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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**John T. Treace** *Treace Medical Concepts, Inc. - CEO, Founder & Director*

**Mark L. Hair** *Treace Medical Concepts, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Danielle Joy Antalffy** *UBS Investment Bank, Research Division - Analyst*

## PRESENTATION

**Danielle Joy Antalffy** - *UBS Investment Bank, Research Division - Analyst*

All right. Good morning, everyone. Thank you for joining us on the second day of our UBS Medtech Genomics Summit. I'm Danielle Antalffy, I'm the medtech analyst in the U.S. here. And very lucky to have with us Treace Medical. We have the Founder and CEO, John Treace. We have CFO, Mark Hair. Thank you, gentlemen, so much for joining us.

## QUESTIONS AND ANSWERS

**Danielle Joy Antalffy** - *UBS Investment Bank, Research Division - Analyst*

And maybe just to start, from a top line growth perspective, Treace has sustained very strong double-digit growth for the last few years, even through COVID. So with the guide for 2023 of close to \$200 million now, what do you guys see as the sustainable sales growth rate outlook for Treace from here?

**John T. Treace** - *Treace Medical Concepts, Inc. - CEO, Founder & Director*

Great. Great opening question. And Danielle, thanks for having us here. We're really excited to be here in this gorgeous location to talk about the company with you. So yes, the -- it's been an exciting ride. We've had a lot of success. We created a disruptive technology that's targeting a very large \$5 billion U.S. market opportunity.

We're displacing conventional treatments in bunion surgery with our Lapiplasty 3D patent correction. And yes, 3 years of 50% growth, except for COVID, that was 46%, but we would be doing 3 years as of last year. Market is very large. We're only about 3% penetrated into the opportunity, midline guide is 37% growth this year. We continue to execute our commercial strategies. Foot and ankle growth rate is pegged around 7% to 8%. So we feel very good about our market opportunity ahead and our ability to execute and deliver multiples on top of that foot and ankle market growth rate.

**Danielle Joy Antalffy** - *UBS Investment Bank, Research Division - Analyst*

Okay. Great. And maybe let's talk about the TAM for Lapiplasty. So -- and maybe talk about what in case people are listening in that don't know what Lapiplasty is, and let's also talk about what you guys do and how fast the TAM is growing specifically for the bunion component of foot and ankle? And what the competitive landscape is and standard of care today that you're trying to displace?

**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Sure. So maybe starting with the bunion problem, large problem, 65 million Americans are affected with a bunion to some degree. They tend to be run in families or hereditary. They're progressive in nature. They only get worse over time, and that results in about 4.5 million Americans seeking medical treatment each year, seeing a doctor because their feet in pain from their bunion.

We think about 1/4 of those will not resolve with conservative care, and those are what we call the symptom or the symptomatic surgical candidate population, and we deem that to be about 1.1 million patients. That said, only about 450,000 procedures are occurring each year and we believe that's largely to the deficiencies of current treatments, which is what we've proved -- improved upon with our Lapiplasty 3D Bunion Correction and we're fully displacing conventional treatments today with that technology.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Okay. And so you already started to address this, but the barriers to adoption today, I guess, first for the standard of care, which it sounds like it's just poor, but maybe talk a little bit about why that is so? And how 3D Lapiplasty changes that.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Sure. Great question. So the vast majority of bunion corrections today are what are called metatarsal osteotomies. It makes up about 75% of those 450,000 procedures. And what the surgeon does in a metatarsal osteotomy is identifies the bump, cuts the bone below the bump, shifts the bump in, but it doesn't end up addressing the root cause of the bunion and there are multiple planes involved in the bunion that historically have not been addressed.

The result of that is recurrence rates or return to the bunion rates in the clinical literature 35%, 65% as high as 78%. So wide variability, high recurrence rates, and part of our huge opportunity with Lapiplasty, we've been able to deliver a full comprehensive fix of the bunion fixing all the planes and fixing the instability and delivering through our clinical data, very low single-digit recurrence rates.

And we're letting patients get back to walking in a postoperative boot within days of their surgery versus weeks and weeks on a cast. So that's what's been driving the success of the company. We married that with our commercial strategies, and we've been very successful at penetrating the market. Again, we're only at 6% of the procedure base, and we have a long way to go and a lot of success ahead of us.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

What's preventing you from going from 6% to 12% overnight because it feels like you could do that if you wanted to. So maybe talk about the commercial strategy here a little bit.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Sure. Yes, that's a great question. One of the things that we're focused on is overcoming a lot of historic dogma in the training centers for foot and ankle. It's long been established and taught that the majority of your bunion procedures ought to be metatarsal osteotomy.

There is another predated procedure to Lapiplasty called Lapidus Fusion. It treated the deformity at the anatomic location that we treat the deformity with Lapiplasty. It was technically very challenging. You typically only got 2 of the 3 planes of the deformity corrected, and then the patient had to be in a cast for 6 to 8 weeks.

On osteotomy, they can do rather quickly. It's rather straightforward. The patient can be bearing weight on their foot within a week or 2 after that surgery. So we've kind of given this long enduring correction of the Lapidus-type procedure but made it better. And we've democratized it with

our instrumentation and techniques. So the vast majority of surgeons can now do this procedure repeatably, reproducibly and consistently that are also reflected in our clinical studies.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. And actually, on the clinical data point, you do have the ALIGN3D trial. And I'm curious how much that is resonating? Are you feeling it starts to resonate a bit more as you're adding more surgeons into the mix?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

We definitely are. We just recently submitted to the American Foot & Ankle Society Meeting in September, our 2-year primary endpoint data on our ALIGN3D study. This is a 5-year study that we've been running. We'll have results on 157 patients at 2 years and a lot of patients at 3 years. This is a 13 surgeons, 7 center prospective study that not only measures time to weight bearing, time to return to work and full activities, but -- and radiographic recurrence rates, which are low single digits, but we're also taking patient-reported outcome scores to see how these patients are doing, socially activity-wise and mentally. And its pretty impactful data that we'll be demonstrating. So.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Do you think that's been a critical piece of the story the ALIGN3D trial? And I ask that question because there is, and we'll get to this in a little bit, but there are some other players trying to get involved here, acquired some assets, but don't really have that level of clinical evidence and quite frankly, probably never will because you have a head start on them. So just curious about how you think about that.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

We definitely think it differentiates us. We believe that it does matter to the surgeons. It really does matter to the patients, and it matters to the facilities and the payers as we're trying to get our product approved at facilities to have that data and be the only one with that type of data. And on top of that, we have 21 peer-reviewed publications. So no other company has any kind of clinical evidence like this behind a commercially marketed bunion products.

And back to your question earlier about the -- we have about 26% of the surgeon base, 10,000 surgeons that do bunion surgery in the U.S., but 6% of the procedures, right? Why is that? Yes, we're trying to overturn that dogma and accelerate that. But a lot of it is temporal because each year that a surgeon uses Laplasty, they use it more and more and more each year.

So in the first year, they'll use -- they'll do about 6.5 cases. By year 3, they're doing 13.5. And by year 5, they're approaching 20 or so, which is about half of their clinical practice, for a procedure that historically was relegated to 15% to 20%. So we're seeing a really big shift there. 42% of our 2,600 surgeons came on within the last 24 months. So they're in that low utilization curve, the more they use it, they see the good results in their practice. They have more patients coming in asking for it from our DTC initiatives. They see more of our clinical data. It reinforces the success they're seeing. So they climb and climb and climb.

So if you take that and project it way out, if we can get to 40% of the surgeons in this country using this product, that translates to a business of about \$600 million in revenue. So we're at 26 today. We were at 1 out of 5 in 2018, we've made a lot of progress. So it's not that we'll stop there at that point at 40%. But it's a good midpoint to shoot for.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Do you see the surgeons that have been doing the procedure for a long time since 2018 or so that they have converted their entire bunion treatment to 3D Laplasty? Or is there still a role for the Osteo I've not to pretend I know how to say it.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

That was good. That was good enough. Yes, we have a mix in that distribution curve of surgeons that still use it for just their bigger deformities. And then we have surgeons that have adopted it very broadly and use it for the vast majority of all of the bunion procedures. So when they get really great at it and they see the great results, a lot of them want to keep doing it and they want to adopt our Mini-Incision technique, make incisions smaller. We have Micro-Lapiplasty coming out next, even smaller incisions, less invasive. So we're giving them more and more and more reasons to want to increase their ratio of Lapiplasty versus osteotomy in their practice.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Right. And given the recurrence rates of osteotomy, it makes a lot of sense, I think, logically to even if it's a mild case to do a 3D Lapiplasty versus osteotomy, right?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes. It's -- historically, there have been a 100 different ways described to surgically treat a bunion. And you talk about high variability, low quality. That's an institutionalized knowledge in manufacturing and frankly, in surgery, too. But big medical trends like this take 10 years. That's not unnatural. So when you think about it, it was really mid-2018 before Lapiplasty was refined to a point where it could be taught and expected to be reproduced repeatedly by a broader surgeon group. We had the right tools in place. We have the right teaching. So we're really in our fifth year, and we're really pleased with the way this is going so far to have over 1/4 of the bunion doc is doing it by now.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. Yes. It's a great point. And actually, I wanted to follow up on something you said on the procedure time, our procedure reproducibility. What about procedure time? Is there a difference there? And given the reproducibility, more consistency that are scheduling important for especially ASCs?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes. Great question. A lot of our doctors are doing Lapiplasty now in the same time it takes them to do an osteotomy. So we've really kind of neutralized that. Going beyond that, we'll be introducing at the end of this year, our speed play technology. So we have instrumentation and steps that have made the procedure faster, faster, faster, easier, easier, easier.

Now we're looking at our implant fixation, which is currently 2 plates but they have to drill 8 holes and then put in 8 screws to fixate and put into the patient, each plate will have those crews. It's a single unibody construct. They just drill some holes, pop the implant in, it compresses the joint together, and this saves significant time in the case. So we're looking for ways to just consistently make it faster, easier, more reproducible, more minimally invasive, so patients recover quicker and can get back to their activities.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Great. Okay. And then you mentioned the 26% penetrated into the surgeon base, 6% penetrated of the procedures. At what penetration rate does this become -- does 3D Lapiplasty become saturated and grows more in line with the market. Is this something like this could get to 75% penetration? How should we think about long term, that 6% number? And when we can get to the majority?

**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, great question. I think we're -- we mentioned earlier, 40% of the doctors, this could be a \$600 million business. That would be roughly 20% procedure penetration. We're not going to stop there. As we continue to penetrate more doctors, they ramp their utilization over time as they have pretty predictably. And we continue to launch next-generation fixation technologies that have a higher selling price and then also launch additional complementary products that fit other procedures that are done within the bunion procedure.

Those have been a very important contributor to our blended average selling price or the sales reps share of wallet. As they go into these cases, they're now able to service them with more and more products and that's what's been growing our blended average selling price really nicely. I believe it's up about 11% year-to-date over last year. That's not all coming from just selling more expensive plating kits. That's just a couple of percent. The rest of that is coming from additional products that doctors are using like Adductoplasty that's for the midfoot correction. Every time they do that, it adds \$4,000 per case. We have these single-use sterile instruments that are real problem-solving tools that add several hundred. And we have a whole pipeline of these types of products coming out over the next 24 months.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. And then -- so just following up on that. So I think you answered my question, but I was going to ask you that is something that we see in the positive pricing dynamics per case, I think is the right way to think about it, right? And I was going to ask how sustainable are these pricing dynamics? And you mentioned these products coming over the next 24 months. Should we think of the pricing dynamic is continuing at this double-digit increase rate?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, it will -- we have a nice commercial strategy. And then our R&D pipeline is really strong, and we believe it's going to support upward and to the right over the next foreseeable future, we don't see that dipping. We don't see necessarily a ceiling from a reimbursement standpoint because most of these new additions that are driving the blended ASP higher service other procedures that have separate reimbursement.

So we have a -- it's not well known, but by the focus on the bunion with our direct sales force and our company's focus there, over time, we can get to 60% or 70% of the entire foot and ankle opportunity because there are so many concomitant pathologies interrelated to the bunion, either that the bunion drives or are driven or create the bunion problem. So they're all interrelated. So we can continue to broaden out and diversify while still staying focused on penetrating those bunion procedures over time.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Yes. And important to note, you say up and to the right for a price per case, but noting every quarter can be a little...

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Well, we can have wobble in quarter-to-quarter. I think we were up 13.5% in Q1 and then only up 8% over prior year in Q2. We had a little mix shift there, but we know and up into the right is the way we see it going.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Yes, totally. Okay. And just have to ask this question. I mean, what do you see as the biggest risks to the story and the growth outlook in the near term? And I guess, long term, whether it be competitive dynamics, is there a reimbursement risk here? Price risk, maybe talk about what does keep you up at night?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes. It's a tough question because we're growing so rapidly. We're having a lot of success. I think it's fortifying the business with the right infrastructure and the right support systems along the way as we more than doubled our direct sales force last year. We're up another 20% this year. We hit our year-end goal of 200 reps by the end of Q2. Most of them came right at the end of Q2. So end of the year, we can start seeing some productivity there.

I think it's just a matter of can we continue to fuel and drive and grow that direct sales force and drive that productivity that we've been seeing over the long term. And can we continue to change the mindset of doctors over time and shift them towards the Lapliasty philosophy.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. I have a -- some of these disruptive medtech technology it takes some time to get there, but get into like fellowships and things like that. And then you have doctors starting to train on that specific procedure. Is that something that could drive this shift -- mindset shift faster?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

I think so. Now being commercial for over 8 years, we're established in a lot of the teaching centers and are having residents graduate and go into practice after their third-year graduate residents, and they've done -- they've been in 100 cases. I mean they're already highly elevated on our surgeon locator on our website. Something we haven't talked about, which is a really unique and powerful part of our strategy is our patient awareness or DTC that informs patients about the difference of Lapliasty relative to the prior procedures they may have heard of. And allows them to get educated on our website, learn more and then connect with doctors in their markets.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. TMI for the folks listening in on the audience, I have a bunion did not even know what it was until I met these guys. So it's -- yes, it's a fair point on the DTC side of things. All right. So let's talk about something you mentioned earlier. You added the majority of your surgeons over the last 2 years. And I think it does take time for these surgeons to get up to sort of normalized productivity. So should we expect an inflection in utilization rates in the coming months, quarters as those surgeons do get up to more normalized productivity?

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

And maybe I'll jump into that. So we do track the utilization from all of our different surgeon groups and based on their tenure. And so we've consistently seen them do more cases year after year. So as John mentioned, 42% of all of our new surgeons have come in the last 24 months. And so in one sense, they bring down the average, but we know as a move up with their more experience and tenure that yes, the rest of the group is doing at a higher utilization rate at our overall averages. So yes, we think there's a lot of good coming because we know how everyone else is doing, and we've seen this pattern year after year after year. And so the number of surgeons that have made it to 5 years, we know how they really behave. So yes, there's a lot of good to come.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Do you have surgeons that you would characterize that peak productivity? I'm not going to ask you to define peak productivity, but that you think are using it as much as they could, should and how long has it taken them to get there?

**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Yes. So I think that's a great question. And as you know, not every practice, not every surgeon is exactly the same. We talked to a lot of our surgeons and some of them have really taken Lapiplasty and wanted to even brand their entire practice around Lapiplasty and be an outpost for bunion procedures in their regions. So some of them have -- will do well over 100 or even 200 cases in a year. And some other surgeons are just -- they just have a smaller bunion-related practice. And so they can still do a majority of their cases with Lapiplasty, but they -- that's just not the focus of their practice. So we've seen smaller practices really lean into Lapiplasty. We've seen other practices who have made Lapiplasty their focus on their entire practice. So we've seen both.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. And so you guys also call on the podiatrist. You also call on the orthopedic surgeon, so you call them both. And just curious how this procedure stacks up in those 2 practices relative to other procedures, things these docs are doing from a profit perspective, time perspective, things like that.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes. It stacks up very favorably. It's a relatively short procedure. The reimbursement is relatively good. And centers do well on the economics. And because the population is so large, there's a ton of referrals that come from treating somebody's bunion that helps build that surgeon's clinic. A lot of their clinic practices are more profitable and they make more money in the clinic than they do in the operating room, but the operating room gives them additional income, but it also allows a tremendous referral stream of patients.

So when you're talking about something as prevalent as a bunion, everybody knows somebody with a bunion. And they're going to talk about the foot doctor that help them with their bunion and then that patient is going to be more inclined to go to that doctor.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Yes. Yes. Okay. All right. And not to nitpick here, but you did have your lowest quarter of new surgeon adds 82, so still a big number. In Q2, I think, since Q1 of 2021. So can you talk about what's going -- what went on there? And should we be concerned at all?

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Yes. So year-to-date, we've added close to 200 surgeons. And we commented a little bit on our earnings call last week, too, that we've definitely noticed in our space, an area that we've definitely had some surge in travel as well as some patient travel that has been a little bit higher. But we're really focused on two areas in our medical education, and medical education is just one of the things that it's a priority for the company. So one, we educate surgeons, we introduce them to Lapiplasty. But secondly, what we're doing is we're educating our entire customer surgeon base, 2,600 surgeons on all of our new technologies so that they can benefit from Adductoplasty so they can benefit and be ready when SpeedPlate comes out, these single-use instruments.

And so it's important for us to be focused on both. And so there is this split focus. And so we've done a really good job on both. We're really pleased with that 200 or so that we've added in the front half of the year. And as you may recall, a lot of our seasonality is in the back half of the year, deductibles are met, the volumes go up substantially, and we tend to add a lot more surgeons in the back half of the year, specifically in Q4. So we feel really good about where we're at. Especially since we're adding or training rather all of these surgeons, what our existing surgeon base we're committed to them to ensure that they understand all these new technologies because they're better for their patients, it's better for the surgeons in the OR.

And what we also find is it also increases our utilization, and it also increases our blended ASP in those cases as well. So it's the right thing to do to keep bringing them into the funnel, but to keep our large surgeon customer base, always educated on all of our new technologies.



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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Yes. Great point. And actually, just following up on that, what are the points of friction to adding a new surgeon that you guys have found now 5 or 8 years into commercialization.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

All points of friction. We're kind of at that early majority part of the adoption curve. So we've recently surveyed our surgeons that come in for training and ask them why are you here and for the first we're seeing a respected peer of mine is using it and getting good results. So now it's reaching that kind of 6-degree of separation point. So the resistance, I think, is less. There's certainly a correlation between sales force additions and new surgeons coming in for new trainings. We more than doubled the size of the sales force last year. That group delivered the 612 new surgeons we added last year, which is a really powerful add and then the other -- a good portion of the couple of hundred we got it this year.

So that's a lot of throughput and output. We just reloaded with another 32 reps here at the end of Q2. So -- and we'll continue to hire reps selectively and opportunistically for the remainder of the year and then reload and figure out what we need to do for next year. So.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. And just following up on the rep point there. How do we think about the steady state size of the sales force? And maybe talk about I think you guys have one of the largest bunion specific sales forces out there. So maybe talk about that, how we should think about how big this is going to be? And what does that mean for leverage in the P&L?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

I can speak to how -- so first of all, I think we're the only bunion-focused sales channel in the U.S. medtech industry. It's a proud point of distinction. But -- now just the bunion-focused people, they're becoming masters of midfoot surgery, and they're going to become experts in other areas that are interrelated to the bunion, which is really starting to define this great, unique presence in the OR in our customers' mind of these bunion expert salespeople. And you marry that with all the advanced education and training that Mark talked about that we're doing. The support of the DTC that's informing more patients and inquiring into their practices and then obviously, the clinical evidence. I think as we continue going, we're going to build, build, build, and we'll continue to figure out what's the right ratio of surgeons to reps, how many doctors can the average sales rep fully support and defend and continue to grow and optimize that over time.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Is the rep in every procedure?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Not in every procedure, but they tend to be in a large number of procedures, and we do some things to make it more efficient. We have -- we talk about our 200 at the end of Q2, quota-carrying reps. While we have associate sales reps that help those reps service accounts and they'll cover cases with more established customers so that the senior rep can go find new surgeons to bring into our trainings. We also have a sales management team and national accounts group. There's actually 290 people employed people in the field working at the customer level to drive this business every day. It's a very large fleet, and it's going to continue to expand over time.

**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

And you mentioned a little bit about the leverage. And I think there's a little bit of a similar story as we talked about the surgeons, how they start low and then they ramp up. It's really the same way with a lot of our sales reps. They may -- as far as a leverage perspective, they may not be leveraged immediately, but we know that they get trained, they get very comfortable and confident in the OR. They build their relationships with additional surgeons, and they get more and more productive over time.

So this is a little bit of the same situation that early on, it costs a little bit more, but it absolutely leverages. Again, we have a lot of data that shows how these sales reps really leverage and become very productive. And that whole ramp process, they begin to become somewhat productive, that 6 to 9 months, but it really takes about 24 months. And so we think that there's a lot of leverage coming because of this large build that we've done over the last really 24 months.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. Got it. And then site of care, I mean, broadly speaking, in orthopedics, ASCs have been a big growth driver. Curious what it's been for the 3D Lapiplasty story, how much ASCs has contributed to growth?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Great. Great question. So just to clarify, all of our procedures are done in day surgery settings, whether it's an outpatient wing of a hospital, a freestanding surgical center owned by a hospital or a privately owned or certain owned ASC. So our procedures have been happening there on a fairly stable basis in terms of ratios for decades. There's not a huge movement or ship like there is an inpatient hips and knees or invasive spine surgery into these ASCs. So we service all those areas with our products very effectively, and we're constantly enhancing our portfolios and tweaking them to make sure that we're successful in those environments.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

And let's talk about the product portfolio now because you touched on some of the ancillary or I don't know if that's the right way to describe it, but incremental products and the ability to treat other areas of the foot. You mentioned, I think, that ultimately you can get to 60% of all foot and ankle or I forget something...

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

You can work your way around the foot pretty well related to the bunion, yes.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

So is that where you are today? Or where are you today? And how should we think about you getting towards that ultimately covering most of the foot?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, we're a fragment or a very small percentage of that today. The majority has been on the bunion. We've introduced Adductoplasty, which is a really meaningful breakthrough from Treace Medical, one that's extremely exciting to doctors because it addresses a concomitant deformity that resides with the bunion where the midfoot bones are misaligned as well.

And it affects about 30% of bunion patients. So it's not a small opportunity. And we've introduced a system that allows the surgeons for the first time to use instrumentation and alignment jigs and a step-by-step process like we did with Lapiplasty to treat this really challenging deformity of the midfoot.

And we've been training our surgeons on this. They're telling us that they could foresee using it on about 15% of their bunion cases. So half of that 30% they see as severe enough deformities that they would actually surgically intervene and correct them.

The reason they want to do that is if the clinical literature shows, if they only correct the bunion and they leave the midfoot problem maintain, you get a much higher recurrence rate of the bunion because you can't move the big toe over far enough because the other toes are in the way. You have to move them over first to make space. So that's the big benefit that Adductoplasty is bringing. And we go to our labs and talk to doctors that have done in a handful of cases and are refining their techniques at these advanced courses and maybe they're trying SpeedPlate for the first time at that lab, and they're just telling us how remarkable this is and what a huge difference is making in the outcomes of these patients.

And also their practice. They're operating on people that they weren't able to operate on before. They refer them to a university, and now they have a very straightforward way to do it. So it's helping them, it's helping their practice. It's helping their patients. And it's obviously helping the company because every time an Adductoplasty is done, it adds another \$4,000 in blended ASP, and we're very low on the penetration curve of that, and we're working on and we'll be introducing next-generation instrumentation and implants to make it even easier to do. So this could expand over time really nicely as well.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

And adds \$4,000 in ASP to the company, but it's covered by its own DRG or code. So...

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

There's elevated reimbursement in that type of procedure. Yes, because they're doing it along with the Lapiplasty.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Right. And then what about procedure time and recovery time? Does it add anything meaningful there?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

It does add more procedure time. And that's where this fourth quarter SpeedPlate introduction really makes a big impact. It's a longer procedure. If a Lapiplasty is, let's call it an hour, it could be 1 hour 45 or 2 hours. Some surgeons are doing these in 90 minutes and now they're quicker. But if you can increase the speed of fixation, applying the fixation, that's really meaningful there, and that's what SpeedPlate allows.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. Got it. Now given the fact that you're launching all of these new -- a slew of new products, you mentioned SpeedPlate in coming over the next 24 months. How do we think about -- are these the types of product launches that should accelerate revenue growth? How do we think about the contribution, how quickly they take to ramp from a top line growth perspective?

**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes. They'll have a SpeedPlate is exciting, and it's going along with our Micro-Lapiplasty instrumentation as well. Now we have a technique to allow Lapiplasty to be done through a 2-centimeter incision. Prior to that, it was roughly a 4 with our Mini technique, but Micro is a real breakthrough, but it relies on SpeedPlate to be able to do it because we can't put our standard plates through that 2-centimeter incision. So SpeedPlate enables micro, which is going to be another driver, but SpeedPlate not only will have an elevated ASP along with it. So every time it cannibalizes one of our plating kits, we're going to get a blended ASP lift. It's going to appeal to a whole new group of surgeons that have a different mindset towards fixation and their mindset is more towards that SpeedPlate type implant. So we think this is going to help bring on new users as well and continue to just drive that new user adoption and blended ASP over time.

**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

We've heard a lot of really good feedback from our surgeons. So we have had some opportunities to have a limited release with several of our surgeons and many of them have just said, this is the way I'm going to take my practice going forward. They love fixation, they love the compression that John has talked about. And so a lot of them have said this is a very meaningful advance for Lapiplasty wholly. So we think it will not only be beneficial to our existing customer base, but it's really going to be able to attract new.

**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Add surgeons. Yes.

**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Yes. We were at a conference in Pittsburgh, where a lot of those early users were sharing there, this is last weekend, their results. And the comments that they were making and the results they were showing where I can't really state them because it equate to claims, but they're extremely pleased with the healing they're seeing the reduced swelling they're seeing. And these are their anecdotal comments. But comments like biggest thing from Treace Medical since Lapiplasty. And that's saying a lot because Adductoplasty is pretty big itself. So I think there's a lot of -- there's going to be a lot of demand for SpeedPlate, it's going to do a lot of great things for us.

**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

So 2024 guidance then is going to be very good.

**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Well, it's a little bit early for 2024, but we feel like every year, we began the year knowing that, that fourth quarter is going to be a big quarter. And so we've been doing all those things tracking to that. And so we're excited for the back half of this year, and then we'll get into next year.

**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Okay. Got it. And just last question on the product portfolio, your approach to R&D and how we should think about these types of incremental products? Do you have sort of a target for X number of products every year, or 2 years?

**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

We do. And a big benefit of this ramped up R&D innovation spend and investment we started in early 2022. We said we're going to double down and invest heavily in R&D innovation, sales channel and patient awareness, DTC. Those are our big 3 drivers. We continue to drive those things.

But now you're starting to see the fruits of those early investments starting to play out. We -- in the back half of last year, we had Adductoplasty for launch. We had our S4A Planting Kits, and we had our SpeedRelease and TriTome Instruments. Those ramped really nicely through the back half of the year, and they still continue to ramp. And then with SpeedPlate coming towards the end of the year, that's going to be another nice new advance.

We've got a couple of other things up our sleeve that we may be dropping in between now and then to help back half of the year and then 2024 as well. And then you get to middle of next year, and we'll be introducing RedPoint enabled cutting guides, personally matched cutting guide technology for midfoot corrections Adductoplasty-type procedures and Lapiplasty-type procedures. So the acquisition that we finalized in the second quarter of the RedPoint PSI technology, we think is really important. It's going to be a great additional momentum driver into 2024 and beyond gives us new capabilities.

We have software engineers on site now. We're working with our surgeon design teams to integrate them with our procedures and instruments. And we think it's going to be pretty incredible. We think it's going to make very challenging cases approachable to surgeons for the first time. And we keep talking about our agenda on Lapiplasty, to make it easier, more approachable, less invasive, less steps. We think it can save time. We think it can cut steps out. So we're really looking forward to that as well.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

And actually, that's -- I'm glad you brought that up because I think there's been a conversation building with ChatGPT and stuff sort of AI-enabled more of that kind of technology informing medical device procedures. And it's safe to say this RedPoint PSI is just the start of where this could go over time and how to think about more enabling for these procedures?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, we think so. And if you can get down to personalized solutions for the patients and that confidence that the doctor has that they know that, that -- the cuts they make are going to be exactly what they want and the procedure is going to go very smoothly. That's just going to drive further and further adoption. I think it's going to drive more patient interest to and getting their bunion treated or their midfoot deformity treated, et cetera. So...

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Yes. Okay. Well, we'd be remiss if we didn't address the competitive landscape. So there has been some activity over the last few years on the competitive front. How has the landscape evolved? Some of these larger ortho-focused players have made acquisitions here. What are you seeing, broadly speaking, from a competitive perspective?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, great question. Obviously, we've created a lot of excitement in the space. And as we built the company and developed the company, there are a lot of great minds at the Board level that have been helping us strategically. And we built this company very intentionally knowing that if we're successful, people are going to want to try to come in and capitalize on the market that we pioneered and we've developed.

So we've had several co-competitors out there in the marketplace for the last several years. One introduced in early 2020 from a major player. I don't think that product has changed in form or designed to this day. At the same time, Treace Medical has changed its instrumentation in its implants 3 times. And with SpeedPlate and Micro, it will be 4x. So I think it's really hard for these multiline -- and these are excellent companies. We have tremendous respect for them, by the way. But just the reality of all the product lines they're carrying and the salespeople that have to go in with a very large bag of items and try to target this one procedure that we are absolute experts in. And we haven't seen a technology that can match Lapiplasty at the surgeon patient interface yet.

With 8 years of just rapid iteration and improvement, Lapiplasty so refined. There's just nothing yet that performs like it at the end user interface. And you combine that with all the expertise we have, all the support we put around these doctors with their education and informing patients and our direct channel and the clinical data, it's hard for these larger multiline companies that keep up with a rapidly innovating focused company like Treace Medical.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Sure. And that's usually the case, too, right? They're not as nimble and they can't be. Actually, the clinical depth for the clinical data also comes in. They don't -- if my understanding is there's no other real clinical data here. So is it the ALIGN3D trial. Is that -- is there any risk of that being viewed as like a class effect? And not necessarily specific to the Treace technology and just more Lapiplasty broadly?

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Yes, it's an interesting question. I -- the instrumentation and the technique that we have is patented really, really well. So you combine that with our implant technology and everything that we are into it, it's hard to just cast that all over all these other products, I think, and say it's going to behave like Lapiplasty, plus when patients get informed about Lapiplasty and they come in and they ask the doctor for Lapiplasty, they want Lapiplasty. They don't want X company's version of Lapiplasty because there's only one Lapiplasty by definition. It's a patented method. It's a registered trademark of Treace Medical. There is no substitute. And you do have the clinical data backing our product, not anybody else's.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. Got it. And in the last few minutes here, I want to talk about the P&L, but also, first, Mark, I'd love to hear your approach to guidance and thinking about guidance, what sort of level of visibility do you have in any given quarter when you're updating guidance and just, yes, your broad approach.

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Yes. So we look at revenue in a number of different ways. We've been doing this for a long time. And again, going back to some of our prior conversation, we understand the number of surgeons that we have. We understand where they are in their journey and in their tenure. And so that's somewhat predictive -- very predictive as far as what we anticipate they will produce their utilization in the coming year. We also have a lot of, of course, spreadsheets and algorithms and all kinds of things that we use to help predict, but we're also relying a lot on our massive sales force channel and their relationships with their existing surgeons. So I think we get a lot of information from case scheduling. We have a lot of analytics that go behind it. So we feel really good about being able to look into the future and giving our guidance.

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**Danielle Joy Antalffy** - UBS Investment Bank, Research Division - Analyst

Okay. And then actually, I meant to ask this earlier. There's been a lot of -- this has not been a normal health care procedure environment for a few years now. So curious about there's ortho backlog that everyone's talking about. Do you think your business has any sort of backlog? Has there been any backlog benefit? I mean you continue to grow almost 50% through COVID. So...

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

So there have been other players that have talked about this backlog. It has a very different patient demographic. It seems to be more hips and knees. They tend to be a little older in Medicare patients. And so that's not our patient demographic. And so we haven't experienced the same thing that others have talked about, but we've been able to just consistently find new surgeons and then have patients asking for Lapiplasty. So it's a different group and not really the same backlog effect that we've seen.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Were you impacted in 2020 by staffing constraints?

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

So what we did talk about is we saw the same thing that everyone else saw. One of the benefits that we had is John mentioned it earlier, that we're all outpatient and that seemed to be a benefit to us because some of the staffing and even the hospital beds and spacing seem to be more focused on if you were inpatient if you're going to be there a little while. So I think we benefited from that because it's whether the hospital setting or the ASC setting, it was kind of in and out and less requirements from staffing. So we were able to -- we saw what everyone else saw, but it didn't seem to directly impact us the way it has impacted some other companies.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

We probably realize that backlog faster and earlier.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Like maybe in that quarter or the very next quarter or something like that. Yes. Okay. Okay. I think we have time for 1 or 2 more questions. So I'm going to ask, I think this is for you, Mark, but at what revenue run rate do you think Treace can achieve sustainable profitability based on the sales -- how to think about sales force ads, things like that?

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

That's a great question. We've been able to show profitability in our fourth quarters in the past. That's when a lot of the revenue ramps up, and we really have a lot of leverage in the P&L. So we don't want to be cavalier about it, but we saw great leverage last year in the fourth quarter, and we're anticipating some really nice leverage again this year in the fourth quarter. A lot of it is really our focus and what our priorities are. To John's point earlier, we're really focused on getting a much larger share of the surgeons in our space. And so we really talk every day about getting 40%, 50% of those surgeons. So in order to do that, we're going to continue to invest in our sales channel, our sales reps, our DTC. We're going to continue to do that. But -- so I don't know that I'm giving you a number, but we feel really good about where we are now as a size of the company and there will be leverage on particular quarters for sure.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

Sure. And safe to say, yes, you'll be adding reps, but this spend will be slower than the...

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Right. Right. And a lot of these investments that John talked about really started last year. So this year is the first year full annualization of those investments. And so we -- we've talked about having some improved leverage on adjusted EBITDA this year compared to last year, and that will continue to improve going into next year.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

And also increased revenue per case helps that.

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Absolutely. Absolutely, it does.

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**Danielle Joy Antalfy** - UBS Investment Bank, Research Division - Analyst

And with that, I think we're out of time. So thank you, gentlemen. Thank you, everyone.

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**Mark L. Hair** - Treace Medical Concepts, Inc. - CFO

Thanks for having us.

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**John T. Treace** - Treace Medical Concepts, Inc. - CEO, Founder & Director

Thank you, Danielle.

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