

# Treace Medical Concepts Inc

## UBS Global Healthcare Conference

Tue Nov 12 2024 Conference Transcript

### UBS Global Healthcare Conference *(Corrected version)*

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#### ✓ Summary <sup>NEW</sup>

## Key Takeaways

Treace Medical Concepts Inc (TMCI) at the UBS Global Healthcare Conference on 2024-11-12, discussed their Q3 2024 performance, guidance for Q4 2024, and outlook for 2025, including sales growth trajectory, new product launches (Nanoplasty, SpeedPlate), EBITDA breakeven target, market dynamics, competitive environment, and expansion into osteotomies. The company addressed the impact of competitive entries, minimally invasive osteotomies, IV solution shortages, and hurricanes on their business. They also highlighted their competitive moats, surgeon utilization, and total addressable market.

### Business overview

- Treace Medical is focused on advancing the surgical treatment of bunions and related conditions, with a focus on their Lapiplasty procedure .
- The company is expanding its product offerings to include osteotomy solutions like Nanoplasty, targeting a broader segment of the bunion market .
- Treace Medical employs a direct sales force focused solely on bunion surgery .

### Key financial results

- Q1 2024 revenue growth was 21% .
- Q2 2024 revenue growth was 6% .
- Q3 2024 revenue growth was 11% , which was largely driven by an easier comparison .
- Q4 2024 revenue growth is guided to be in the 7-8% range .
- The company aims to reduce its EBITDA loss by half in 2024 compared to 2023 .
- Treace Medical is committed to achieving EBITDA breakeven in 2025 .

### Business segment results

- The document does not provide specific financial results for business segments.

### Industry-specific KPIs

- The key metric discussed is the number of surgeons adopting Treace Medical's procedures, with a goal of adding 250-300 new surgeons in 2024 .
- Surgeon utilization rates and frequency of product use are closely monitored .

### Capital allocation

- The company has been investing in growing its direct sales force .
- Treace Medical is moderating spending on direct-to-consumer (DTC) efforts due to increased brand recognition .
- They are focused on R&D investment to develop best-in-class solutions for bunion and inter-related procedures .

### Industry trends and dynamics

- The bunion market is substantial, with an estimated one million surgical candidates annually, but only about 450,000 procedures are performed each year .
- There is a growing interest in minimally invasive osteotomies among patients .
- The company estimates that they have penetrated about 30% of the 10,000 surgeons in the US that perform bunion surgery .

### Competitive landscape

- Treace Medical faces competition from copycats of Lapiplasty and other companies offering minimally invasive osteotomies .
- The company is defending its intellectual property through legal action .
- Treace Medical is reloading its salesforce with new technologies to strengthen its competitive position .

### Macroeconomic environment

- The company noted that limited block times, patient concerns about inflation, and IV solution shortages have impacted the market .
- Hurricanes in Florida led to some case cancellations in October .

### Growth opportunities and strategic initiatives

- New product launches, including Nanoplasty and SpeedPlate, are expected to drive growth .
- The company is focused on increasing the attachment rate of Adductoplasty to Lapiplasty .
- Treace Medical is developing a "Bunion Masters" educational program to provide advanced training to surgeons .
- They are expanding into the midfoot and other forefoot procedures .

### Financial Guidance and Outlook

- For 2025, the company anticipates revenue growth between 8% and 10% .
- Q1 2025 growth may be lower due to a tougher comparison .
- The company expects to see potential for double-digit growth post-Q1 2025 .
- New products are expected to contribute more significantly to revenue growth starting in Q2 2025 .
- Treace Medical is aiming for EBITDA breakeven in 2025, driven by natural leverage in the P&L .

## Q & A Highlights

Treace Medical Concepts' conference call featured an analyst Q&A covering forward sales growth expectations for **2025** given new product launches and year-over-year comparisons, drivers for achieving **EBITDA** breakeven in **2025**, and the potential impact of recent hurricanes and **IV** solution shortages on **Q4** guidance. The discussion also explored the competitive landscape, market recovery, surgeon utilization trends, and the total addressable market expansion with new products like **Nanoplasty**, as well as the company's competitive advantages and penetration strategy within the bunion surgery market.

### Financial Performance and Future Expectations

- **Q: How should we think about the sales growth trajectory for 2025, considering the new product launches and the easy year-over-year comparables?**

• A: For **2024**, the company experienced **21%** growth in **Q1**, followed by a slowdown with **6%** in **Q2** and **11%** in **Q3**, which was largely due to an easier comparison. Guidance for **Q4** is around **7%** or **8%**. The benefits of new products are expected to be more visible in **Q1** and especially **Q2** of **2025** due to training and adoption timelines. **Q1** of **2025** might still be challenging due to a tougher comparison from the previous year's **21%** growth.

- **Q: Given the Street is modeling high single-digit growth for 2025, are you guiding to something like high single to around 10% growth for the year?**

• A: The company has discussed growth of around **8%** to **10%**. **Q1** might see single-digit growth, with the potential for double-digit growth post-**Q1** as new products gain traction. The expectation is that the market should stabilize or accelerate with new product launches in **2025**. A clearer picture for **2025** will emerge by **Q2**, once the adoption rates of new products are observed.

- **Q: Can you elaborate on the drivers of positive leverage as we head into 2025, especially given the commitment to EBITDA breakeven?**

• A: The plan involves a two-step process, halving the **EBITDA** loss from **2023** in **2024**, and then eliminating the other half in **2025**. Natural leverage will come from a maturing sales force, reducing incremental commission payments. There will be moderation in **DTC** efforts as brand recognition is already strong, and some changes throughout the **P&L**, particularly in the **G&A** line.

- **Q: What impact from the recent hurricanes is baked into your guidance for Q4, especially considering IV solution shortages and hospitals scaling back on elective procedures?**

• A: The company, based in Florida, experienced two hurricanes that impacted cases and caused cancellations in October. While many of these cases are expected to return before the end of **Q4**, **IV** shortages also led to some canceled surgeries. Due to high patient volume at the end of the year and allocated surgeon block time, some patients may be pushed into January or February. This spillover effect into the new year is a recurring trend.

### Market Dynamics and Competition

- **Q: This year has been a unique year in the market as it's not just you guys that called out some softness in the market. Maybe you could talk about where you think we are in the recovery here, but also like maybe opine a little bit about what happened and why there was softness in the market.**

- A: The company noted increased competition from **Lapiplasty** copycats and growing interest in minimally invasive osteotomies. These factors slightly dampened the average number of cases performed by surgeons. Other variables included limited block times, patient concerns about inflation, and patients waiting until deductibles were met. The company believes they have accurately sized the competitive headwinds, osteotomy impact, and patient-side factors.
- **Q: Looking at the market, specifically the bunion market, has your view of the fundamentals changed despite the softness seen earlier this year?**
- A: The fundamentals of the bunion market remain strong. The patient demographic, primarily **30 to 60-year-old** commercially insured females, can cause some fluctuations from year to year. Bunion season started later this year, in the back half of October, but the volume is currently strong.
- **Q: Given the competitive product launches over the last year and the potential for trialing in this market, where are we in the competitive environment today?**
- A: There hasn't been significant change in the competitive environment since the re-guide in May. The company is equipping its sales force with new technologies to strengthen its position and attract new customers. While competition exists, the company focuses on developing compelling technologies, training surgeons, and providing expert sales support.
- **Q: Is trialing part of what happened as competitors launched products, with surgeons trying them and then returning to Lapiplasty?**
- A: There is a lot of noise and churn in the market. Most customers who trial competitive products don't leave entirely but may use Lapiplasty in a fraction of their cases. The company believes new technologies will reverse this trend.
- **Q: How much of the Q3 outperformance would you attribute to market recovery versus Treace regaining share from competitors, beyond just the easier comp?**
- A: The company doesn't want to overstate the **Q3** performance. However, the sales team has become hyper-focused since the re-guide, using new customer analytics to monitor surgeon behavior. The new products are generating excitement and contributing to regaining some share.
- **Q: Can you discuss the competitive moat you've built, how broad it is, and how you're thinking about potential future competitive launches, given foot and ankle is a high-growth orthopedics market?**
- A: The company has several competitive moats, including clinical data sets, **65 US-issued patents** with active defense, a product technology pipeline focused on all facets of bunion procedures, and top-tier training events, including a new "Bunion Masters" program. The company is solely focused on bunion surgery with a dedicated sales force and aims to have the broadest product portfolio.

#### Surgeon Utilization and Market Penetration

- **Q: As we think about growth, how much is from newer surgeons coming online versus surgeon utilization, and is the ramp-up of newer surgeons affecting growth?**
- A: The company continues to add surgeons, aiming for **250 to 300** new surgeons this year. However, there has been a slight decline in the frequency with which surgeons are using the products. This is due to market factors, fewer patients, and some surgeons trying different approaches or competitive offerings. The company's strength lies in its continued growth in the number of surgeons.
- **Q: Is surgeon utilization increasing, and is it still a big part of the story, or are you more reliant on adding new surgeons for growth?**
- A: Surgeon utilization is still a significant part of the growth strategy. While new surgeons are being added, they are not the sole driver of growth.
- **Q: With over 3,000 surgeon users, what is your assessment of surgeon penetration, and what are the barriers to a surgeon adopting your technology?**
- A: The company estimates there are about **10,000** bunion surgeons in the US, with a mix of two-thirds podiatrists and one-third orthopedic specialists. With over **3,000** surgeon customers, the company has penetrated about **30%** of the market. The rate limiter is bringing on new surgeons and introducing new technologies that appeal to a broader audience.

#### New Products and Total Addressable Market (TAM)

- **Q: Let's talk about the new products, specifically Nanoplasty, and how it changes your TAM. How do you view the total addressable market with Lapiplasty alone, and how does the Nanoplasty product launch change your TAM?**
- A: The company estimates about one million symptomatic surgical candidates for bunions, with only about **450,000** surgeries performed annually. Of these, about **30%** choose a Lapidus-type procedure like Lapiplasty, and **70%** opt for some form of osteotomy. Minimally invasive osteotomies are the fastest-growing segment but still represent only **10% to 15%** of the osteotomy category. The company aims to target the larger share of the bunion market it hasn't previously reached with Nanoplasty.
- **Q: How is Nanoplasty differentiated, how does it solve the problems of minimally invasive osteotomy, and why has that segment only been 10% to 15%, and where do you see that going with Nanoplasty?**
- A: Minimally invasive bunion surgery has a steep learning curve of **40 to 50** cases due to its freehand nature. Nanoplasty aims to address this by adding a third plane of correction and providing straightforward instrumentation, similar to how Lapiplasty simplified the Lapidus procedure.
- **Q: As you get traction with Nanoplasty with surgeons that didn't want to touch Lapidus-type procedures before, are you seeing them change their views on Lapiplasty?**
- A: Surgeons excited about Nanoplasty are also being exposed to Micro-Lapiplasty, Adductoplasty, and SpeedPlate technology during training. This is leading some to try Lapiplasty and SpeedPlates, creating a "one plus one equals three" effect.
- **Q: Given Nanoplasty is in limited release, how should we think about the pricing side of things and revenue per procedure going forward with the broadening product portfolio?**
- A: Nanoplasty is not expected to significantly cannibalize Lapiplasty. Lapiplasty cases have higher value due to a higher attachment rate of Adductoplasty and increased SpeedPlate use [2]

## Event Details

Date: 2024-11-12

Company: Treace Medical Concepts, Inc.

Ticker: TMCI-US

## Company Participants

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

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

## Other Participants

Danielle Antalffy - Analyst

# MANAGEMENT DISCUSSION SECTION

## Danielle Antalffy

Well, good morning. And thanks to those on the webcast. A special thank you to Treace Medical Management. We've got John Treace, Founder, CEO; Mark Hair, CFO. Thank you, gentlemen, for joining us. Maybe just to start, you guys did just report your third quarter earnings last week. And I think one of the big questions coming out of earnings, you outperformed expectations, a little bit feels like we're turning a corner.

But as we think about 2025 and I appreciate you're not going to give guidance here. But how should we think about the sales growth trajectory, given the cadence of – you got several new product launches. But also, you have easy year-over-year comparables, so?

**Mark L. Hair**

Yeah. Maybe I'll start with that first. Thanks for having us. A great conference. Always happy to be here. So as we think about this year, we've talked in the – the first quarter of 2024, **we had some fantastic growth. We had 21% growth.** And then we noticed some changes, some shifts in some of the trends for this year. And so we re-guided, we level set some expectations based on the trends that we were seeing for 2024. **We reported 6% growth in Q2. We did report 11% growth in Q3.** But we believe that although we're really pleased with that result, that it was largely driven by an easier comp. And so we guided again in Q4 to kind of that 7% or 8% range. So right now, fundamentally, nothing has really changed for the company other than we've got this great portfolio of new products coming, but we're really not going to start feeling the benefit of those new products until really Q1.

And so that's just the way we're kind of thinking about that. And then even Q2, **we'll really be able to see more of the benefit of these new products.** It takes three plus months to get training and get higher adoption from our surgeon customers. And as we think about the growth rate, actually, Q1 of this year, as **I started in my comment, was a 21% growth.** So as we get into next year, **it's going to be a little tougher comp.** And so again, I think we want to – excuse me, just manage those expectations, but it really might – we might not be able to see kind of that growth until Q2 next year, because **Q1 might be a little tougher with that comp** now. Now, with that said, we know that **we're going to be able to see more benefit from these new products.** So we're looking forward to Q1. But I think **we're going to see more of that financial increase in revenue growth** really starts to come in Q2 versus Q1.

## QUESTION AND ANSWER SECTION

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**Analyst:**Danielle Antalffy

**Question – Danielle Antalffy:** Okay. So if we think about guidance, I mean, right now, the Street is modeling high single digit growth for 2025. I mean, you're guiding to that to sort of like high single 10-ish percent growth for the year.

**Answer – Mark L. Hair:** Well, we've even talked – yeah, we've talked about somewhere between 8% and 10%. Meaning that, again, if you start with Q1, **it might be a little bit lower growth rate in Q1.** So that could be single digits again. And then after that, and I think we can start seeing the opportunity for potential double digits post Q1.

**Question – Danielle Antalffy:** Yeah. And so – and just thinking conceptually, I mean, the cadence of new product launches, you do have Nanoplasty launching or rolling out SpeedPlate. So conceptually, if you think about, again, appreciating this is not guidance. But whatever you do in 2024, in theory, like with these new product launches, with maybe the market, which we'll get to in a second, but it should at least stabilize, if not, accelerate. Is that a fair way to think about it?

**Answer – Mark L. Hair:** I think that's a very fair way to say, because like I said, **Q1 is just going to be a tougher comp.** But when we get to Q2, we don't have those same issues. And then now, we'll have in Q2, we'll have three months, four months, six months of new products out there, including Nanoplasty, including

some other osteotomy products that are coming out this quarter. So we're looking forward to Q2. I think it's going to be a lot better position for us to talk about 2025 when we get to Q2. We can see how many surgeons are adopting the new products. We'll be able to continue to see how Adductoplasty, that attachment rate to Lapiplasty, that continues to grow, that **that's been a great driver of revenue for us in 2024**. We believe that's going to continue into next year as well.

**Question – Danielle Antalffy:** Okay. Got it. You've also committed to EBITDA breakeven, I think, in 2025. Can you talk a little bit about the drivers of positive leverage as we head into next year?

**Answer – Mark L. Hair:** So absolutely. So we talked about – to back up a little bit. **We talked about this year really reducing our EBITDA loss** that we recorded in 2023 by half. And then the other half was always going to come next year. So it's been a planned two-step process. Next year, we've talked a little bit about it already because we're benefiting from some of the natural leverage. We've been spending in the last several years growing this amazing sales force. And it takes a lot of investment and time as we split territories. And that effectively results in double payment of commissions for a period of time. And sometimes, you go into areas that don't have maybe existing territories or sales reps. And so you may have to pay a little bit more until they get on their own two feet.

What we're seeing now is we have more sales reps that are commission-only. And so there aren't any of these incremental payments that we're making to them and we're going to see more and more of that as we go into next year. And that's going to make a big difference, because we're not leaning in so hard and growing our direct sales channel as rapidly as we have over time. So that's going to be a very natural leverage on the P&L. Another place that we've talked about is we've historically focused a lot on our DTC efforts to build some brand recognition while we're in a far different place today. I think everyone – all the surgeons out there really know who Treace Medical is and what our product offerings are. And so we will continue to do DTC. We think it's a benefit for both educating patients, as well as surgeons. But I don't think we need to continue to lean in to increase those. So those are two natural places that we're going to see leverage. We've also made some changes throughout the P&L too. So you can see some in the G&A line that is moderating. And again, we're going to have some natural leverage there as well.

**Question – Danielle Antalffy:** Okay. And then one more question on financials and just thinking about **the potential impact from recent hurricanes**. I mean, IV solution shortages, it just feels like **some hospitals are scaling back on elective procedures**. Any – what's baked into your guidance for Q4 specifically with that?

**Answer – Mark L. Hair:** John, try that one or tried to jump in (07:07).

**Answer – John T. Treace:** Well, usually anything guidance is Mark. Yeah. We're Florida-based company. We had two hurricanes come right down our pathway. And in known area of the country that we have fairly significant sales penetration as well. So **we did see some impact of cases**, cancellations in October. A lot of those, we expect, are going to come back before the end of the fourth quarter. IV shortages, we know that **that impacts some accounts**, too, and there were some canceled surgeries. We expect and hope those will come back, too. That said, when the volume of patients seeking elective surgery at the end of the year, particularly November, December, is so high and surgeon block time is sort of already allocated, it just stands to reason that some of those patients may not make it in within the fourth quarter or they may fall over to January or February of next year. And we see that every year. **We see a certain spillover effect of those patients** that are really committed. They want the surgery. They just can't get fit in due to block time limitation. So they end up – bunion season starts to extend into January and February of the following year.

**Question – Danielle Antalffy:** Got it. Okay. Let's talk about the market a little bit. This year has been a unique year in the market as it's not just you guys **that called out some softness in the market**. It – I don't know where we are. Maybe you could talk about where you think we are in the recovery here, but also like maybe opine a little bit about **what happened and why there was softness in the market**.

**Answer – John T. Treace:** Sure. When we had our call back in May, we talked about more competitive entries into the market with copycats of Lapiplasty. That was one factor. The other was this growing interest in the patient side for minimally invasive osteotomies. And **those two factors were just slightly dampening the average number of cases** that our surgeons perform just by a little bit, but just enough that it changed the trajectory as we look through the rest of the year. Now, that's not to say that at the same time, some of the same variables were occurring that other companies have called out. Limited block times, patients are concerned about inflation, maybe holding back and wanting to wait later in the year until their deductibles were expended. And we see that to some degree every year. There was always a little bit of a change in patient behavior. So I think those two things going on were what we saw. And I think we sized them right. And we don't really see any big difference to what we perceived back then and assessed through the end of the year. I think **we captured the amount of competitive headwinds**, the osteotomy headwind and the patient side. We didn't necessarily expect IV shortages in two hurricanes. But then again, we feel like we've got our hands around our guide pretty well there.

**Question – Danielle Antalffy:** Okay. And then just at a high level, if you look at the market and maybe foot and ankle broadly, but specifically the bunion market. Your view of the fundamentals of this market has not changed regardless of the softness that we saw earlier this year.

**Answer – John T. Treace:** No. This is a – it's a tremendous market. We just find that patients based on different variables. It's a very kind of tight demographic. You're talking about the 30 to 60 (10:31) year old female being like maybe 80% of the patients. A lot of them are commercially insured. So that isolated group of patients can swing a little bit differently from year to year. Last year, for instance, we saw bunion season start at the back half of September. This year, **it was a little more delayed** and it started a little bit in the back half of October. But as we sit here today, I can tell you, we are right in the middle of bunion season. The volume is there and patients are coming in like they do every year in the fourth quarter to have their bunions fixed.

**Question – Danielle Antalffy:** Except for me and I really need to get my bunion fixed. But anyway, just on the competitive environment point. So you did have competitive product launches over the last year. Where are you – there's some trialing in this market, I imagine, much like other markets, where are we in the competitive environment today?

**Answer – John T. Treace:** Yeah. We haven't seen really any significant change versus our re-guide in May. We think we assessed it about right. We're reloading our salesforce with some very exciting new technologies **that's going to put Treace Medical back on a very strong offense**, we believe. And shore up the – some of the areas of exposure that allowed competitors to get into our customer base. And then we also believe we can attract a lot of new customers with some of these new technologies as well. So we feel good about where we are and competition is there. But this is a really, really focused company and a company that can develop really compelling technologies that surgeons we proven, once we get them out there, trained the surgeons on them, they want to adopt and they adopt them pretty aggressively because they're very, very, very well designed and are supported by a company that really holds their hands in training and then supports them with expertise in the OR with our direct expert sales force.

**Question – Danielle Antalfy:** Right. Is there trialing in this market? I mean, is that part of what happened as these competitors launch products and they – surgeons want to try them and then come back to Lapiplasty, or am I overstating that impact?

**Answer – John T. Treace:** No. There's a lot of noise. There's a lot of churn. And that's been going on now. Some customers, most of our customers that have churned or trialed, we don't lose them. We just lose a fraction of their cases.

**Question – Danielle Antalfy:** Which is an important point. Yeah.

**Answer – John T. Treace:** Yeah. But when a lot of that's going on at once, **it can kind of dampen the numbers** a bit. So that's what we're seeing. That's what we saw. And we may continue to see that to some degree, but we think with these new technologies we're bringing forth, it's going to reverse that trend.

**Question – Danielle Antalfy:** Okay. Got it. And just looking at **the Q3 outperformance**, I mean, how much of that would you attribute to market recovery? So you mentioned the easier comp. So that's a good point. But market recovery versus specifically Treace regaining some of that share from competitors?

**Answer – John T. Treace:** Yeah. Like Mark said, we don't want to be doing an end zone dance over our Q3 performance. But I will say our sales team after our re-guide has become very hyper focused, very focused on their customer base. They have new customer analytics that allow them to tell if somebody is changing their behavior a little bit. These are tools that have helped advance their perspective on their customers and stay more on top of them. And I think **that is benefiting us** a little bit. And now, as we start to get these new products out into their hands, they're starting to see the cases occur around the country with these new technologies, and it's getting them pretty excited.

**Question – Danielle Antalfy:** Okay. Okay. And we'll talk about the new technologies in a minute. I did want to talk a little bit more sticking with the competitive line of questioning and the competitive moat that you guys have built. Maybe talk about that. How broad, how wide is that? Just thinking about potential future, competitive launches. **Foot and ankle is always cited as one of the highest growth orthopedics markets.** So there's probably more to come from a competitive perspective.

**Answer – John T. Treace:** Yeah. Great. Great question. So we have a lot of different competitive moats. We have our clinical data sets which differentiate Lapiplasty versus any other bunion procedure or specialty Lapidus procedure in the market. We have our 65 US-issued patents and we obviously announced taking action to defend our IP recently. And we are going to defend our IP. It's the right thing to do for the business and our shareholders. And third, our product technology pipeline has – **we have really doubled down on it with our R&D investment** to hone in on what are all the facets of bunion and inter-related bunion procedures, and do we have a solution that's going to be best in class for each one of those? And then our top training events where we go deeper and deeper with surgeons in our training events, I think, than any other company into bunion surgery.

And this next year, we're excited to unveil a new program, it's going to be called Bunion Masters (15:47). And this is going to be our new educational forum, national level events where surgeons come. There's going to be top level expertise, faculty and people that want to master bunion surgery, who want to come to these events to get the best training they can and be equipped with the best technologies to go implement in their practice afterwards and then have the best sales support with these highly expert, direct, focused sales reps. So I think those are our moats and just making sure that we've got the right offensive product weaponry to

go forward and make sure that **we can handle growing this company at the rate without hitting those bumps in the road.**

**Question – Danielle Antalffy:** Yeah. Yeah. And I think that's an important point. So I think it's safe to say you guys are the only company out there solely focused on bunion surgery and you're the only company that has a salesforce solely focused on bunion surgery. And I'd argue maybe have the broadest product portfolio. Is that a fair assessment?

**Answer – John T. Treace:** Not yet, but we will, shortly. The – we think the technologies **we're bringing out give us a really great position in the two main areas of bunion surgery.** And we believe we will have the best, most efficacious technologies, whether you're doing a Lapidus surgery or you want to do an osteotomy.

**Question – Danielle Antalffy:** Osteotomy. Yeah. Okay. Okay. Surgeon utilization had been a big piece of the story, I think still is. But I'm just curious, as we think about the growth over this year to date is how much of this is newer surgeons coming online? **It's just not ramping as quickly,** maybe like low hanging fruit in the first few years of launch and they're higher volume. Is that something that's affecting growth right now?

**Answer – Mark L. Hair:** Well, I think there's a couple of ways to look at it. So we have a lot of key metrics that we're driving our business with. One is how many surgeons are we adding. So we continue to add surgeons. We gave some guidance range of, say, 250 to 300 new surgeons this year. And although we didn't give specific numbers, we did comment that we're well on track there. So we continue to add surgeons. **What we've seen is, to John's earlier point, that there's been a little bit of slowness this year and the frequency in which they're using our products has declined** a little bit. So we've seen that in some of the earlier surgeons we've seen there. And even some of those that are all called mid or longer term surgeons that have been with us for a long time. And it's just sometime that frequency. So that frequency can be dependent on just the overall market. But there's fewer patients that's going to impact a little bit. And then some, some of those surgeons where we talked about either trying to do more, their cases doing a different approach altogether. That could be an MIS osteotomy approach where they may have historically used a Lapidus or a Lapiplasty specifically. Or maybe they're just trying to look at some of these new competitive offerings.

And so we've seen that **overall utilization come down.** **The good thing is the strength of our business, we continue to grow surgeons** every quarter. So that, we feel, it's healthy. And when the economy and the overall market strengthens a little bit, again, we're going to have a bigger customer surgeon base next year. It's the biggest it's ever been in the history of the company, and then we'll be able to pile on these new products. And so that's why we think next year is a really good combination.

**Question – Danielle Antalffy:** Okay. And so just to sum that up, surgeon utilization increasing, it's still a big part of the story. It's not – you're not reliant on adding new surgeons. You are adding new surgeons. But that's not the sole growth driver from here.

**Answer – Mark L. Hair:** Correct.

**Question – Danielle Antalffy:** Yeah. Okay. All right. Maybe let's shift gears and talk about the new products, specifically the Nanoplasty, osteotomy product, and maybe let's start talk about the total addressable market, how you view that market with Lapiplasty alone and how the Nanoplasty product launch changes your TAM.

**Answer – John T. Treace:** Sure. So we are still viewing that there's about a million, million one symptomatic surgical candidates that have bunions. They need the surgery, but still only about 450,000 of them are

getting surgery per year. About 30% of those patients are choosing to have a Lapidus type procedure or Lapiplasty. 70% are choosing to have some variant of an osteotomy. And within the osteotomy category, the fastest growing segment. But it's still very small, 10% to 15% is the minimally invasive osteotomy segment. So as we look at where we're going as a business, we have over 3,000 surgeon users. And if you look at on average, those 3,000 surgeon users, we're getting about 25% of their overall bunion cases with Lapiplasty.

Now, we've developed a breakthrough technology for minimally invasive osteotomy surgery and a lot of those surgeons are **surgeons are dabbling with minimally invasive osteotomies** and they struggle with them. And we've already trained a couple hundred surgeons on our Nanoplasty. And these are doctors that have been dabbling with the minimally invasive osteotomies or they've adopted them, or they're surgeons that we've never done business with before, because they've looked at us as a Lapidus company. And there's a pretty significant group of surgeons out there that try to avoid a Lapidus type approach at all cost. They want to use osteotomies. I can tell you the reaction to Nanoplasty has been extremely powerful and compelling and we're out there today doing cases in our limited market release and we're seeing the x-rays, we're seeing the results, we're seeing the doctor responses. And we're really enthusiastic about this. We think this is a big moment for the company to go after the lion's share of the bunion market that we've never touched before.

**Question – Danielle Antalffy:** Yeah. Yeah. And can you talk a little bit about how Nanoplasty is differentiated, how you solve the problem of the minimally invasive osteotomy and why it's only been 10% to 15% where you see that going over time with Nanoplasty?

**Answer – John T. Treace:** Yeah. Great. Great question. So today, if you talk to surgeons that teach minimally invasive bunion surgery or have adopted it, they'll say it's 40 to 50 case learning curve. It's a lot of freehand, eye, and (22:13) and trying to do everything without a good line of sight of what you're doing. So the learning curve is a big rate limiter. Just like we did with Lapidus, a 3-plane Lapidus procedure before Lapiplasty, Lapidus, don't forget, was a very fussy freehand operation done by very few surgeons. The instrumentation and developing a straightforward stepwise technique is **what drove Lapidus from 10% of the bunion procedures to 30%**. And that was our doing.

We have designed Nanoplasty with the same tenets. We're adding the third plane of correction that we know can make **an osteotomy more enduring or more successful**. And that's what Treace Medical did to Lapidus as well. And then we're doing what we did with Lapiplasty before. Elegantly designed, really straightforward instrumentation that makes the surgeons super confident that they can go into one lab training and be in a case the next day with their (23:11) and perform the procedure with confidence and with accuracy and implement that into their practice quickly. And that's exactly what we're seeing as we've trained doctors on this, and they've gone out and done their first cases. So now, it's just a matter of building our product supply, getting more surgeons trained and getting the product out and further supply.

**Question – Danielle Antalffy:** Okay. And just following up – excuse me, on the point that you made about surgeons that didn't want to touch Lapidus type procedures before and sounds like you're getting some traction there. As you get traction with the Nanoplasty of that surgeon, are you actually seeing them change their views on Lapiplasty maybe, or is that not the right way to think about this?

**Answer – John T. Treace:** Again, great question. Because when those surgeons that hadn't done business with Treace before, they get excited about Nanoplasty. When we train them, we also expose them to Micro-Lapiplasty. We expose them to Adductoplasty. We expose them to our SpeedPlate technology. And they start to realize Treace Medical has a lot of really incredible things and they go back – now, they've been waiting to do a Nanoplasty case, but we've had several doctors do a Lapiplasty, used our SpeedPlates. So we think there's a real one plus one equals three effect we could get here. As we go out and engage new customers

that have never been with us before and get that pull through effect both on Lapiplasty and our other technologies.

**Question – Danielle Antalffy:** And we're still very early, just to be clear, because Nanoplasty is just in limited release. We're talking small numbers from a surgeon perspective. So again, why 2025, set up for success. So the other question I've been getting is on the pricing side of things. So **revenue per procedure, Nanoplasty, is going to, in theory, bring that number down.** How do we think about that number going forward with broadening the product portfolio?

**Answer – John T. Treace:** That's another great question. And **I think there is a concern** out there or maybe even a misperception that there's a lower priced product that we're going to push really hard and it's going to bring down our average revenue per case. We don't see this being a big cannibalize of Lapiplasty. All these doctors have an algorithm in their head, as to where their limit is on applying a Lapiplasty or Lapidus type of approach. And some it's very high as a percentage of their patients; some, it's very low, but they're all in that mix of 3,000 surgeons. And that's why if you blend them all together, we only have 25% of the bunion cases. That being said, we kind of have two things going on. We have Lapiplasty cases that they're a higher value procedure. There's a higher attachment rate of Adductoplasty occurring, and that doubles the average price of a Lapiplasty case.

On top of that, we're seeing SpeedPlate use more in the back of the foot as add-ons to the midfoot Adductoplasty cases. So the average revenue per case, we're getting into more complex surgeries, bigger dollar surgeries, higher number of individual procedure surgeries on this side. Now, we're bringing out Nanoplasty. Nanoplasty, actually, has a reimbursement level the way that surgeons do minimally invasive osteotomies that's very similar to a standalone Lapidus or Lapiplasty. So it's not bad reimbursement. And this is a premium priced technology. And the average cases **we've done so far have built out at a very nice price point.** So – and **we also have those other complementary offerings to do the hammertoes** and fix the adjacent fusions that need to be done in the foot. So we believe that **the Nanoplasty and minimally invasive bunion cases are going to continue to carry a pretty nice blended ASP** (26:56) as they are. And then you have this growing impact of these more complex surgeries, on the other hand, kind of balancing everything out.

**Question – Danielle Antalffy:** And – well, so to be clear – this is probably a dumb question. I apologize. But with Nanoplasty, do you see the ancillary like the Adductoplasty with the Nanoplasty too? Or is that really just sort of Lapiplasty, these add-ons?

**Answer – John T. Treace:** Those tend – the bigger Adductoplasty type of add-ons will tend to probably be more Lapiplasty because you're kind of commonly treating all the joints with a joint fusion at the base of the joints. With an osteotomy, it's a little different approach. But we do have those other complementary procedures and we're seeing them be used in pretty good frequency in these early Nanoplasty cases.

**Question – Danielle Antalffy:** Okay. Got it. And going back to the TAM conversation, and you've talked in the past about, I think, I hope I'm not misquoting, but I think right now, you're only addressing 15% of the foot or something like that. How do we think about where to from here? So you guys are going to launch – or are launching your osteotomy product? What's next for Treace beyond bunions?

**Answer – John T. Treace:** Yeah. Great. Great question. We're kind of doing a connect the dots method to our product development and then identifying other complementary procedure areas that tie off of where we last left off, like the bunion led us do Adductoplasty. Adductoplasty has got us in the midfoot. SpeedPlate technology is now getting us in the bones further back in the foot. There are other forefoot procedures that we have identified that are very high volume that tie into the bunion or the midfoot. And **we've already lined**

**up new product launches.** We haven't spoken of them yet, but there will be additional things coming out in the first half of 2025 that will continue to identify and target some pretty large opportunity areas for us. So it's going to expand. We say we have a \$5 billion plus TAM on the bunion space with our current technologies. Nanoplasty doesn't really impact that much. We haven't changed our TAM, because our average revenue per case is much higher than we establish that TAM. So you could say our TAM is much larger than \$5 billion right now. **Adductoplasty alone is a \$500 million incremental TAM add to us and another opportunity** we're excited about.

**Question – Danielle Antalffy:** If you think about the parts of the foot, what would you say, like your technology that you have in hand today addresses, like what percentage of foot procedures?

**Answer – John T. Treace:** That's a great question. I can tell you the – there's kind of a saying, but I think the math holds that you can reach about 60% of the total overall reconstructive foot and ankle market anchoring from the bunion. Because (29:45) identified with the bunion are so many different comorbidities and overlapping pathologies and that's a great place to work from. And that's why we built the business the way we did. And so let's really go establish ourselves as a leader in the bunion space with a direct sales force experts, and then branch from there and start to address these other opportunities in the foot and ankle and then broaden our footprint in the foot and ankle market over time. But do it in a progressive way that doesn't scatter our sales force into trying to call on a lot of different procedures that aren't cohesively kind of tied together with a common theme.

**Question – Danielle Antalffy:** How important is it to have that broad product offering when you're going to the surgeon? And I asked that question because you do have large competitors, but they don't necessarily have the breadth of product offering focused on the foot the way you guys do, so.

**Answer – John T. Treace:** Yeah. **I think having a comprehensive bunion portfolio is pretty strong and that's our first step, is getting that locked down and that puts us in a great position.** I mean, doctors do like to deal with experts in the space and bunions are bread and butter procedure for the vast majority of our surgeon customers. And those patients create so many referrals for them because 65 million Americans are affected by a bunion deformity to some degree. So everybody knows someone with one. And when they get...

**Question – Danielle Antalffy:** Two right here.

**Answer – John T. Treace:** ...a surgeon treating one, that surgeon, that patient goes out and tells other people about Dr. Smith (31:19) and the great bunion procedure. And they may have a different problem in their foot, but they'll go see Dr. Smith now, because someone spoke nicely of them. By the way, they fix their bunion in a very sophisticated way.

**Question – Danielle Antalffy:** If you think about penetration from a surgeon perspective, as you mentioned, you have over 3,000 users. And to be clear, these are predominantly podiatrists, right? Or they're also orthopedic surgeons?

**Answer – John T. Treace:** It's about 70% podiatrists and 30% orthopedic surgeons.

**Question – Danielle Antalffy:** If you were to sort of try to assess where you are from a penetration into surgeon users perspective, where would you say you are in? And what's the barrier to a surgeon adopting your technology?

**Answer – John T. Treace:** So we assess – estimate there are about 10,000 surgeons in the US that perform bunion surgery, some a lot of bunions, some less. The mix of those is about two thirds podiatrist and a third orthopedic foot and ankle specialists. So we've got about a little over 3,000 surgeon customers. So we're about 30 plus percent penetrated. **We think that can continue to grow over time.** It's hard to say where the max point is. **We're pleased with our progress.** And I think the rate limiter is to bring on new surgeons or bringing these new technologies forth that appeal to audiences that we haven't had an offering that appeal to yet. Again, these minimally invasive osteotomy products, Adductoplasty, we have many Adductoplasty coming out for surgeons that are more small incision minded that want to tackle that difficult midfoot deformity. Now, they may look at Treace Medical. We have another really exciting platform that'll be – **we'll be ramping towards full national supply by the first half of next year.** And that's our red point (33:06) IntelliGuide technology, taking a patient's CT scan and software engineers correcting that patient's deformity with feedback from the doctor and handing that doctor a cutting guide to make the corrective bone cuts that's specific to that patient. And that's a first and only from Treace Medical that as it gets out there more and more, there's an incredible amount of surgeon interest in this technology.

Great. Well, we are a little bit over time. So thank you, guys, for joining us and have a great day.

Thank you, Danielle. Appreciate it.

Thanks for having us.

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