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Vivian Cervantes

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Treace Medical First Quarter 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker, Vivian Cervantes, Investor Relations at Gilmartin Group. Please go ahead.

Vivian Cervantes

Thanks, Teresa. Good afternoon, everyone, and welcome to our first quarter 2023 earnings conference call. Participating from the company today will be John Treace, Chief Executive Officer; and Mark Hair, Chief Financial Officer.

During the call, we will offer commentary on our commercial activity and review our first quarter financial results released after the close of the market today, after which we will host a question-and-answer session. The press release and supplemental materials can be found in the Investor Relations section of our website at investors.treace.com. This call is being recorded, and will be archived in the Investors section of our website.

Before we begin, we would like to remind you that it is our intent that all forward-looking statements made during today's call will be protected under the Private Securities Litigation Reform Act of 1995. Any statements that relate to expectations or predictions of future events and market trends, as well as other estimated results or performance are forward-looking statements. All forward-looking statements are based upon our current estimates and various assumptions. These statements involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated or implied by these forward-looking statements.

All forward-looking statements are based upon current available information and Treace assumes no obligation to update these statements. Accordingly, you should not place undue reliance on these statements. Please refer to our SEC filings, including our Form 10-Q for the first quarter to be filed tomorrow and our Form 10-K for full year 2022 filed on March 8, 2023, for a detailed presentation of risks.

With that, I now turn the call over to John.

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

Thank you, Vivian. Good afternoon, everyone, and thanks for joining us on our first quarter 2023 earnings conference call. Before we begin, I'd like to take a moment to acknowledge everyone at Treace Medical for their dedication, focused execution, and passion for our business and its mission to improve surgical outcomes for bunion patients. It's our team's collective effort, along with the support of our loyal surgeon user base, and the positive impact our technologies are having on the lives of the patients they treat, that has supported the success and growth for our company for nearly 8 years now, since our first Lapiplasty procedure was performed.

In the first quarter, revenue increased 45% as compared to the same period in 2022, with steady gains across all of our key operating metrics. It's clear to us that the strategic investments we continue to make in our business are delivering strong returns, confirming we have the right strategies in place to expand the market penetration of our differentiating technologies.

Before I go into details about the quarter, let's start with our market summary on where we stand today. Our disrupted Lapiplasty solution was specifically developed to correct the root cause of the bunion and address a large and underserved market. We've identified an estimated addressable \$5 billion plus U.S. market of 1.1 million annual surgical candidates, of which only 450,000 undergo bunion surgery each year, which we believe is mainly due to limitations associated with current standards of care.

As of the first quarter of 2023, we have penetrated approximately 5.8% of the estimated 450,000 annual bunion surgical procedures in the U.S., up from 4.3% in the first quarter of 2022, and reflecting approximately 2.4% market penetration of the 1.1 million annual U.S. surgical candidates, which constitute our \$5 billion addressable market in the U.S.

Turning to our Q1 results. Revenue in the first quarter was \$42.2 million, representing 45% growth over the first quarter of 2022. During the first quarter, we continued to benefit from our commercial strategies and investments. Growing sales force productivity coupled with strong seasonal patient demand trends that decidedly extended our seasonal strength from the fourth quarter into the first quarter. Therefore, we're extremely pleased not only with our topline growth, but also the sustained positive trends in our key operating metrics, including our expanding direct bunion focused sales team, which accounted for 79% of our Q1 revenue mix, compared to 63% during the first quarter of 2022, strong steady increases in the number of new surgeon users and in Q1 with 2,499 active surgeons, up 31% year-over-year.

A year-over-year increase in our trailing 12 months surgeon utilization, with an average of 10.5 kits per active surgeon in Q1, up from 10.1 kits a year ago, and strong blended average selling prices of \$6,244 per Lapiplasty kit sold in a quarter, representing 13% growth over prior year as our expanding direct sales team more effectively leverages our broader portfolio of problem-solving complementary product solutions, such as Adductoplasty, our FastPitch Screws, and our SpeedRelease and TriTome Tissue Release Instruments Release Instruments into their Lapiplasty cases.

Our strategic investments and commercial focus have continued to support the growth of our business, giving us confidence that we have a well-defined, proven, and scalable commercial strategy. Given these positive trends, we're raising our full year 2023 revenue guidance to \$190 million to \$196 million, which reflects an increase of 34% to 38% over 2022 revenue.

We remain committed to balancing aggressive execution of our targeted commercial initiatives to maximize our growth and market penetration, while delivering modest improvement in our expense leverage.

Shifting to our commercial and market development activities. As we previously discussed, we're continuing our targeted investments in 2023 with the goal of increasing our market penetration by expanding the footprint and coverage of our bunion focused direct sales channel, advancing our patient awareness DTC initiatives, and driving more targeted R&D innovations into the market.

We have a highly specialized team at Treace, including a rapidly growing direct sales force, one that is 100% focused on bunion and related midfoot surgery, and represents the only such organization that we're aware of in the U.S. Medtech industry. We believe this has contributed meaningfully to our revenue and market penetration.

In the first quarter, 79% of our revenue was generated by our direct sales force, up sequentially from 77% in the fourth quarter and up from 63% in the same period last year. We continue to aggressively invest in our direct channel with the target of having over 200 quota-carrying direct sales reps by year-end, up from 168 at the end of 2022.

We continue to see increasing productivity from the 87 direct reps that we hired during 2022. As a reminder, our historic data demonstrates that our direct reps typically scale with significant revenue and cost leverage achieved within 24 months, primarily because they're exclusively focused on our products and fully utilize our suite of corporate resources and programs.

Our patient awareness DTC initiatives are a key component of our commercial strategy. As you may recall, our investment in DTC is resulting in hundreds of thousands of patients visiting our website every month and tens of thousands of patients searching for Lapiplasty surgeons in their area. With one in 4 surgeons in the U.S. using Lapiplasty, we now have a larger and expanding national surgeon base that can field inquiries from a higher volume of patients.

On strong momentum, we stepped up our investments and initiated our DTC efforts earlier this year compared to last year to drive greater awareness amongst the target patient population. We have a great foundation of surgeons and sales reps in place to support growing patient interest and remain focused on our patient awareness DTC initiatives that are designed to educate and steadily increase the number of potential patients visiting our website, become educated on the Lapiplasty procedure, locate experienced Lapiplasty surgeons in their area, and to ultimately schedule a consultation.

Our surgeon education and training programs also continue to be well received. Interest and attendance by new surgeons at our training events remain strong, with many of our events oversubscribed. Likewise, our advanced training events, strong, with many of our events oversubscribed, likewise, our advanced training events, both online and in-person, where our more tenured surgeons can acquire advanced skills and learn new approaches and procedures like Adductoplasty, continue to show strong demand. Our education programs play a key role in the effective onboarding of new surgeon users and increasing the skill of our existing surgeon users, broadening their patient indications.

In the first quarter, we onboarded 112 new surgeon users who were trained on the safe and effective use of our technologies through these training programs. We're encouraged to see continuing growth in our surgeon user base. As of the first quarter, our active surgeon user base, which includes surgeons who performed at least one case in the trailing 12 months, has achieved approximately 25% penetration of the estimated 10,000 foot and ankle surgeons in the U.S. performing bunion surgery.

As our surgeon base continues to mature, we look forward to utilization gains with increased use of our Lapiplasty and Adductoplasty systems, as well as further adoption of our growing portfolio of complementary products, all supported by our expanding direct sales channel, differentiating clinical data sets, and patient awareness DTC initiatives.

Speaking now to our product development strategy, we have an R&D team that's committed to driving innovation to maintain our industry leadership with programs for both next-generation bunion correction systems, as well as the development of new complementary technologies addressing other bunion-related pathologies, and IP defense of our technology and innovations.

As announced in April, to date, we have 47 granted U.S. patents and 51 U.S. patent applications pending. We highlighted 2 new exciting product innovations at the American College of Foot and Ankle Surgeons this past February, namely, the micro Lapiplasty system. This is an advanced instrumentation option designed to further reduce both the incision size and related tissue dissection with the Lapiplasty procedure.

This exciting evolution of our instrumentation allows the patented Lapiplasty procedure to be performed through 2-centimeter incisions, and our SpeedPlate implant fixation platform. This is a new fixation technology platform designed for rapid insertion through small 2-centimeter incisions, serving as both an enabling technology for the micro Lapiplasty procedure, but also with broader applicability to both our standard and mini-incision Lapiplasty systems, as well as our Adductoplasty mid-foot procedures.

Feedback on SpeedPlate from surgeons who have received early clinical access during the quarter has been highly favorable with emphasis not only on the time savings, but also the excellent stability and the dynamic compression benefits of the implants as well.

We anticipate commercial launch of these technologies by year-end. We're excited about the potential benefits that micro-Lapiplasty and SpeedPlate combination could bring to patients, as with any procedure that involves smaller incisions and less tissue dissection, we believe this could translate to even faster patient recovery with less pain and swelling.

We look forward to providing additional updates on our new product innovations, as we continue to develop our pipeline, centered around our core technologies and IP aimed at improving surgeon user experience, patient outcomes and supporting continued market penetration.

Turning to Clinical Data, a key differentiating driver for our business is our commitment to clinical evidence, which we believe resonates with both surgeons and patients. From what we can see in the marketplace, we believe we're the only industry participant with a growing body of clinical data. Our interim clinical data is demonstrating rapid return to weight bearing in a walking boot with low recurrence rates at 12 and 24 months, as well as positive patient reported outcome scores following our bunion correction procedure.

At the 2023 American College of Foot and Ankle Surgeons Annual Scientific Conference this past February, we announced an interim analysis from our flagship ALIGN3D prospective Lapiplasty study on 128 patients with at least 24-month follow up, which demonstrated early return to weight bearing in a walking boot at an average of 8.1 days, a low recurrence rate of 0.9% at 24 months, 80.8% reduction in pain measured using the visual analog scale or VAS at 24 months, 92% and 90% improvement in walking, standing and social interaction patient reported quality of life measures respectively, using the Manchester-Oxford Foot Questionnaire through 36 months, and notably 97.3% of patients reported they were satisfied or very satisfied with the overall results of the Lapiplasty procedure at 36 months.

The ACFAS Scientific Poster, which includes additional details is available on our website. We believe we're the only company to offer this level of clinical evidence on a commercial surgical bunion product and it's rewarding to see the meaningful impact the Lapiplasty procedures making on patients' lives, not only physically, but socially as well, as demonstrated by the 97% patient satisfaction rating 3 years post-Lapiplasty surgery.

As a reminder, later this year, we expect to submit our primary endpoint ALIGN3D manuscript for publication in a peer-reviewed journal. This is an exciting milestone combination of activities that began 5 years ago with the first patient enrolled in 2018. Again, we believe these positive interim patient data coming from our differentiated ALIGN3D study resonates strongly with surgeons and patient communities and is reinforcing further market adoption of the Lapiplasty procedure.

I'd like to highlight one additional item that occurred right after the end of the quarter. In early April, we published our inaugural environmental, social and governance report, which outlines our focus and ongoing progress towards ESG initiatives across Treace. We will continue to integrate ESG considerations into the ways we manage our business, while carrying on our mission to improve surgical outcomes for bunion patients.

In closing, I'm proud of another great quarter of execution in Treace. Our solid execution, driven by our talented team of employees and proven strategic investments supported by our strong balance sheet, continue to drive our momentum. We believe we have developed a specialized and scalable business model that's fueling our growth strategy and our mission to advance the standard-of-care in the surgical correction of bunion and related midfoot deformities.

With that, I'll now turn the call over to Mark to review our financial performance. Mark?

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

Thank you, John. Good afternoon, everyone. Revenue in the first quarter was \$42.2 million, an increase of \$13.1 million, and 45% growth over the prior year. Growth was driven by increases in procedure volumes and an increase in blended average selling price due to adoption of our newer complementary technologies.

In the first quarter of 2023, the number of active surgeons performing at least one case in the trailing 12 months increased 31% year-over-year to 2,499 surgeons, which translates to approximately 25% penetration of the estimated 10,000 surgeons in the U.S. who perform bunion procedures.

Surgeon utilization increased to an average of 10.5 Lapiplasty kits purchased in the trailing 12 months, up from an average of 10.1 a year ago. As a reminder, we commercialized Lapiplasty procedure nearly 8 years ago, and in the past 2 years alone, we've added 1,145 active surgeons, nearly half of our total active surgeon base.

On the average, this growing number of active surgeons have steadily increased utilization each year they use Lapiplasty due to positive patient outcomes and expanding indications in their practices. We sold 6,758 Lapiplasty procedure kits in the first quarter, a 28% increase versus the prior year's first quarter.

Blended average selling price in the first quarter was \$6,244, a 13% increase over the first quarter in 2022, and a 6% increase from Q4 last year. First quarter blended average selling price of \$6,244 includes a contribution of approximately \$4,800 from Lapiplasty, and a growing contribution of approximately 1,400 from our expanding portfolio of complimentary products, such as our Adductoplasty System, TriTome and SpeedRelease instruments, and FastPitch screw kits, as our expanding direct sales channel helps provide surgeons with our problem-solving technologies.

Gross margin was 80.9% in the first quarter of 2023, compared to 82.3% in the first quarter of 2022. The 140 basis point decrease was primarily due to an increase in payroll and related costs as a result of our expanding operations.

Total operating expenses were \$47.9 million in the first quarter of 2023, which includes sales and marketing expenses of \$33.7 million, research and development expenses of \$3.4 million, and general and administrative expenses of \$10.9 million. This compares to total operating expenses of \$32 million in the first quarter of 2022, which included sales and marketing expenses of \$22.3 million, research and development expenses of \$3.1 million, and general and administrative expenses of \$6.7 million. The increase in operating expenses reflects strategic investments in our expanding direct sales channel, investments in product innovation, increased capacity requirements, as well as support for other commercial initiatives.

First quarter net loss attributable to common stockholders was \$13.5 million or \$0.23 per share, compared to a net loss of \$9 million or \$0.16 per share for the same period of 2022.

Cash, cash equivalents, and marketable securities were \$170.7 million as of March 31, 2023. As we mentioned last quarter, we completed a follow-on offering in February, which raised net proceeds of \$107.5 million. This is the first time we raised capital since our IPO, and we believe this provides us with additional balance sheet strength and flexibility to continue aggressively executing on our strategic investments and growth initiatives.

Before concluding, let me turn to our outlook for full year 2023. As John mentioned, we are encouraged by the underlying strength and momentum in our business, and are raising full year 2023 revenue guidance to \$190 to \$196 million, which reflects an increase of 34% to 38% over 2022 revenue. This is an increase from our prior full year guidance of \$187 million to \$193 million.

For the second quarter 2023, we continue to see our business tracking to expectations and expect revenue in line with elective procedure seasonality following our first quarter, which benefited from an extended seasonally strong fourth quarter.

Turning to the middle of the P&L. We continue to expect that our operations and expenses will continue to grow throughout 2023, as we increase our DTC investments and further expand our direct sales force, while increasing leverage of our fixed costs and overhead expenses. Therefore we still expect to show modest improvements in adjusted EBITDA for the full year compared to 2022.

With that, let me turn the call over to the operator to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Robbie Marcus with JPMorgan.

Robert Justin Marcus - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe to start, I wanted to dive into some of the trends you saw in first quarter. I know it's probably hard to kind of tease out each of the individual components, but what are you seeing in terms of how much is coming from better contracting, a more complete product portfolio, returns on DTC investment, increased sales force, and anything you could add to try and place where some of the growth drivers are going and what you're focused on for the rest of the year?

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

Yes, Robbie, this is Mark. Great question. John and I have really tried to focus on all of those items that you've talked about, really with our investments on building the direct sales channel, our DTC investments that we leaned in a little bit more this year in Q1 versus last year. And now we have an expanded portfolio of products as well. So it's all these things, all the investments we really believe are helping.

The other thing that we talked about in the prepared remarks was that this really strong seasonally fourth quarter really extended into the first quarter. So not all the procedures were achieved in the fourth quarter. And so we saw some of that benefit come into the first quarter as well.

So I don't know that we have really quantified each one of those individually, but we feel really good about the momentum. And as a reminder, the 45% growth is over a really tough comp from last year as well. So we feel good about the momentum as we're coming in. We feel like all of those pieces are really playing well together to achieve that good result.

Robert Justin Marcus - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe as a follow-up here, there's a lot that we're hearing in terms competitively out in the field. Another lower extremity bunion competitor was recently acquired and the noise is growing, which is great for the field and the conversion to instrumented procedures. But I'd love to hear what your reps are seeing out in the field.

Do you think any of the competitors are impeding your ability to grow? And if you don't win an account, what's the #1 reason you're not here?

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

Yes, hello, Robbie, John here. Yes, a little bit consistent maybe with what we discussed last quarter. There are other products in the marketplace being offered from other companies. Most of these are kind of highly diversified companies with large bags of products. We're not really seeing any incremental, I think, opposition to our momentum coming from these.

In some ways, they're just further validating what we started and what we developed long ago. Any of these companies' products and offerings get like a fractional portion of their sales team's time and attention. And what we found is with over nearly 8 years of refinement, Lapiplasty is just so elegant and reproducible. It's frankly just unmatched in performance at the doctor-patient interface. And we continue to wrap more patents around what we're doing, making it a little more challenging for companies to make something that can truly replicate the elegance of Lapiplasty, so.

On top of that, our direct sales channel, our training programs, our patient advocacy through our DTC, our real clinical outcomes data that we can back up our product with, it just further differentiates us in the market. But I can't say that there's any one of these multi-line distracted companies that's slowing our business momentum.

Operator

Our next question comes from Drew Ranieri of Morgan Stanley.

Andrew Christopher Ranieri - Morgan Stanley, Research Division - Equity Analyst

Just maybe to start on kind of the pricing trends, and I appreciate you breaking out the Lapiplasty Kits and the expanding portfolio. If I kind of look at the math from first quarter 2022 and kind of hold that forward, I mean, you're obviously expanding your blended ASP, you're adding a direct sales force, and I think I heard you saying you're getting up to about 200 this year. So maybe just talk to us about a couple things. One, maybe the acceleration that we should kind of expect with blended ASP through 2023 and even into 2024, if you want to get that dangerous.

And then second, can you just maybe highlight a bit more on the attachment rate that you're seeing for Adductoplasty in your cases? And maybe what type of surgeons are actually performing the case? Are you seeing it more in your more established mature tenured surgeons, or even on some of the more recent adopters?

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

Sure. Hello, Drew, it's John. Happy to answer that question. I think regarding the blended ASP, as we peel back that 62-44 that we had in the first quarter, roughly around 4,800 is a Lapiplasty case and call it 1,400 and change is coming from complementary products that are used in those Lapiplasty cases.

As we mentioned in the prepared remarks, we continue to see that blended ASP lifting from our new products due to the continued adoption of Adductoplasty, which we think is still early on in the adoption curve, as well as those other recently commercialized technologies, our S4A plating kits, our tissue release tools, et cetera. And I think what we're beginning to really see and appreciate is the leverage effect we're getting from this direct channel, selling more of these complementary products that serve those other procedures that are performed within the Lapiplasty case.

So as we continue to layer on more and more new innovations, as we will be later this year with SpeedPlate, for example, we definitely believe there's more room to grow our ASP over time. And the Adductoplasty makeup surgeon profile, interestingly, we initially brought Adductoplasty to our more tenured surgeon base and targeted them to come to trainings, and they were most excited to come.

But as time has gone by, we're now starting to introduce Adductoplasty in our beginner's courses. So they not only get trained on Lapiplasty when they come to a training course, but they get a little bit of a training on Adductoplasty as well. So they get exposed to it then. And then we're finding more and more of those new adopters are requesting Adductoplasty for their cases earlier on. So it's been a good blend of both our more tenured advanced users and now moving into our newer surgeon base, so.

Andrew Christopher Ranieri - Morgan Stanley, Research Division - Equity Analyst

And maybe this question is more for Mark, but as we kind of think about some of your commentary about the first quarter was tracking to expectations, but it extended seasonally strong fourth quarter into first quarter, should we kind of interpret that as the second quarter could be flat sequentially? I would just like a little bit more understanding of maybe what you're seeing in the field, given some of these strong drivers across ASPs, surgeon utilization improvements, just maybe help us flesh that out a little bit more.

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

Yes, of course. Yes, so we do. We feel really good about what we achieved in Q1. That 45% growth over last year, that was a difficult comp. And we -- as a result, we've raised our annual guidance range to 34% to 38% growth for the full year.

We do believe that the next couple of quarters, our growth rates will be within that raised annual range. And we're comfortable with those midpoints. And that's based on all of these investments that we're making. And so we feel good about the momentum that we have going on for the rest of this year.

Operator

Our next question comes from Rick Wise of Stifel.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Great to see another excellent quarter here. A couple of things. Maybe just starting on the direct sales rep expansion, you're basically at 80%, you're making great strides. Just remind us your latest thinking. I mean, is the goal to have 100% direct? How quickly can you achieve it? Maybe some color around that for starters, if you would?

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

Sure. Hello, Rick, it's John. We'll continue to progress through this year driving more direct salespeople into the field. And that will likely elevate that ratio above 80% over time. That's what we would expect.

This said, we have some excellent, excellent, really aligned independent distributor partners who are putting up numbers that are really excellent. So we'll continue to work with them along the way and continue to build out our direct channel as we move forward. But I think you can continue to expect some progress in that ratio of direct as we continue to move ahead.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Right. And appreciating what you're saying about your strong independent distributors, John. Is it a concern in terms of the pace of growth at all? Just -- and I'm saying this from stark ignorance, but do I worry that as you get to your max conversion levels that that slows momentum or it just shifts to other factors, growth driving factors?

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

I think it's probably the latter. Can you be a little more specific?

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Yes, I'm sorry if I'm not clear. I'm just thinking. The idea of going direct and having all these direct reps, just that kind of focus and intensity, once you get to your sort of max level of conversion, does that slow your growth momentum in any way shape or form? In terms of looking ahead to 2024 and 2025 once that process is finished.

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

Yes, we'll continue. We'll continue to have high growth expectations for any of our new direct rep additions and any of our remaining independent distributors as we go forward. We don't concede on our growth expectations on either side. So we'll just continue to build the most effective distribution we can find in any given territory as we go forward and continue to drive high growth rates in this business, run our playbook, launching new product innovations, training more surgeons, more DTC, and of course, reinforcing everything with strong clinical data sets. I think that's the way we see it, Rick.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Got you. On the ASPs, I was really impressed with the jump in your blended average selling price. Obviously, and you've all explained it very clearly. How do we think about the sustainability of this level? And do we just assume as we see the cascade of innovative new products and the uptake of things like the micro-Laplasty system and SpeedPlate? Is that blended ASP going to move from here or move up from here? How do we think about it?

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

Yes, Rick, John, again, One way to think about it is if you think about the mix of procedures we have, average Medicare reimbursement rates for facility materials use is plus or minus 10,000. So if we're at 6,200 today, we definitely have more headroom to go in terms of addressing other procedures that coexist in a Laplasty case.

So we're going to continue to look to innovate and provide new innovations for additional procedures so that our sales reps can stay in a Laplasty case, but more comprehensively solve all the interrelated problems of that bunion. And so we do believe that, there is more room to go up and to the right on the blended ASP. It's hard to say where that ceiling is going to max out, but we feel like the average reimbursement, and that's on the Medicare level, for the average case is somewhere around 10,000.

Now, the majority of our patient mix is actually commercial pay, where you have a premium to that in terms of reimbursement for implants or materials used in surgery. So yes, I think we've got a nice runway of upward and to the right movement in our blended ASP over time. It could vary, it could kind of wobble quarter-to-quarter, but over an annual term, I think you would continue to see that at a modest rate.

Operator

Our next question comes from Ryan Zimmerman of BTIG.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - MD & Medical Technology Analyst*

Congrats on the nice quarter. I'll ask both of my questions up front, if that's okay. First, as the DTC efforts grow, the market's getting more competitive, you're reaching a certain level of scale, when do you think investors start to see leverage on the DTC spend in the P&L mark? And then the second question I'll just ask this up front is, as we look at the different categories of surgeons in your customer base, how do you think about the funnel of those surgeons progressing to more advanced options? So at what percentage or what time point does someone move, say, from a novice user or a general user to a center of distinction and the center of excellence, et cetera, et cetera?

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

Yes, thanks, Ryan. This is Mark. I think it's a great question about our DTC efforts. We've really seen great activity from a DTC perspective and as we said in previous calls, some of that investment will fluctuate quarter-to-quarter, but overall, we think it's a valuable way to invest and to train and to educate our patients, drive them to our website and make sure that they understand more about the Laplasty procedure.

With regards to leverage on the P&L, even this year, we've talked about having increased leverage versus last year, so we believe that some of that's coming this year and if things go well, maybe there'll be more to talk about next year. It's a little premature for that, but we're already beginning to see some leverage and so we feel good about how that's playing out for this year, 2023, and maybe I'll have John talk about the funnel.

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

Sure, sure, Ryan. Yes, I think your question was around how surgeons are progressing through different levels of – I guess.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - MD & Medical Technology Analyst*

Yes, that's right, John, I mean, yes, just as you think about the broader customer base, I mean, you're at 25% of the market, what percentage of those start to progress to the centers of distinction and so forth and so on, kind of up the ladder, if you will, and the pace of that shift and how that's changing maybe from what it was even just a year ago as you introduce all these products and people become just extremely comfortable with the system.

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

Yes, Ryan, and you are very dialed into our centers and the surgeons on our website and do a lot of great analysis there, so you're probably a step ahead of me, but I can say there's certain fixed criteria for achieving center of distinction excellence and centurion and elite center status, multiple items that play into that. They tend to evolve through those different titles over time and more experience with the product. What I can tell you is that, this past year's first 12-month tenured surgeon group has adopted Lapiplasty more aggressively than any other prior first-year tenure group in the history of the business.

So they tend to be coming on to Lapiplasty faster and more aggressively. We think that's largely due to the reputation that Lapiplasty has now as an established procedure and it's getting more mainstream, so they feel very comfortable embracing it a little more aggressively in their practice versus a few years ago where surgeons would try a couple cases, see how the patients do, wait a little bit, and then maybe come back, so respected peer effect is taking hold here. We've surveyed a lot of our new users and they say the number one reason that they're coming to get trained on Lapiplasty now or adopting is because a respected peer of theirs is using Lapiplasty and having good results. So we like what we see there. We think we're starting to get into the early majority part of the adoption curve and it's exciting to see this.

Operator

Our next question comes from Rich Newitter with Truist.

Richard Samuel Newitter - *Truist Securities, Inc., Research Division - Research Analyst*

Couple for me here. Maybe just first on how you're compensating the now increasingly direct sales organization. You have more levers, if you will, especially with this really pretty impressive revenue per procedure ASP increase. I guess one, what I'm trying to get at here is what's the, where are you focusing or emphasizing rep to drive growth? Is it any more or less towards higher revenue per procedure or opening new Lapiplasty customer accounts? I'm just trying to get a sense for how you balance that, especially with this new avenue of growth that's materializing.

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

Yes, great question. Hello, Rich, it's John. We keep it pretty straightforward with the sales team. They tend to be pretty much fully commissioned. They have a quota. They make a certain percentage during the quarter and if they make their quarter number, they can make a little more. So we kind of motivate them on that.

On the other side, the management team is being compensated not only on hitting their regional numbers, but on the number of rep hires and the number of new reps that they add to the team and then on how productive those reps get. So that's kind of the way we've been doing it. They're also aligned with adding new surgeon users as well as part of their compensation plan. They're out there working with the sales people to identify new surgeons, to bring to our training events, having a successful training event, and then getting back and making sure that that surgeon can adopt Lapiplasty in their practice efficiently.

So that's how we've been kind of working it. We don't have incentives to necessarily sell more products into a case or have a higher blended ASP, but it is an added benefit that we're starting to see now that we have a bigger bag, a bigger portfolio of products that can be implemented in those Lapiplasty cases.

So it's a great situation to be in. We find ourselves able to divide up more territories, because there's more opportunity now. And that makes room for new reps, who make new relationships with doctors that weren't being called on before. And then those doctors are coming to our trainings and those new reps are now getting those doctors to convert to Lapiplasty. So hopefully, I answered your question there, but if not, please let me know what I can do.

Richard Samuel Newitter - *Truist Securities, Inc., Research Division - Research Analyst*

No, that definitely was helpful. And maybe just my follow-up on your DTC, I know you said you're putting a little more, a little sooner in '23 relative to last year, at least. So I was hoping, A, is there any quantification you can give us for how much your DTC spend is growing or what that dollar amount was last year or what you plan to be this year? And then what was behind the decision to maybe accelerate some of that spend? How do you guys quantify the ROI if you can? And what should we be thinking about that from a leverage standpoint in the back half?

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

Yes, great question, Rich. And appreciate you being on the call. So when we think about this year, really we ended last year, 2022 was really our full year where we talked about it being an investment year and we specifically called out the DTC as an investment. We did a lot of tracking with, all throughout last year in all of our different channels in which we can make those investments. And we felt really good about what was happening in the results of that DTC. So that's why we came in this year, and we really wanted to lean in. So we've leaned in a good 30%, 40% increase over last year. And we feel like that's going to support our growing surgeon base.

There was part of our thought process was, we needed enough surgeons, Lapiplasty surgeons out there to really benefit from this DTC. There was no point in really leaning too far in without this large surgeon base. And now that we have 25% of all surgeons are using Lapiplasty, we just really felt that this was a year to lean into that. We've seen really good results last year. We've learned a lot last year, we continue to learn. And so we want to invest more this year because we've got this larger group of surgeons that can benefit.

Operator

Our next question comes from George Sellers with Stephens.

George Stone Sellers - *Stephens Inc., Research Division - Research Analyst*

Congrats on a great quarter. Maybe to start on the surgeon population and thinking about just the growth algorithm, how much would you attribute to surgeons who are using Lapiplasty for their Lapidus Fusion procedures versus converting surgeons to treating bunions with Lapiplasty and doing a Lapidus fusion from a more traditional osteotomy? So how much growth is associated with driving greater penetration of surgeons who are already using Lapidus Fusion procedures to treat bunions versus further penetrating that surgeon who's still doing kind of the Traditional Osteotomy?

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

Yes, great question. Hello, George. It's John. Well, we see 2 cancer surgeons and you've identified them really, really well. You have some surgeons that come out of training programs already highly Lapidus-centric. They believe in the principle of correcting the deformity at the point of origin and that Lapidus is the correct way to do it. And those people that convert to Lapiplasty tend to embrace it very quickly and they will use for upwards of 70% of their cases.

The other group are, and it's the majority of the surgeon population that follow the traditional algorithms that Lapidus fusion should be for the 15% or so of cases that are extreme in their deformity angles or they're hypermobile and you really can't treat them effectively with an osteotomy.

So with those doctors, what we find is we expose them to Lapiplasty in our training programs. They go back and use it for their next severe case, what would be a Lapidus fusion for them that they struggled with in the past. They realize how straightforward and reproducible Lapiplasty is. So they get much more comfortable with it over time and they begin to carve into their osteotomy base over time, starting with the severe and then going to the more moderate cases over time and they'll progress to 40%, 50%-plus of their cases over time.

So we're having a lot of growth and success. I would say the majority of our revenue growth is coming from converting those more conservative osteotomy biased surgeons and converting their osteotomies to Lapiplasty.

George Stone Sellers - *Stephens Inc., Research Division - Research Analyst*

And then on micro Lapiplasty and some of the other devices that you commented on, apologies if I missed this, but could you give us an update on the full commercialization timeline for some of those additional devices?

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

Sure, yes, both micro Lapiplasty instrumentation. We've been doing select cases with micro Lapiplasty instrumentation and our prior implants already in a few centers. The speed plate component is going to come fully commercial late this year, towards the end of the year, probably more fourth quarter and then ramp up through fourth quarter and into 2024. So those 2 kind of go hand in hand in a late 2023 launch.

Operator

Thank you for your questions. At this time, I would like to turn it over to Vivian Cervantes, excuse me, for closing remarks.

Vivian Cervantes

Thank you, Teresa. Thanks everybody for joining us today. This concludes our call and we look forward to our next update following the close of the second quarter of 2023.

Operator

Thank you for your participation, everyone. This does conclude the program. You may now disconnect.

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