

## Medartis on track with 16% internal growth after 6 months

- Net sales in H1 2023 increased by 20.8% (CER) to CHF 103.3 million
- Internal sales growth<sup>1</sup> of 16.1% is in-line with full-year guidance assumptions and driven mainly by double-digit growth in EMEA, US and LATAM
- US internal growth momentum continues to increase from +15.5% in H2 2022 to +21.1% in H1 2023 as sales channel building continues
- APAC (+5.6%) lags behind the growth trend in other regions due to anticipated price adjustments mandated by the Australian authorities
- The company successfully fended off an IT attack at the end of May, which reduced the EBITDA margin by 1.7 PP and impacted H1 sales growth by approx. 3 PP
- The gross margin reached 77.2% and the EBITDA margin amounted to 12.6% (14.3% excl. IT attack)
- Full-year guidance confirmed

### HALF-YEAR 2023 KEY FINANCIALS

in CHF million, rounded	H1 2023			H1 2022			Underlying YoY change	
	Reported	One-off costs <sup>2</sup>	Underlying	Reported	One-off costs <sup>2</sup>	Underlying	in CHF	at CER
Total net sales	103.3			88.4			16.8%	20.8%
Internal net sales <sup>1</sup>	97.6			86.9				16.1%
Gross profit	79.7	(0.5)	80.2	73.9			8.5%	12.9%
EBITDA	13.1	(1.8)	14.8	9.9	(3.8)	13.7	7.8%	22.0%
EBIT	2.8	(1.8)	4.5	1.3	(3.8)	5.1	(10.5)%	24.6%
Net profit / loss	(0.8)			0.0				
Headcount	858			832				3.1%
Margins in % of sales							Change in %-points (PP)	
Gross profit	77.2%		77.7%	83.7%		83.7%	(5.9)	(5.4)
EBITDA	12.6%		14.3%	11.2%		15.5%	(1.2)	0.1
EBIT	2.7%		4.4%	1.5%		5.7%	(1.3)	0.1
Net profit / loss	(0.8)%			0.0%				

<sup>1</sup> "Internal growth" denotes the increase in sales at constant exchange rates (CER), excluding the impact of mergers, acquisitions, and divestments. The NSI's contract manufacturing business is of no strategic significance and is therefore excluded from this calculation. Internal growth serves as a crucial performance indicator for management.

<sup>2</sup> The one-off costs in 2023 are related to the costs of remediating the IT attack. In 2022, the one-off costs for the NSI acquisition and the discontinued China business are excluded to facilitate the underlying operational performance.

**Basel, 15 August 2023: Medartis Holding AG (MED:SW), an orthopaedic company specialising in head and extremity surgery, today reported half-year sales of CHF 103.3 million, representing growth of 20.8% at CER. Internal growth amounted to 16.1%. The EMEA business made the largest contribution to this growth with an increase of 17.7%, bolstering its competitive position. The US improved sequentially and was the fastest growing territory in H1 (internal growth: +21.1%). An IT attack at the end of May temporarily affected the company, but Medartis is on track to meet its annual targets.**

The reported EBITDA in H1 2023 reached CHF 13.1 million, corresponding to a margin of 12.6%. At the end of May, Medartis became the target of an IT attack, which was resolved relatively quickly. Additional one-off costs to remedy the incident reduced the EBITDA margin by 1.7 PP. The company estimates that the incident reduced its H1 revenue by approx. 3 PP.

Double-digit sales growth and cost control helped offset part of the temporary decline in gross margin, which was due to a higher 3rd party custom manufacturing and trading products, inventory optimisation, and elevated energy and logistics costs. The (reported) net result was CHF -0.8 million, but would have been CHF +0.9 million without the effects of the IT attack.

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Medartis' **CEO Christoph Brönnimann** commented: "I am pleased with the sales performance in the first half of this year. We grew strongly in EMEA and the US, and performed well across all our business categories. Our strategic investments in our markets and technologies, particularly the building up of our US sales channel, along with valuable partnerships such as KeriMedical and Field Orthopaedics, are increasingly contributing to our growth. I was also impressed by the organisation's swift response and recovery following the IT attack. Despite this setback, we maintain our confidence in accelerating our momentum throughout H2 and confirm our full-year financial guidance."

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## REGIONAL PERFORMANCE

Table: Revenue development per region and year-on-year changes:

in CHF million, rounded	H1 2023	H1 2022	Change in CHF	Change at CER	Internal growth <sup>1</sup>
EMEA	51.5	45.4	13.5%	17.7%	17.7%
US	25.5	18.3	39.2%	42.9%	21.1%
APAC	15.8	15.9	(0.6%)	5.6%	5.6%
LATAM	10.5	8.8	18.9%	17.0%	17.0%
<b>Total Group</b>	<b>103.3</b>	<b>88.4</b>	<b>16.8%</b>	<b>20.8%</b>	<b>16.1%</b>

The largest **region EMEA** has performed very strongly across almost all markets and business segments and achieved year-on-year growth of 17.7% at CER. Medartis benefited from a positive market environment. Germany played an important role and contributed one-third of regional growth, driven by strong demand for screw and plate products launched in recent years as well as KeriMedical's hand solutions. In the UK and Poland, the company made significant strides thus expanding its market position. The youngest subsidiary, Spain, continued its impressive growth trajectory and almost doubled its sales again,

demonstrating promising potential in an attractive market. Switzerland and France, growth was below expectations due to the mild winter in 2023, which affected trauma cases. The company also benefited from its efforts to expand its presence in Eastern Europe and the MENA countries, which it has traditionally accessed through external distributors.

Medartis' **US business** grew by 42.9% (CER) and generated sales of CHF 25.5 million in H1, including CHF 5.6 million from contract manufacturing orders for third-party customers. Internal sales growth developed positively and increased sequentially from 9.8% in the first half and 15.5% in the second half of 2022 to 21.1% in the first half of 2023. Portfolio expansion, higher sales productivity of existing agents and the onboarding of new independent sales agencies contributed to this acceleration. The strong growth in hand, wrist and lower extremities indicate the acceptance and endorsement in the company's offerings. Subsequent to the release of the 'Lapidus Cut Guide' in 2022, the second solution for hallux valgus bunionectomy named 'LapiPrep' was introduced in Q2. Positive customer reactions to the product have reaffirmed its potential to become a growth driver in the future. Furthermore, the product line from Field Orthopaedics, introduced in Q4 of 2022, has gained traction in the market and has helped the company to win share in the hand segment.

In June, the Medartis' National Account Team has signed a multi-year contract with one of the Top 5 GPOs (group purchasing organisations). This agreement extends access to a significantly larger network of healthcare facilities, encompassing 1 600 hospitals and 2 000 ambulatory service centres. The agreement also simplifies the registration process of new accounts for its independent agent sales network.

In the **APAC region**, sales increased by 5.6% (CER) in H1 and reached CHF 15.8 million. Sales in the important Australian market experienced only mid-single-digit growth. This was due primarily to implant price adjustments mandated by the authorities in the private market segment, which were implemented in H2 2022. In the same period, however, sales volume increased by 15%. Medartis' Japanese subsidiary reported strong growth in its lower extremity foot & ankle business, but the distributor sales growth eased partly due to the strong equipment orders from the new CMF distributor in the previous year. Distributor markets in the ASEAN countries grew in line with expectations.

H1 sales in the **LATAM region** amounted to CHF 10.5 million, which represents an increase of 17% at CER compared to the same period one year ago. Dynamic growth in Mexico, fuelled primarily by successful participation in new public tenders combined with a solid performance in Brazil and in the distribution markets, led to this result. Medartis has seen steady growth of its CMF Modus product line in Brazil and a strong uptake in Argentina following the recent launch of the Modus 2 line. In line with its strategy to expand its market presence, Medartis has continued its geographic expansion efforts in Brazil and Mexico. By collaborating with new distributors, the company has successfully covered previously untapped areas. Despite overall positive growth, Medartis experienced a slight slowdown in its sales momentum mainly due to a temporary gap in the registration of new products and a period of uncertainty during the transition of government in Brazil.

## PERFORMANCE BY PRODUCT CATEGORY

Table: Revenue development by products and year-on-year changes:

in CHF million, rounded	H1 2023	H1 2022	Change in CHF	Change at CER	Internal growth <sup>1</sup>
Upper extremities	66.7	61.1	9.1%	13.1%	13.1%
Lower extremities	17.1	13.3	28.6%	33.3%	33.3%
CMF & other products	19.4	13.9	39.5%	43.8%	14.4%
<b>Total Group</b>	<b>103.3</b>	<b>88.4</b>	<b>16.8%</b>	<b>20.8%</b>	<b>16.1%</b>

Broken down by product category, **lower extremities** growth of 33.3% outperformed the other two categories, which recorded internal sales growth in the low tens. Strong sales of the ankle trauma set, expansion in the forefoot as well as cannulated CCS screws were the main growth drivers in lower extremities. The continuous development of the screw implant portfolio and the strategic advancement into important indications in the ankle area over the last three years is yielding positive results. Growth in EMEA and the US were the most pronounced. 'LapiPrep' was rolled out in Q2 and made an initial, albeit small, contributions to the results. The NSI legacy technology represents a comprehensive system for correcting hallux valgus, effectively converting tedious traditional "bunionectomies" into guided procedures with consistent and reproducible outcomes.

**Upper extremities**, which accounts for two-thirds of sales, grew by 13.1%. Medartis achieved healthy growth in shoulder, hand and wrist. In addition to the existing products, the company made inroads with distal ulna, wrist spanning, and forearm shaft plates. These products complement the current portfolio well and enhance the company's offerings in the market. For 2023, the company has established several focus areas with one of the main topics being the market share expansion in its stronghold indication "distal radius". The primary objective is to gain market share in geographies where the company currently holds a relatively small market presence. KeriMedical's sales nearly doubled year-on-year, constituting a quarter of the growth in upper extremities. This achievement is noteworthy considering that Medartis distributes the products in a limited number of countries.

Growth in '**cranio-maxillofacial (CMF) and other products**' reached 43.8% and includes the contribution of the NSI custom-manufacturing business. Internal growth excluding this 3<sup>rd</sup> party business amounted to 14.4% and was primarily driven by the EMEA and LATAM regions, with the latter leading the charge. The demand for 'Modus 1' sets in Latin America continues to be very pleasing. By contrast, sales in the APAC region experienced a decline, primarily due to the strong comparative quarter in the previous year, which was lifted by distributor stocking. Broken down by indication, double-digit growth in orthognathic and mandible were the main performance driver. The demand for the CMX digital planning service also developed positively.

In H1 2023, Medartis further expanded its global workforce by 3%, from 832 to 858 employees. Most of the new jobs were created in the areas of manufacturing, sales and marketing. In Switzerland, where Medartis

has its headquarters and main production facility, 36 jobs were created, mainly in manufacturing and IT. After the acquisition of NSI and the subsequent centralisation of the two US companies in Warsaw, Indiana, the organisation underwent a reorganisation aimed at enhancing operational efficiency and improving the region's profitability.

## FINANCIAL PERFORMANCE

The **gross margin** in H1 2023 decreased to 77.2% owing to a confluence of various factors. The 3rd party custom manufacturing business of NSI had a large impact of 1.1 PP on the decline. The low-margin manufacturing business exhibited stronger growth in H1 than anticipated and was consolidated in H1 2023 for the entire period, instead of just two months as was the case in the same period a year ago. The expanding proportion of distributed products within Medartis' portfolio, including KeriMedical and Field Orthopaedic, led to an additional 0.4 PP reduction in the margin. The company also faced challenges from higher energy costs, which were exacerbated by the ramp-up of its new energy-intensive clean room for inhouse sterile packaging. Driven by considerations of capital efficiency, management also made the decision to temporarily curb production volumes with the aim of reducing inventories, which led to an underutilisation. Furthermore, the company had additional production costs of approx. 0.5 PP due to the one-week production interruption during the IT attack.

In contrast to the higher cost of goods sold (COGS), operating expense (**OpEx ratio**) decreased 7.6 PP from 82.2% last year to 74.5% in H1 2023. This improvement was made possible by higher volumes, a commitment to strict cost discipline, and enhanced cost management following the integration of NSI. **R&D expenses** increased from CHF 12.1 million in H1 2022 to CHF 13.4 million (13.0% of sales), reflecting the integration of the NSI development centre in Warsaw for the entire period. The technical measures to remedy the IT incident (security, IT, legal, consulting, logistics) has resulted in additional one-time costs, most of which were recorded in H1. The company has special insurance coverage in place, and it is presently engaged in discussions with the insurer to ascertain the scope of coverage for these one-off costs.

In H1 2023, **Earnings before interest, tax, depreciation, and amortisation (EBITDA)** increased 32.3% to CHF 13.1 million, representing a margin of 12.6%. Without the one-time costs of the IT incident of CHF 1.8 million, the underlying EBITDA would have been CHF 14.8 million, with the corresponding margin of 14.3% reaching the midpoint of the company's full-year financial guidance range.

The share of the associate KeriMedical was stable, thus reflecting the company's additional growth expenses. After accounting for depreciation and amortisation of CHF 10.3 million, the **operating profit (EBIT)** for the same period amounted to CHF 2.8 million. However, if one-off costs are excluded, the EBIT would have amounted to CHF 4.5 million, corresponding to a margin of 4.4%.

For the reporting period, Medartis records a tax expense of CHF 1.0 million, which is line with the prior year. The **net result** for the period amounted to minus CHF 0.8 million, in contrast to a small gain in H1 2022. The difference is due to the above-mentioned one-off IT costs and to foreign exchange losses of CHF 1.3 million,

most of which are unrealised and result from the strength of the Swiss franc currency. Furthermore, an additional CHF 0.4 million in interest expenses was incurred for a contingent liability to former NSI shareholders. **Basic EPS** decreased from zero to CHF -0.07 per share.

## **CASH USED FOR CAPEX AND A HIGHER STAKE IN KERIMEDICAL**

The **operating cash flow** was CHF 1.6 million better in the first half of 2023, but was still a negative CHF 2.9 million and includes a rise in net working capital of CHF 11.9 million. The increase in inventories resulted mainly from launches of new NSI and Field Orthopaedic products in the US. In H1 2023, investments in property, plant, and equipment (CapEx), including consignment set investments to drive future procedure volumes, totalled CHF 7.4 million, which was consistent with the levels in the previous year. The **cash outflow for investing activities** results mainly from an increase in Medartis' ownership in Keri Medical SA (current: 47.0%) for CHF 18.1 million, which was financed by net proceeds of CHF 29.7 million from a capital increase in March 2023. At the end of June 2023, Medartis had cash and cash equivalents of CHF 15.0 million, in addition to an undrawn credit line with various banks, which enable the company to finance its organic growth activities.

## **FULL-YEAR 2023 OUTLOOK**

*(barring any unforeseen circumstances)*

Based on the results in H1 and the trends experienced since then, the company remains optimistic and reaffirms its 2023 full-year guidance to achieve internal sales growth of 15%-18% and an underlying EBITDA margin of 13%-15%.

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## **HALF-YEAR REPORT**

Medartis half-year report 2023 with the unaudited condensed financial statements incl. the accounting notes was published today at the corporate website. You can download a pdf [here](#).

## **ANALYSTS' AND MEDIA CONFERENCE CALL**

Medartis will present its 2023 half-year results to representatives of the financial community and media in an audio webcast today at 13.00 am Swiss time. A webcast of the event will be available on <https://event.swisscom.ch/v/medartis-h12023>. The webcast will be hosted by Christoph Brönnimann (CEO) and Dirk Kirsten (CFO) and the webcast language will be English.

An alternative option for anyone experiencing technical problems is to use these telephone numbers:

Zurich: +41 43 456 9986

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Please dial in 5 minutes before the start of the conference and enter the password "Medartis" when prompted by the operator. To ask a question, please press \*1 on the telephone. We will answer the questions on the webcast first.

A recording of the webcast will be available directly after the event and as an MP4 file on the website a few hours after the conference. We recommend that you download the presentation file under the following [link](#) before the start of the conference.

#### IMPORTANT DATES AND UPCOMING INVESTOR EVENTS

Date	Event	Broker	Destination
2023			
15 August	2023 half-year results publication		Webcast
29 August	Investor meetings (virtual)	Octavian	US / UK
30 August	Investor meetings	Octavian	Frankfurt
31 August	Investor meetings	ZKB	Zurich
05 September	Investor meetings		Paris
19 September	Investor meetings (virtual)		US
02 November	Swiss Equity Conference	ZKB	Zurich
15 November	Healthcare Conference	Jefferies	London
2024			
12 March	2023 full-year results publication		Basel
17 April	Annual General Meeting 2024		Basel, Medartis HQ

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#### About Medartis

Founded in 1997 and headquartered in Basel, Switzerland, Medartis is one of the world's leading manufacturers and providers of medical devices for surgical fixation of bone fractures for upper and lower extremities as well as for the craniomaxillofacial region. Medartis employs approx. 860 individuals across its 13 locations, with products offered in over 50 countries globally. Medartis is committed to providing surgeons and operating theatre personnel with the most innovative titanium implants and instruments as well as best-in-class service. For more information, please visit [www.medartis.com](http://www.medartis.com).

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