medartis

PRECISION IN FIXATION

# 2022
# Half-year report

# About Medartis

Founded in 1997 and headquartered in Basel, Switzerland, Medartis is one of the world's leading manufacturers and providers of medical devices and solutions for the treatment of bone fractures of the upper and lower extremities as well as the head. Medartis employs approx. 830 people at its 14 locations and offers products in over 50 countries worldwide. Medartis is committed to providing surgeons and surgical staff with procedure- and anatomy-specific solutions and world-class services that lead to excellent treatment outcomes.

For more information, please visit www.medartis.com.

# Contents

# Key Financial Figures

| Sales in CHF million | Underlying EBITDA in CHF million 2) | Headcount |
|---|---|---|
| 88.4 | 14.1 | 832 |
| +20.1% growth at CER 1)<br>+18.0% growth excl. NSI at CER 2) | margin reaches 16.3%<br>(1.2 PP) year-on-year | +28.2% 85 new jobs created<br>98 people join us from NSI |
| Strong growth in EMEA with further market share gains | Underlying gross profit margin increased 0.6 PP | Continued investment in its people and markets |

| in CHF million, rounded | H1 2022 reported | H1 2022 NSI effect | H1 2022 excl. NSI effect | H1 2021 restated 3) | Change vs. 2021 reported | Change vs. 2021 excl. NSI at CER |
|---|---|---|---|---|---|---|
| **Net Sales** | 88.4 | 1.5 | 86.9 | 75.4 | 17.2% | 18.0% |
| **Gross profit** | 73.9 | 0.4 | 73.5 | 63.3 | 16.7% | 18.8% |
| Gross margin in % | 83.7% | 26.6% | 84.7% | 84.0% | (0.3 PP) | 0.6 PP |
| **EBITDA** | 9.9 | (4.2) | 14.1 | 13.8 | (28.1%) | 10.1% |
| EBITDA margin in % | 11.2% | | 16.3% | 18.3% | (7.1 PP) | (1.2 PP) |
| **EBIT** | 1.3 | (4.5) | 5.8 | 5.9 | (78.2%) | 15.6% |
| EBIT margin in % | 1.5% | | 6.6% | 7.8% | (6.4 PP) | (0.1 PP) |
| **Net profit** | 0.0 | | | 7.1 | n/a | |
| Net profit margin in % | 0.0% | | | 9.4% | n/a | |
| Basic EPS | 0.0 | | | 0.60 | | |
| Cash & equivalents (end of period) | 33.0 | | | 84.1 | | |
| Headcount (end of period) | 832 | | | 649 | 28.2% | 13.1% |

PP = Percentage points.

1) CER (=constant exchange rates) excludes currency effects between two reporting periods. Unless otherwise specified, the company generally shows growth rates at CER compared to the restated figures.

2) For a better understanding of the operating performance, this release uses the term "underlying", which excludes the effects of the Nextremity Solutions Inc. (NSI) acquisition in May 2022. In addition to running costs, this mainly encompasses transaction, integration and US set-up costs.

3) The company has reclassified distributor sales commissions, which were historically deducted from net sales, into operating expenses. For detailed information, please see Note 2.1 of this Half-year report.

# Business review

Medartis generated sales of CHF 88.4 million in the first half of 2022 with net sales growth of 20.1% (CER). Europe, the Middle East and Africa (EMEA) made the largest contribution to this growth with an increase of 21.4%, while Latin America grew the most (+47.1%). Sales in APAC (+6.0%) were still impacted by Covid-related restrictions. The US business grew 19.8% from a strong comparable base in the previous year, but did not reach internal expectations during the initial integration phase. .

Medartis' underlying gross profit in H1 rose 18.8%, with the respective gross margin reaching almost 84%. The reported EBITDA margin stood at 11.2% and was impacted by M&A transaction, integration, and US set-up costs (-5.1 percentage points) as well as currency exchange rate effects (-0.8 percentage points). Excluding these, the underlying EBITDA of CHF 14.1 million resulted in a corresponding margin of 16.3%. Mainly due to these NSI costs and the related contingent consideration charges, the company reported only a modest net profit in the first half.

The company commented that the merger of its two US businesses and the transformation into a larger US organisation is proceeding according to plan. The first NSI products will be launched in Q4. Plans call for a limited market release of the 'Lapidus Cut Guide' for the surgical treatment of bunion deformity and 'CalcShift' for displacement osteotomies of the calcaneus. These technologies are just two of several new lower extremity products scheduled for launch in the US in 2023.

In 2022, Medartis continued to invest in its people and markets. Medartis' headcount increased by 28.2% over the year, from 649 to 832 employees. This not only affected the size and capabilities of the sales, T&E and customer service teams, but also other strategic functions. More than half of the employees joined the company as part of the NSI acquisition. In addition, 85 new positions were created, mainly in growth markets to drive future growth. At the company's headquarters in Switzerland, the number of employees remained largely unchanged at 295.

## REGIONAL AND SEGMENT PERFORMANCE

| in CHF million, rounded | H1 2022 | H1 2021 restated | H1 2021 reported | Change in CHF vs. PY [4] | Change in CER vs. PY |
|---|---|---|---|---|---|
| EMEA | 45.5 | 39.5 | 39.6 | 15.3% | 21.4% |
| US | 18.3 | 14.8 | 12.8 | 23.3% | 19.8% |
| APAC | 15.8 | 15.4 | 15.4 | 2.6% | 6.0% |
| LATAM | 8.8 | 5.8 | 5.8 | 53.1% | 47.1% |
| **Total Group** | **88.4** | **75.4** | **73.6** | **17.2%** | **20.1%** |

4) To facilitate the underlying comparison between two periods, percentage changes in these tables are always made using the restated values in 2021.

### EMEA: Continued market share gains in the wrist segment

In **EMEA**, Medartis reported H1 revenues of CHF 45.5 million, reflecting year-on-year growth of 21.4% (CER). Adverse currency effects reduced the increase in Swiss francs by more than 5 percentage points. All direct markets in the region recorded strong double-digit growth, meeting or even exceeding expectations. Growth in Spain, which was only established as a subsidiary at the beginning of 2021, was particularly impressive. The team on the Iberian peninsula were about to reinforce their organisation and processes. The regional distributor markets in EMEA lagged behind the strong trend in the subsidiaries mainly due to Covid-related restocking in the previous year. In most European countries, Covid-19 restrictions were largely lifted and did not have any significant impact on business. However, the relatively mild winter and staff shortages in the OR resulted in a lower case volume.

Overall performance in EMEA was driven by continued market share gains in the wrist segment, where Medartis claims to have the most comprehensive portfolio in the market. In hand indications, many new customers were attracted by the innovative KeriMedical portfolio, particularly the TOUCH® thumb prosthesis. The solutions for shoulder fractures and deformities were also well received by customers, while potential in the elbow category has not yet been fully exploited. Lower extremities saw dynamic growth, reflecting the recovery of elective surgery after the Covid lockdown period. The systematic roll-out of the latest CMF generation 'Modus 2' continued in 2022. In that year, sales also benefited from the introduction of 'Modus 2' in the UK. An important component of the overall solution is CMX, the digital service for patient-specific case planning and surgical aids.

### US: Fundamental growth drivers remain intact

In the first half of the year, sales in the **US** grew 19.8% at CER, lifting regional sales to CHF 18.3 million, which is slightly behind plan. This number includes a CHF 1.5 million sales contribution from the acquired NSI business. Organic growth faced strong comparatives in H1 2021 (+46.3%), when the business benefitted from pent-up demand following the normalisation of the Covid-19 situation. While the general pandemic situation returned to greater normality over the course of 2022, many hospitals and outpatient care centres (ASCs) experienced staff shortages in the first six months due to Omicron infections or quarantine. Growth momentum eased as a result of this environment and the management transition, but the fundamental growth drivers remain intact.

Upper extremities, which represent the largest segment of the company's US business, grew at a double-digit pace, with strong contributions from wrist, forearm and shoulder products. In the meantime, the company has also received FDA approval for KERIFLEX®. Lower extremities only advanced at a mid-single digit rate. Growth in 'other products' was driven by cannulated screws. With the launch of NSI's lower extremity products and the increased focus on this segment, Medartis expects a significant acceleration and market share gains for lower extremities in 2023 and beyond.

Roles, responsibilities and the sales distributor network have been reviewed based on their performance and partially adapted. The new US management has also realigned sales execution to improve sales force productivity in future periods. Integration has begun following the merger of the two local organisations. The two R&D teams in Basel and Warsaw have consolidated their product development pipelines. R&A, quality assurance, T&E, logistics and IT processes are being aligned to prepare for the upcoming product launches. To support the many new product launches, training and education capacity has been increased and the regional marketing team has been strengthened to amplify brand awareness and to provide patient information. With the support of senior Group management, the new leadership spent a significant amount of time visiting key customers and KOLs of both companies.

### APAC: Growth slowed due to Covid-related restrictions

Sales in the **Asia Pacific region (APAC)** expanded 6.0% (CER) in H1, lifting revenue to CHF 15.8 million. In Australia and New Zealand, the region's largest business, growth had been impressive in H1 2021, but significantly slowed thereafter due to Covid-related restrictions. Lockdown measures and contact restrictions led to fewer trauma-related accidents and a decrease in elective surgeries, especially in the private sector. As a result, Australia posted the same level of sales as in the same period a year ago. In Japan, the company grew both its direct and distribution business by more than 30% as it benefited from robust demand for hand and wrist products. In Q2, the company hired a dedicated sales manager for the regional distributor markets, who will support growth in APAC in H2 and beyond. In addition, the company also indicated that it will continue to invest in further growth initiatives.

After the Chinese government introduced a centralised procurement system (VBP) for medical device products in H1, selling prices on the market have dropped significantly and leaves Medartis little room to grow profitably in the future. In response, the company has carefully reviewed its strategic positioning and decided to discontinue its local operations in Q3. This decision resulted in product returns from customers.

In APAC, growth in the upper extremities segment was also stronger than in the foot & ankle segment. As the majority of forefoot and metatarsal surgeries are elective procedures, the lower limb area was more affected by the postponement of surgeries than the wrist and upper limb area, where trauma procedures predominate. As a result, demand for elective midfoot and forefoot products in APAC declined compared to the same period last year. The mandible and orthognathic categories advanced rapidly, boosted by strong instrument and implant sales for the 'Modus 2' launch in Japan.

### LATAM: Strong all-around performance

The **Latin American (LATAM)** region achieved another strong all-around performance in the first six months, with growth of 47.1% (CER). Positive currency effects lifted growth by an additional 6 percentage points, as revenue reached CHF 8.8 million. The performance was fuelled by Brazil and further impetus came from Mexico, where Medartis won an important public tender. In Brazil, the demand for CMF products was especially noteworthy. Regional performance was also characterised by strong orders in distributor markets, which indicates future growth potential.

| in CHF million, rounded | H1 2022 | H1 2021 restated | H1 2021 reported | Change in CHF vs. PY | Change in CER vs. PY |
|---|---|---|---|---|---|
| Upper extremities | 61.1 | 54.1 | 52.8 | 13.1% | 14.7% |
| Lower extremities | 13.3 | 11.6 | 11.4 | 14.9% | 16.7% |
| CMF & other products | 13.9 [5)] | 9.8 | 9.4 | 42.5% | 44.4% |
| **Total** | **88.4** | **75.4** | **73.6** | **17.2%** | **20.1%** |

5) Includes sales from NSI's third party manufacturing business amounting to CHF 1.5 million.

## FINANCIAL PERFORMANCE

In H1 2022, Medartis reported a **gross profit** of CHF 73.9 million, corresponding to a margin of 83.7%. This was 0.3 percentage points lower than in the prior year period mainly due to additional NSI production costs. Excluding NSI, the underlying margin would have been 84.7%, 0.6 percentage point higher than in 2021. Higher sales volumes and better capacity utilisation offset a more negative country and product mix effect.

**Operating expenses (OPEX)** increased from CHF 57.6 million to CHF 72.6 million. One third or CHF 4.9 million of the change relates to NSI. As mentioned above, the acquisition of NSI resulted in one-time transaction and integration costs as well as a temporary margin dilution as the most important products will be launched in 2023, but the development and operating costs are frontloaded. CHF 0.7 million of the increased OPEX came from China and are related to the business discontinuation in Q3. Apart from this, general and administration-costs and R&D expenses remained more or less unchanged in terms of the percentage of sales. However, selling and distribution-costs increased because the company stepped up its physical customer contacts and invested more in training and education and marketing events following the normalisation of the Covid-19 situation. As a direct result of these activities, EMEA, LATAM and Japan saw positive progress. Medartis also maintained its investments in countries where sales development is temporarily subdued, namely Australia and the USA.

As a result of the aforementioned, reported earnings before interest, tax, depreciation and amortisation **(EBITDA)** decreased to CHF 9.9 million (margin: 11.2%) from CHF 13.8 million in the prior year (18.3%). Excluding NSI and its integration costs, EBITDA in H1 2022 would have been CHF 14.1 million (16.3%) or even CHF 15.1 million (17.3%), excluding the one-time effect from the China business termination. This corresponds to the previous year's level at CER and is in line with the company's full-year guidance.

**Depreciation and amortisation charges** (D&A) of CHF 8.6 million (H1 2021: CHF 7.9 million) include important investments in instruments and surgical sets, which are a pre-requisite for future growth. They also include expenditures for major R&D and IT projects, and since May, also take into account amortisation from NSI. After D&A, (reported) operating profit amounted to CHF 1.3 million compared CHF 5.0 million at CER in the previous year. Excluding the NSI acquisition, the underlying EBIT in H1 2022 would have increased by 16% to CHF 5.8 million and the margin would have remained more or less at the previous year's level.

The **net financial result** was CHF -0.1 million, compared to CHF 2.1 million in the same period last year, when the company benefited from a very positive foreign exchange result. A contingent liability of CHF 28.6 million was recognised in connection with the NSI acquisition. The respective fair value charge of CHF 0.3 million was recognised in the financial result in H1[6]. Due to the higher net sales level, more income taxes were also incurred. At CHF 1.1 million, taxes were slightly higher than in the previous year, when they amounted to CHF 0.9 million. As a result of the above factors, net profit reached three thousand Swiss francs H1 2022 compared to CHF 7.1 million in the previous year.

In the first half of 2022, Medartis reported a cash **outflow from operations** of CHF 4.5 million compared to an inflow of CHF 9.0 million in the previous year. This includes an increase in working capital of CHF 14.0 million compared to an increase of CHF 6.4 million in the same period last year. Capital expenditures for property, plant and equipment (PPE) also increased from CHF 4.1 million in the previous year period to CHF 7.3 million in H1 2022, mainly for additional set investments. Cash flow for investment activities amounted to CHF 43.2 million and mostly reflects the upfront payment of the NSI acquisition of CHF 39.8 million, which also includes CHF 3.1 million cash from the acquired company. The total cash position at year-end amounted to CHF 33.0 million.

6) For more details, please refer to Note 6 in the Half-year report.

## FULL-YEAR 2022 OUTLOOK

(barring any unforeseen circumstances)

In March 2022, Medartis issued guidance stating that it was expecting sales growth of 'around 20% (CER)' and an underlying EBITDA margin of approx. 18%, which excludes a negative NSI acquisition effect of 5-6 percentage points. In H1, Medartis reported results that were in line with expectations, both in terms of revenue growth and profitability.

Given the prevailing exceptional economic environment, Covid-related constraints in some hospitals, and despite an expected acceleration in US sales momentum in H2, the previous outlook has been revised. The company now expects full-year sales growth (at CER and incl. NSI) in the high-teens range. Although the company has established a plan to optimise its cost structure and is in its implementation phase, the lower sales level will impact reported and underlying EBITDA margins by about 1-2 percentage points.

The company's long-term growth and profitability objectives remain unchanged.

# Medartis Group Interim Consolidated Financial Statements

## Interim Consolidated Balance Sheet

| (CHF) | Unaudited<br>30 June 2022 | 31 December 2021 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **32'952'352** | 82'641'879 |
| Accounts receivable trade | **37'426'990** | 32'499'440 |
| Accounts receivable other | **5'140'081** | 3'818'135 |
| Income tax receivables | **1'051'557** | 194'212 |
| Inventories | **66'964'961** | 54'303'515 |
| Prepaid expenses | **2'208'632** | 2'025'352 |
| **Total current assets** | **145'744'573** | 175'482'534 |
| **Non-current assets:** | | |
| Property, plant and equipment | **51'183'593** | 40'160'276 |
| Right-of-use assets | **27'394'343** | 24'395'935 |
| Intangible assets | **66'334'910** | 11'917'708 |
| Investment in associate | **13'878'194** | 10'201'289 |
| Financial assets | **1'026'694** | 6'390'066 |
| Deferred tax assets | **28'187'675** | 29'632'042 |
| **Total non-current assets** | **188'005'409** | 122'697'316 |
| **Total assets** | **333'749'982** | 298'179'849 |
| **Liabilities and equity** | | |
| **Current liabilities:** | | |
| Accounts payable trade | **10'664'299** | 8'239'159 |
| Accounts payable other | **15'253'028** | 15'686'813 |
| Income tax payables | **366'914** | 426'211 |
| Accrued expenses | **3'911'469** | 2'449'013 |
| Current financial debt and other financial liabilities | **4'887'270** | 4'587'284 |
| Provisions | **3'678'248** | 3'316'541 |
| **Total current liabilities** | **38'761'228** | 34'705'021 |
| **Non-current liabilities:** | | |
| Financial debt and other non-current liabilities | **43'804'150** | 19'487'539 |
| Provisions | **2'211'903** | 2'238'861 |
| Employee benefit obligation | **792'533** | 17'739'584 |
| Deferred tax liabilities | **5'111'820** | 13'505 |
| **Total non-current liabilities** | **51'920'406** | 39'479'489 |
| **Total liabilities** | **90'681'634** | 74'184'510 |
| Shareholder's equity | | |
| Issued share capital | **2'366'711** | 2'362'873 |
| Retained earnings | **-16'941'348** | -34'129'045 |
| Capital Reserves | **255'881'707** | 254'197'973 |
| Currency translation adjustment | **1'761'278** | 1'563'538 |
| **Total shareholder's equity** | **243'068'348** | 223'995'339 |
| **Total liabilities and equity** | **333'749'982** | 298'179'849 |

# Interim Consolidated Income Statement

| (CHF) | Unaudited H1 2022 | Unaudited H1 2021 [b)] |
|---|---|---|
| Net sales | **88’376’988** | 75’427’294 |
| Cost of goods sold | **-14’438’844** | -12’094’109 |
| **Gross profit** | **73’938’144** | 63’333’185 |
| Selling and distribution | **-44’155’667** | -35’057’250 |
| Research and development | **-12’125’642** | -10’505’767 |
| General and administration | **-16’335’990** | -12’048’196 |
| Share of results of associate | **-34’736** | 187’614 |
| **Operating profit** | **1’286’108** | 5’909’586 |
| Finance income | **836’001** | 2’764’689 |
| Finance expense | **-985’058** | -687’829 |
| **Income before taxes** | **1’137’051** | 7’986’446 |
| Income tax expense | **-1’133’279** | -903’646 |
| **Net income** | **3’772** | 7’082’800 |
| Attributable to: | | |
| Medartis shareholders | **3’772** | 7’082’800 |
| **Earnings per share (CHF):** | | |
| Basic earnings per share [a)] | **0.00** | 0.60 |

a) There is no dilution effect.

b) Corrections in the presentation of commission paid to third party sales agents and group purchasing organisation and early payment discounts, please refer to note 2.1.

# Interim Consolidated Statement of Comprehensive Income

| (CHF) | Unaudited H1 2022 | Unaudited H1 2021 |
|---|---|---|
| **Net income** | **3'772** | 7'082'800 |
| Components of other comprehensive income (OCI)<br>Items that will not be reclassified to profit or loss: | | |
| Remeasurements of defined benefit post-employment plans | **16'800'561** | 887'327 |
| Income tax relating to items that will not be reclassified to profit or loss | **-2'190'793** | -357'812 |
| | **14'609'768** | 529'515 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation effects | **257'093** | -727'980 |
| Share of other comprehensive income of associates accounted for using the equity method | **-59'353** | -34'516 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | **-** | |
| | **197'740** | -762'496 |
| **Total other comprehensive income/ (loss)** | **14'807'508** | -232'980 |
| **Total comprehensive income** | **14'811'280** | 6'849'819 |
| Attributable to: | | |
| Medartis shareholders | **14'811'280** | 6'849'819 |

# Interim Consolidated Cash Flow Statement

| (CHF) | **Unaudited H1, 2022** | Unaudited H1, 2021 |
|---|---|---|
| **Net income/ (loss)** | **3'772** | 7'082'800 |
| Adjustments for: | | |
| Income tax income/expense | **1'133'279** | 903'646 |
| Interest income | **-265'027** | -96'094 |
| Interest expenses | **827'767** | 389'921 |
| Loss on disposal of property, plant and equipment | **81'831** | 150'787 |
| Depreciation and amortization of: | | |
| Property, plant and equipment | **7'870'574** | 7'040'410 |
| Intangible assets | **752'764** | 836'142 |
| Change in provisions and pension obligations | **-198'173** | 461'770 |
| Share based compensation and other non-cash items | **540'049** | -801'273 |
| Changes in net working capital: | | |
| Inventories | **-6'097'612** | -5'587'157 |
| Accounts receivable trade, accounts receivable other, prepaid expenses | **-5'025'070** | -4'925'471 |
| Accounts payable trade, accounts payable other, accrued expenses | **-2'886'430** | 4'077'794 |
| Interest received | **265'027** | 96'094 |
| Income tax paid/received | **-1'516'864** | -673'666 |
| **Cash flow from operating activity** | **-4'514'112** | 8'955'704 |
| | | |
| Cash payments to acquire property, plant and equipment | **-7'287'479** | -4'108'094 |
| Proceeds from disposals of property, plant and equipment | **24'722** | 47'664 |
| Cash payments to acquire intangible assets | **-912'830** | -1'489'060 |
| Additions/Disposals to financial assets | **5'406'804** | -70'730 |
| Acquisition of subsidiaries, net of cash acquired | **-36'730'798** | |
| Cash payment to acquire an investment in an associate | **-3'743'000** | |
| **Cash flow used for investing activities** | **-43'242'581** | -5'620'220 |
| | | |
| Proceeds from capital increases | **580'625** | 5'376 |
| Repayment of lease liability | **-2'510'761** | -2'378'305 |
| Interest paid on lease liability | **-357'952** | -383'028 |
| Interest paid | **-23** | -6'893 |
| **Cash flow used for financing activities** | **-2'288'112** | -2'762'850 |
| | | |
| **Net change in cash and cash equivalents** | **-50'044'805** | 572'634 |
| Cash and cash equivalents at the beginning of the year (1 January) | **82'641'879** | 82'734'816 |
| Net effect of currency translation on cash and cash equivalents | **355'278** | 765'298 |
| **Cash and cash equivalents at the end of the half-year (30 June)** | **32'952'352** | 84'072'748 |

# Interim Consolidated Statement of Changes in Equity

| | Attributable to Medartis AG shareholders | | | | |
|---|---|---|---|---|---|
| (CHF) | Share capital | Capital reserves | Currency translation difference | Retained earnings | Total shareholders' equity |
| **1 January 2021** | **2'355'629** | **252'451'944** | **2'064'540** | **-43'836'194** | **213'035'919** |
| Net profit | | | | 7'082'800 | 7'082'800 |
| Other comprehensive income/(loss) | | | -638'470 | 405'489 | -232'980 |
| **Total comprehensive income/(loss)** | | | **-638'470** | **7'488'289** | **6'849'819** |
| Capital increase | 5'376 | - | | | 5'376 |
| Share based compensation | | | | 1'388'535 | 1'388'535 |
| **30 June 2021** | **2'361'005** | **252'451'944** | **1'426'071** | **-34'959'371** | **221'279'649** |
| (CHF) | Share capital | Capital reserves | Currency translation difference | Retained earnings | Total shareholders' equity |
| **1 January 2022** | **2'362'873** | **254'197'973** | **1'563'538** | **-34'129'045** | **223'995'339** |
| Net income | | | | 3'772 | 3'772 |
| Other comprehensive income/(loss) | | | 197'740 | 14'609'768 | 14'807'508 |
| **Total comprehensive income/(loss)** | | | **197'740** | **14'613'540** | **14'811'280** |
| Capital increase | 3'838 | 1'683'734 | | -1'138'649 | 548'923 |
| Acquisition Nextremity contingent consideration | | | | 2'232'099 | 2'232'099 |
| Share based compensation | | | | 1'480'706 | 1'480'706 |
| **30 June 2022** | **2'366'711** | **255'881'707** | **1'761'278** | **-16'941'349** | **243'068'348** |

# Notes to the Interim Condensed Consolidated Financial Statements

## 1. Corporate information

Medartis Holding AG is a public company domiciled and incorporated in Switzerland, whose shares are publicly traded on the SIX Swiss Exchange. The interim condensed consolidated financial statements of the Medartis Group for the six months ending 30 June 2022 were authorized for issue in accordance with a resolution of the Board of Directors on 12 August 2022.

## 2. Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months ending 30 June 2022 have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2021. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Due to rounding, number presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount. The preparation of consolidated statements under IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

### 2.1 Significant accounting policy changes, judgments and estimates

In 2021, as part of a review of the finance processes, Medartis challenged the presentation of commissions paid to certain third party sales agents and group purchasing organisations and concluded that commissions in the amount of CHF 2'205'508 should have been shown under selling and distribution expenses rather than as discounts deducted from net sales. In this context Medartis management also reviewed the presentation of early payment discounts and concluded that early payment discounts in the amount of CHF 348'537 had been erroneously presented as finance expense rather than as variable consideration and reductions in net sales. The prior year comparatives have been restated as shown below. These restatements have no effect on the net loss/income.

| (CHF) | H1 2021 Reported | commissions | Restatement discounts | H1 2021 Adjusted |
|---|---|---|---|---|
| Net sales | 73'570'324 | 2'205'508 | -348'537 | 75'427'294 |
| Cost of goods sold | -12'094'109 | | | -12'094'109 |
| **Gross profit** | **61'476'215** | | | **63'333'185** |
| Selling and distribution | -32'851'742 | -2'205'508 | | -35'057'250 |
| Research and development | -10'505'767 | | | -10'505'767 |
| General and administration | -12'048'196 | | | -12'048'196 |
| Share of results of associates | 187'614 | | | 187'614 |
| **Operating profit** | **6'258'124** | | | **5'909'586** |
| Finance income | 2'764'689 | | | 2'764'689 |
| Finance expense | -1'036'366 | | 348'537 | -687'829 |
| **Income before taxes** | **7'986'446** | | | **7'986'446** |
| Income tax expense | -903'646 | | | -903'646 |
| **Net income** | **7'082'800** | | | **7'082'800** |

# 3. Seasonality of operations

The Group operates in an industry where significant seasonal or cyclical variations in the total sales are not experienced during the financial year.

# 4. Changes in the scope of consolidation

## 4.1 Nextremity Solutions Inc.

On 2 May 2022, Medartis acquired 100% of the share capital of Nextremity group ('Nextremity'), located in Warsaw, USA. The Nextremity group consists of two companies, Nextremity Solutions Inc. and Lakeland Technology Inc.
Nextremity is a dedicated development and commercialization organization with a focus on the extremity musculoskeletal space.
The fair values of the identifiable assets and liabilities of the Nextremity group recognised as of business combination date are as follows:

| Assets | (CHF) |
|---|---|
| Cash and cash equivalents | 3'075'614 |
| Accounts receivable trade | 1'388'835 |
| Inventories | 6'563'834 |
| Prepaid expenses | 18'871 |
| Property, plant and equipment | 8'182'654 |
| Intangible assets (product technology) | 19'573'761 |
| Financial assets | 43'433 |
| Deferred tax assets | 3'166'950 |
| **Total assets** | **42'013'952** |

| Liabilities | |
|---|---|
| Accounts payable trade | 3'930'382 |
| Accounts payable other | 2'409'860 |
| Legal provisions | 386'432 |
| Deferred tax liabilities | 7'101'682 |
| **Total liabilities** | **13'828'355** |

| **Net identifiable assets acquired** | **28'185'597** |
|---|---|
| Goodwill | 35'033'851 |
| **Consideration** | **63'219'448** |

| | |
|---|---|
| Consideration paid in cash | 39'806'412 |
| Contingent consideration arrangements | 21'154'046 |
| Equity instruments | 2'258'990 |
| **Consideration** | **63'219'448** |

| | |
|---|---|
| Net cash acquired | 3'075'614 |
| Cash paid | -39'806'412 |
| **Net cash flow** | **-36'730'798** |

The net assets recognised in the 30 June 2022 financial statements were based on a provisional assessment of their fair value. The valuation had not been completed by the date the 2022 interim financial statements were approved for issue by the Board of Directors.

**Contingent consideration arrangements**

The business combination include contingent consideration arrangements that require Medartis Inc. to pay the former owners of Nextremity up to CHF 19.1 million (USD 20.0 million) (undiscounted) upon on the achievement of first commercial sale of various milestone products in 2023-2025 ("the milestone payments") and additionally CHF 9.5 million (USD 10.0 million) (undiscounted) upon reaching a certain level of aggregate sales of all milestone products in 2025 ("Earn-out payment"). The potential undiscounted amount of both future payments that could be required to be paid under the contingent consideration arrangement is CHF 28.6 million (USD 30.0 million).

The fair value of the both contingent considerations was determined based on probabilityadjusted payments, discounted based on when the payments are expected to occur according to the expiry date (2023-2025) using Medartis Inc.'s cost of borrowing. These measures were based on significant inputs that are not observable in the market, which are considered Level 3 inputs. The contingent consideration is classified as non-current financial debt (refer to Note 6).

Key assumptions at 30 June 2022 included (a) discount rate of 6% for the milestone payments and 26.8% for the earn-out payment , and (b) 100% probability of achieving all milestones. The initial fair value calculation of the combined two contingent considerations was CHF 21.2 million (USD 21.9 million). If the first and most valuable product in the pipeline, which is expected to be launched in 2023, is not launched in time, the fair value of the contingent consideration would be reduced to CHF 8.1 million (USD 8.4 million). A 100 base point increase in the effective discount rates would result in a fair value of CHF 20.7 million (USD 21.4 million). A 100 base point decrease in the effective discount rates would result in a fair value of CHF 21.6 million (USD 22.4 million).

**Consideration - Equity instruments**

In addition to above, as part of the overall consideration 3 key individuals of former Nextremity received a so-called performance bonus with a total value of CHF 2.5 million (USD 2.6 million) to be settled in a fixed number of Medartis shares, determined using a volume weighted average price prior to the grant date. Subsequent changes in the stock price will not affect the settlement number of shares. No service condition is attached to the performance bonus. This bonus will only be paid if the accumulated sales of Medartis US business reach a certain level in 2025. The performance bonus has been classified as equity.

**Intangible assets (Product technology)**

The fair value of intangible assets related to products is determined using a relief-from-royalty method. The method is based on the management business plan, observable market data for risk-adjusted discount rates and tax rates.

**Goodwill**

Goodwill, which is not deductible for tax purposes, comprises intangible assets that are not separable such as expected synergy effects from combining the assets and activities of Nextremity with those of the Group as well as employee know-how. Management has assessed that the Nextremity Group does not represent a separate operating segment, and accordingly goodwill from the acquisition has been provisionally allocated to the Group (refer to Note 7).

| **Goodwill** | (CHF) |
|---|---|
| At 1 January 2022 | 2'548'949 |
| Acquisition of a subsidiary | 35'033'851 |
| Currency translation effects | -251'718 |
| **At 30 June 2022** | **37'331'082** |

**Accounts receivable trade**

The fair value of the accounts receivable trade amounts to CHF 1.4 million (USD 1.4 million). The gross amount of accounts receivable trade is CHF 1.8 million (USD 1.9 million), The difference between the fair value and the carrying amount is the result of discounting over the expected timing of the cash collection and an adjustment for counterparty credit risk.

**Legal provisions**

A liability for a legal proceeding at fair value of CHF 0.4 million (USD 0.4 million) was recognised at the acquisition date resulting from a claim for patent infringement. The amount provided corresponds to the expected cash out flow that Medartis will have to bear. All cash flows above this threshold will be reimbursed by the former Nextremity shareholders (see Note 8).

If Nextremity had been included as of 1 January 2022, management estimates the impact on consolidated revenues for the 6 months ended 30 June 2022 would have been CHF 5.3 million, with a CHF -0.7 million impact on net profit. From the date of acquisition, Nextremity has contributed CHF 1.5 million of revenue and CHF -1.6 million to the net profit.

Transaction costs of CHF 1.7 million have been expensed and are included in Administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows.

### 4.2 Keri Medical SA

In May 2022, Medartis acquired an additional 4.7% investment in Keri Medical SA at the cost of CHF 3.7 million resulting in a total stake of 30%. The share of identifiable net assets amounts to CHF 0.7 million and the notional goodwill applicable to the 4.7%% investment amounts to CHF 3.0 million.

The Group did not complete any business combinations in the half-year ended 30 June 2021.

## 5. Shareholder's equity

The share capital is represented by 11’833’558 registered shares (2021: 11’805’028) of CHF 0.20 (2021: CHF 0.20) par value, fully paid in.

Medartis Holding AG has been listed at SIX Swiss Exchange in Zurich (ticker symbol ’MED’) since 23 March 2018.

In the six-month period ending 30 June 2022, Medartis Holding AG increased its share capital by issuing a total of 19’190 new shares to 11’833’558 registered shares from its conditional share capital. The corresponding share capital amounts to CHF 2.4 million.

In the six-month period ending 30 June 2021, Medartis Holding AG increased its share capital by issuing a total of 26’880 new shares to 11’805’028 registered shares from its conditional share capital. The corresponding share capital amounted to CHF 2.4 million.

To align the presentation of the equity components to that in the individual financial statements of Medartis Holding AG, an amount of CHF 1.7 million has been reclassified from retained earnings to capital reserves.

## 6. Financial instruments / Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the most advantageous market, if a principal market does not exist. The principal or the most advantageous market must be accessible by the Group.

**Fair value hierarchy**

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following tables show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument in the balance sheet at 30 June 2022 and 31 December 2021.

| 30 June 2022 | Carrying amount (based on measurement basis) Amortized cost | Fair value level 1 | Fair value level 2 | Fair value level 3 | Total |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash & Cash equivalents | 32'952'352 | | | | 32'952'352 |
| Accounts receivable trade | 37'426'990 | | | | 37'426'990 |
| Other non-current financial assets | 1'026'694 | | | | 1'026'694 |
| **Total** | **71'406'036** | | | | **71'406'036** |
| **Financial liabilities** | | | | | |
| Accounts payable trade | 10'664'299 | | | | 10'664'299 |
| Accounts payable other | 758'322 | | | | 758'322 |
| Accrued expenses | 3'911'469 | | | | 3'911'469 |
| Current financial debt | 4'887'270 | | | | 4'887'270 |
| Non-current financial debt | 22'585'605 | | | 21'218'545 | 43'804'150 |
| **Total** | **42'806'966** | | | | **64'025'510** |

| 31 December 2021 | Carrying amount (based on measurement basis) Amortized cost | Fair value level 1 | Fair value level 2 | Fair value level 3 | Total |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash & Cash equivalents | 82'641'879 | | | | 82'641'879 |
| Accounts receivable trade | 32'499'440 | | | | 32'499'440 |
| Other non-current financial assets | 6'390'066 | | | | 6'390'066 |
| **Total** | **121'531'385** | | | | **121'531'385** |
| **Financial liabilities** | | | | | |
| Accounts payable trade | 8'239'159 | | | | 8'239'159 |
| Accounts payable other | 1'162'236 | | | | 1'162'236 |
| Accrued expenses | 2'449'013 | | | | 2'449'013 |
| Current financial debt | 4'587'284 | | | | 4'587'284 |
| Non-current financial debt | 19'487'539 | | | | 19'487'539 |
| **Total** | **35'925'231** | | | | **35'925'231** |

Carrying amount approximates the estimated fair value due to the short-term nature of the financial instruments.

The addition to level 3 non-current financial debt relates to the acquisition of Nextremity Solutions Inc. in H1 2022 and consists of contingent consideration payments in cash. The total losses recognised through profit or loss amount to CHF 0.3 million and are presented under finance expense. Refer to note 4.1.

# 7. Share based payment

**Medartis Executive Management Plan**

Medartis operated a corporate long-term incentive plan with restricted shares (LTI) for Members of the Executive Management Board. The amount of this long-term compensation is determined individually for each participant.

According to the plan rules, the amount, if any, for each individual participant shall be converted into a number of Medartis Holding AG shares at a conversion price of the average closing price of the share during the last 20 days before the annual general meeting, less a discount of 25%. The shares are subject to a restriction period for the next two years.

The related expenses amount to CHF 0.6 million (2021: CHF 0.7 million).

**Medartis Board of Directors Restricted Share Plan**

Medartis operated a share plan with restricted shares for the Board of Directors.
According to the plan rules, each board member may elect to receive a part of their fees in the form of restricted shares instead of cash.

The selected board fee portion shall be converted into a number of Medartis Holding AG shares at a conversion price of the volume weighted average share price during the last 20 trading days before the annual general meeting, less a discount of 15%. The shares are subject to a restriction period for the next two years.
The related expenses amount to CHF 0.4 million (2021: CHF 0.7 million)

**Medartis Employee Share Purchase Plan 1**
With a grant date of 31 May 2022, eligible employees in Switzerland, Australia, Austria, France, Germany, UK and USA have been able to purchase Medartis Holding AG shares up to a maximum of 15% of their prior year base salary as well as 100% of their last STI (short-term variable compensation) pay-out at a discount of 25%. The grant value is based on the average share price over the 20 day period ending before the allocation date.
The shares are restricted for two years. The numbers of shares will be determined in November 2022.
The related expenses amount to CHF 0.17 million.

**Medartis Employee Share Purchase Plan 2**
With a grant date of 31 January 2022, eligible employees in Switzerland have been able to purchase Medartis Holding AG shares up to a maximum of 15% of their prior year base salary as well as 100% of their last STI (short-term variable compensation) pay-out at a discount of 25%. The grant value is based on the average share price over the 20 day period ending before the allocation date. The shares are restricted for two years. During the reporting period, 9747 shares were granted.
The related expenses amount to CHF 0.23 million.

**Sign on bonus for NSI employees**
In context with the NSI Acquisition a larger group of former employees of Nextremity have received a sign on retention bonus. This bonus will be vested in 3 instalments from 2024 – 2026 with an additional selling restriction of 1 year each. The settlement will be in restricted share units (RSU's) of Medartis Holding AG. For the reporting period the related expenses amount to CHF 0.13 million.

# 8. Segment information

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organizational and management structure used within the Group as well as the internal financial reporting to the Chief Operating Decision Maker (CODM), which has been identified as the Executive Management Board (EMB). The EMB is responsible for the operational management of the Group, in line with the instructions issued by the Board of Directors.

Due to the structure of the Group, Medartis' only entity which performs production and procurement is located in Switzerland. All other entities are retail entities only and are not able to operate on a stand-alone basis. Medartis therefore constitutes only one operating segment which is represented by the whole Group itself.

The following table illustrates revenue from contracts with customers by regions and business segments.

| 30 June 2022 (CHF) | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Net sales | 45'461'238 | 15'800'918 | 8'831'164 | 18'283'667 | **88'376'988** |
| Non-current assets 1) | 79'135'964 | 4'012'052 | 4'099'673 | 71'543'351 | **158'791'040** |

| 30 June 2021 (CHF) | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Net sales 2) | 39'435'104 | 15'399'556 | 5'767'750 | 14'824'885 | **75'427'294** |

| 2021 (CHF) | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Non-current assets 1) | 75'920'813 | 4'119'527 | 3'673'733 | 2'961'136 | **86'675'208** |

1) Property, plant and equipment, right of use assets, intangible assets and investments in associate
2) Including corrections in the presentation of commission paid to third party sales agents and group purchasing organisation and early payment discounts, please refer to note 2.1.

| (CHF) | **30 June 2022** | 30 June 2021 |
|---|---|---|
| Upper Extremities | **61’137’565** | 54’071’388 |
| Lower Extremities | **13’303’328** | 11’575’792 |
| CMF and Others [1] | **13’936’095** | 9’780’114 |
| **Total** | **88’376’988** | 75’427’294 |

1) CMF and Others includes revenue with Nextremity products.

# 9. Legal claim contingency

In the ordinary course of its business, the Group is involved in lawsuits, claims of various natures, investigations and proceedings, including product liability, commercial, environmental, health and safety matters, etc. The Group operates in countries where political, economic, social and legal developments could have an impact on the Group’s operations. The Group is exposed to varying degrees of uncertainty related to tax matters, regulatory reviews and audits.

At 30 June 2022, the Group’s quantifiable contingencies amounted to CHF 0 (31 December 2021: CHF 0). There are no single matters pending that the Group expects to be material in relation to the Group’s business, financial result or results of operations.

The following is a description of the material legal matters currently ongoing.

As disclosed in the last Annual Report, there have been investigations of the authorities in Brazil – in the context of intensified anti-corruption efforts in the healthcare sector – into companies including Extera, the former Medartis distributor acquired in 2017 due to possible compliance violations.

Medartis is withholding CHF 1.0 million (value as of the 2nd anniversary of the Closing Date) of outstanding payments for the acquisition of Extera to be potentially offset against the costs arising from this matter and is evaluating to seek further indemnification from the former owners of Extera.

Medartis is cooperating with the authorities. Based on its most recent contacts with the relevant authorities in Brazil responsible for the investigations, Medartis has reassessed the probability and currently anticipates potential claims, legal costs and other related expenses of CHF 2.2 million (31 December 2021: CHF 2.3 million). Accordingly, a corresponding provision exists.

On February 25, 2022, Extremity Medical, LLC filed a lawsuit against Nextremity Solutions, Inc. (“Nextremity”), Zimmer Biomet Holdings, Inc. and Zimmer, Inc. (together “Zimmer”) for patent infringement in the US in connection with a product manufactured by Nextremity for Zimmer. Medartis will be indemnified by the former Nextremity shareholders from any costs incurred in connection with this claim, subject to a deductible in the amount of CHF 0.4 million (USD 0.4 million). Accordingly, a provision has been built in the amount of the deductible. Refer to Note 4.1.

# 10. Events after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Medartis Group financials as at 30 June 2022.

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To the Board of Directors of
**Medartis Holding AG, Basel**

Basle, 12 August 2022

## Report on the review of interim condensed consolidated financial statements

### Introduction

We have reviewed the interim condensed consolidated financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes, pages 8 to 19) of Medartis Holding AG for the period from 1 January 2022 to 30 June 2022. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting”.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

Daniel Zaugg
Licensed audit expert

**Enclosure**

- Interim condensed consolidated financial statements

# Financial Calendar

**2022**

| | |
|---|---|
| 17 August 2022 | Roadshow meetings, Geneva |
| 18 August 2022 | Roadshow meetings, Frankfurt |
| 27 September 2022 | Roadshow meetings, New York |
| 28 September 2022 | Roadshow meetings, Boston |
| 02 November 2022 | ZKB Swiss Equities Conference, Zurich |
| 15 November 2022 | Jefferies Healthcare Conference, London |
| 16 November 2022 | Credit Suisse Mid Cap Forum, Zurich |

**2023**

| | |
|---|---|
| 14 March 2023 | 2022 Full-Year Results Publication |
| 21 April 2023 | Annual General Meeting 2023 |

# Contact

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# Disclaimer

**Forward-looking statements**

This Half-Year Report contains specific forward-looking statements, beliefs or opinions, including statements with respect to the product pipelines, potential benefits of product candidates and objectives, estimated market sizes and opportunities as well as the milestone potential under existing collaboration agreements, which are based on current beliefs, expectations and projections about future events. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may result in a substantial divergence between the actual results, financial situation, development or performance of Medartis Holding AG and its subsidiaries (the "Group") and those explicitly or implicitly presumed in these statements. The forward-looking statements are based on the information available to the Group on the date of this Half-Year Report and the Groups' current beliefs, forecasts and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group's analysis is based is complete or accurate, (iii) the Group's analysis is correct or (iv) the Group's strategy, which is based in part on this analysis, will be successful. Factors that affect the Group's business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group's products, (v) management changes, (vi) changes in the market in which the Group operates and (vii) changes in the financial position or credit-worthiness of the Group's customers and partners. The Group assumes no liability to update forward-looking statements or to conform them to future events or developments.