a bigger percentage of the full year.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

You don't happen to remember offhand what the typical step-down from 4Q to 1Q is, do you?

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

I don't, but it has been somewhere between Q1, maybe 80% to 85% historically from Q4 levels. But there's definitely a meaningful step-down, and then, it begins to build back up by Q4 again.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

I take the fourth quarter [ph] beat (00:24:57), we're looking at a slide here of 20% plus revenue growth in 2024 and beyond. That puts the Street at about 18% growth next year?

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

Yeah.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

You know, so 20% plus is a good number. What are the drivers of that? If I'm thinking about rep adds and volumes and ASPs, building up to that 20% plus, that gives you confidence?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

Yeah. I think it's the – we get most of our revenue each year from the prior year's installed base of surgeons as they ramp their utilization. They start out first year doing just under seven cases, and by year three, they're doing 13 or so cases. And then, they build up towards high-teens to 20 by year four and five. So, we get our – most of our revenue growth is from that installed base of surgeons. Then, we're going to add on new surgeons. Then, we have the 227 reps on hand, and we're going to continue to build on that channel during the year. It won't be as large of a percentage increase as we did this year, but as those reps become more productive, that's another driver.

And we're going to be exiting Q1 with full national supply of, what I call the biggest thing for Treace Medical since Lapiplasty, and that's our SpeedPlate. And hammertoe will be coming into greater supply. And then, we have two really unique platforms launching in the back half of 2024. And, three other couple of base hits intermixed there. So, we've got a lot of confidence in the pipeline and the momentum that we have coming out of Q4 that we can sustain that.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

And we added 20% of our customer base in 2023 as well. So, just to John's point, as we have that larger team of customer surgeons, they'll benefit us going into 2024.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

There was a slight 20% plus of US surgeons used one of your products over the past year, I believe it was. [ph] Yet, it's (00:26:50) only 6%, 7% penetrated of the total opportunity. What's the delta and how do you close the gap?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

Yeah, great question. And part of it is, roughly 40% of our surgeons have come on just in the last 24 months, and that's one that they're in that low end of the utilization ramp. So, as they mature, that's going to bring the penetration up over time. And then there's, of course, more rapid R&D innovation to penetrate the market faster, more clinical evidence as our ALIGN3D three-year results get published, sometime in the future. It's hard to predict when things are going to be published in the journal. But that's going to happen.

Our direct channel productivity, as that ramps, these are all contributing to that, so...

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

I love to see adjusted EBITDA breakeven for 2024 and free cash flow positive – I believe is positive in 2025. I know we're only nine days past the end of the quarter, but do you have any early read of where you are on adjusted EBITDA ballpark for fourth quarter? Just thinking about how much room we have to go over the course of 2024 to get to that target.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

Yeah, I'm going to say a little too soon there, Robbie, but the one slide did say that we were expecting positive EBITDA for the fourth quarter. So...

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Yeah. Great.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

...so, one slide specifically said that – so, we're not just ready to give that number just yet. But again, we have been focused on two things all along, is one, all those elements that John's been talking about to build our customer base and we've deployed capital to have more rapid innovation. We've got more products for our sales reps. We've got more customer surgeons here. So, priority number one has been to drive the top line and with an eye on the bottom line. And so we are focused on having significant improvement in adjusted EBITDA for 2024 compared to 2023.

Robbie Marcus*Analyst, JPMorgan Securities LLC*

Q

Turning to SpeedPlate. You delayed it a quarter, coming out in first quarter here. We've talked to docs who really like the product, makes the procedure faster, smaller incision. Just maybe speak to the feedback you're getting in the field from this and some of the early adopters, and how this really changes versus the Mini-Incision and the larger Lapiplasty product and also versus just all the other competitor options out there?

John T. Treace*Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.*

A

Sure. That's a big one. There's a lot of benefits to the SpeedPlate. The combination of a best-in-class bunion solution like Lapiplasty, along with a market-creating product like Adductoplasty that can only be really gotten from Treace. And now you have SpeedPlate on that that has very advantageous properties. Titanium is known to be more stable and more durable than nitinol, and there's an entrenched user base of nitinol staples out there. So, when nitinol staple users see SpeedPlate, they automatically think that's something I want to try in my practice.

So, it's helping us attract new surgeons into Treace with another unique technology platform that we didn't have last year. And it has a lot of benefits to speeding up the procedure in Lapiplasty, Adductoplasty. And then, our early user said, if you make these adjustments, here are these defined adjustments, we could apply this to areas of the foot that you're not even thinking about. And here's what they are, and it was a sizable enough additional opportunity, TAM-expanding opportunity, that we decided to take a three-month very, very quick R&D project on file, the 510(k), and make our big investment launch with that Gen 2 technology.

So, as we go forward, that's a platform that we're going to continue to expand, and we think we can take on a lot of the traditional plating in the marketplace with it. And, right now, the sales force is clamoring for it. Customer demand is extremely high within our current customer base and outside our current customer base. So, as we get more out there, we'll keep building on that platform, making it more versatile.

Every time we develop an innovation, we commit to iterating and innovating rapidly over many years, and that's why we have few products that have big market opportunities to them. We commit to them and keep driving them deeper and deeper and deeper.

Robbie Marcus*Analyst, JPMorgan Securities LLC*

Q

You came in with a disruptive bunion solution, right, and then added on several other options. Do you think surgeons look at those other products at the same level they look at Lapiplasty or do you lead with Lapiplasty and then pull through something that's a bit more of a, I don't want to say generic, but generic type of solution?

John T. Treace*Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.*

A

You know, it's been an interesting mix. You know, we go to different conferences and introduce something like SpeedPlate. We go to the orthopedic meeting, and they look at it and say, and maybe they have shied away from Lapiplasty for many years. In general, we have a lot of great AOFAS and orthopedic customers, but the majority of our customers are podiatrists. But they look at that and say, that's very interesting. I'd like to try that.

The three components, the Lapiplasty, Adductoplasty and SpeedPlate, it's giving our sales team three shots on goal, direct hits out the goal with unique technologies they can only get from Treace Medical. So, each one of those is going to – one of those is going to appeal to some foot and ankle surgeon at some point. And once they get interested in one, if they want to use SpeedPlate, we're going introduce them to Lapiplasty, and we're going introduce them to Adductoplasty. And if they're interested in Adductoplasty, we're going to show them SpeedPlate for that procedure because it makes it faster and more convenient.

So, I think they all just really build on each other really nicely to – it's a compelling, very tight, very focused bag of products. With 40 SKUs, we can innovate very rapidly and make those products better and better and better and defend the positions that we're building out there.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Now, there's clear benefits, given the high degree of overlap from deformities in the foot, from one to the other that make natural sense. I would imagine there's also bundling opportunities when you go into healthcare systems, where they say you have one product. We don't really want to stock you on the shelf. You have now 40 SKUs. That's more meaningful, we can work with you. How important is having a bigger bag to go sell to the hospital systems to be able to get on the shelf?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

Yeah, great question. You know, we haven't had a tremendous problem even back when we only had Lapiplasty because it was so differentiated. Then, you had Adductoplasty, which is tremendously differentiated and they can kind of only get from Treace Medical. Now, we have SpeedPlate technology that you can only get from Treace Medical. So, these are really differentiated. And Lapiplasty does have a lot of clinical evidence behind it. So, that helps differentiate it as well because it's the only [ph] technified (00:33:45) new technology with that level of clinical backing. So, I think the more unique technologies [ph] revolve (00:33:54) into that portfolio, the stronger our position is in getting into these accounts.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

One of the more unique components of Treace versus your competitors in just treating bunions and deformities in the foot is you do direct consumer advertising, and you're driving patients into podiatrist offices. And it's hard for them to say so and so product is bringing them in by name to my practice because I'm a high user of it. As I think about the amount of spend that Treace does, any way you could quantify the amount of DTC spend, and then, how essential is that now to the algorithm for driving patients in? Or are you at a point of critical mass where you can pull back and word of mouth is starting to drive more of the patient flow?

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

A

Yeah, I think you hit on it with the latter. When we brought on about six months ago a new Head of Marketing who has extensive medical device and consumer, and he's been able to come in very quickly and with less money

drive, incredible efficiency, quickly got onto the pickleball demographic and spearheaded that initiative. And, it's not a – it's not an expense item that we think needs to ramp with the level of sales, and we can flatten that out and leverage it pretty nicely now, as we get more products, as we get a bigger sales channel, as we get more efficient in applying the DTC dollars, that's an area that we can leverage over time.

Robbie Marcus*Analyst, JPMorgan Securities LLC*

Q

And when you're growing the sales force, what was it, 25%, 30% over the course of the year, do you feel like you have a fully fleshed out national sales force at this point or are there still areas that you're not participating in that are focus areas for 2024?

John T. Treace*Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.*

A

Yeah. Grew the sales team, 35% in 2023, we'll continue to expand that team during 2024, probably not at the 35% rate. So, again, further opportunity for leverage as Mark was speaking to before as we drive towards that EBITDA neutrality this year. But, we have our eyes on ensuring that we have the right ratio of surgeons to reps, so that we can fully exploit that coverage and defend the business we're building around these docs.

Mark L. Hair*Chief Financial Officer, Treace Medical Concepts, Inc.*

A

And we'll continue to add just to support our customer surgeon base, as we talked about earlier, is with the utilization ramp, there are more and more cases coming from our existing customer surgeon base. So, we will need to add in order to successfully support all of the demand that comes from our existing base, as well as attracting new surgeons as well.

Robbie Marcus*Analyst, JPMorgan Securities LLC*

Q

You had a slide up on pipeline products. One that stood out was the patient-specific instrumentation. This is – seems like it's a bit more unique in bunion surgery and foot surgery in general. How big of a driver can this be and that it probably seems like it needs a little more investment. Is this still going to be in the 80% plus type of gross margin range?

John T. Treace*Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.*

A

Yeah, we believe it will be. We have the people in place, the software engineers that we need to do the modeling and produce the cut guides. We're out there in pre-market doing cases right now with this technology and making sure that we have everything dialed in really, really well for our back half of 2024 launch.

Robbie Marcus*Analyst, JPMorgan Securities LLC*

Q

And if you think about this ASPs, how much of a lift can that bring to the procedure?

John T. Treace*Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.*

A

It will bring lift. We will have the ability being a novel, new technology in the bunion and midfoot correction space to charge for the cut guides. So, there will be an ASP tick-up where that technology is used. I think the most

exciting and biggest impact of the technology will be attracting surgeons [ph] to treat (00:38:02) medical and increasing the stickiness of our customer base because it's another high tech, exciting technology that they can get from us and be able to access much more challenging operations than before with more confidence. So, that's probably going to be the biggest impact there.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Just want to – last minute or so, any questions in the room? Maybe just one last one, Mark, with all the products that you're adding, right, it helps drive higher revenue per procedure. With the 20% plus that you've put out there for 2024 and beyond, how do we think about the balance of volumes versus revenue per procedure driving up to that 20% plus?

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

So, that's a great question. What we've – the way we've done it right now is we've looked at what we call blended ASP. So, that's that revenue, that wallet share per procedure, and we've continued to add these complementary products around it. So, we've talked about having kind of low- to mid-single-digit growth rate in our blended ASP, but we'll continue to have more and more procedures done next year as well. So, it's going to be on both sides. We're looking to – and we're continuing to add great customer surgeons and the volume there, but we're going to have more products. So, every time they go into procedure, we're just going to have more products that are surrounding the bunion and the related complementary deformities and complementary products that we'll have available.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Got it. So, majority volume.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

It's majority volume.

Robbie Marcus

Analyst, JPMorgan Securities LLC

Q

Minority, price.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

A

Yeah.

Robbie Marcus

Analyst, JPMorgan Securities LLC

All right. Well, great. We're out of time. Thank you so much. And thanks, everyone, for listening today.

John T. Treace

Chief Executive Officer, Founder & Director, Treace Medical Concepts, Inc.

Thanks, Robbie.

Mark L. Hair

Chief Financial Officer, Treace Medical Concepts, Inc.

Thanks, Robbie.

Disclaimer

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.