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# EDITED TRANSCRIPT

ATEC.OQ - Alphatec Holdings, Inc., EOS imaging SA - M&A Call

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## CORPORATE PARTICIPANTS

**Jeffrey G. Black** *Alphatec Holdings, Inc. - Executive VP & CFO*

**Patrick S. Miles** *Alphatec Holdings, Inc. - Executive Chairman, CEO & President*

## PRESENTATION

### Operator

Good morning, everyone, and welcome to Alphatec's acquisition announcement.

We would like to remind everyone that participants on the call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

During this call, you may hear the company refer to reported amounts, which are in accordance with U.S. GAAP as well as non-GAAP or pro forma measures. Reconciliations of non-GAAP measures to U.S. GAAP can be found in the supplemental financial tables included in the press release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

Due to the time of market open, there will not be time for questions following today's presentation. Please follow up with management for any additional information.

Joining us on the call today will be ATEC's Chairman and CEO, Pat Miles; and CFO, Jeff Black. Now I will turn the call over to Pat Miles.

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**Patrick S. Miles** - *Alphatec Holdings, Inc. - Executive Chairman, CEO & President*

Thanks very much. I appreciate it, Shannon. The -- great morning, everybody. The informing better spine surgery Part 2 is taking place. And so we're truly focused on enhancing ATEC clinical performance with the acquisition of EOS imaging and clearly super excited and kind of really never took our eye off the prize.

And so when you start to think about ATEC as a company, you ask what distinguishes us. And I would tell you that really, it's clinical distinction. And I think we realize surgeon's success is dependent on clinical performance. And our focus is equipping them with technology that improves outcomes. I think that says it all. Our competency really is delivery -- delivering clinically valuable information. And EOS really profoundly expands that level of prowess.

And so when you start to look at our investment thesis, really, it's related to how surgeons serve patients more than how industry makes decisions purely on the financial reflection of implants. And so I think focusing on unique integrated technologies that drive adoption, loyalty and predictability is really right down the middle of what we're talking about with regard to EOS. It's a plethora of information.

One of the dynamics of the investment thesis is where we've committed dollars, we've seen a response. And I think that as you start to look at things like information, it's really the catalyst to deliver our value in terms of lateral and posture fixation. And so we see this information source as being really a core tenant of value creation. And so you got to know that surgeons yearn for actionable information and especially, clearly, where it can improve patient outcomes.

And so what we've done over the last, gosh, a couple of years now, I think, is really develop a conduit into the operating room with SafeOp. And so for us to take that conduit and continue to elevate the information available to the surgeon under the auspices of improving the clinical experience, I think it's required of us. And so EOS really enables better information end-to-end. And so we'll walk through a little of that.

So when you start to think about spine surgery, your morning lesson in spine, the core tenets of spine surgery: decompression, stabilization and alignment. And so you have this kind of juxtaposition of alignment is the greatest correlative to a successful long-term outcome for a patient, meaning how a surgeon realigns a patient. And so to be able to provide objective information to that end is hugely valuable. And so we're addressing spine's unmet need with alignment, restoration and verification information.

And then you say, "How do they go about doing that?" And the way they do is really through rapid calibrated, standing full-body scans. They have 380 units installed globally. They have earned significant academic influence. And the way they've done that is really through the output of the machine, if you look on the right side of the slide, the biplanar spine imaging and the ability to anatomically model becomes really the foundation of customizing care. And so we're super enthusiastic about, again, taking this information that comes out of this machine and really delivering an improved experience.

So if you look at really kind of the strategic foundation or the strategic rationale, what we're doing is we're monetizing improved outcomes. And you look at ATEC, you say, "Gosh, we've created clinical distinction." And you couple that to really world-class advanced imaging know-how, it clearly is a way to improve outcomes. And we feel like we can do that in 3 ways. And we'll kind of walk through each of the 3 different ways in terms of how we feel like this really creates a significant value.

One of them is inventories related in terms of how we pre-case plan. The other would be patient-specific treatments via bone quality measurement and how we improve long-term outcomes with alignment restoration but we'll go more deeply into that.

One thing that we've -- I would say that we've done a reasonable job at is we talk a lot about comp/void sales. And so a big part of our monetizing information, the way that we watch is, are we pulling through implants and whatnot by taking the information, utilizing it. And so one of the things that's been interesting to us about EOS really is it is a source of profoundly important information. And what we're really providing them is a way by which to monetize that. And so we feel like our ability to assemble implants with EOS imaging is -- and monetizing is really very apparent.

The -- so talked a little bit about how we're going to do it. And really, the -- we'll do it through an operational element, a bone density element and an alignment element. And so really, this starts kind of the foundation of a predictive analytics effort that we feel like, again, provides great value down the -- looking forward.

And so a big part of growing a company, as you guys know, is really kind of the required capital, a lot of to sets and set build. And when you start to look at what the commitment is financially to do that, it is absolutely significant. And with EOS, we can precisely plan less inventory to support surgery and really, patient-specific type of surgical planning.

And so today, when we support a surgery, we literally, like all companies, have a significant financial commitment sitting in the operating room because we don't appreciate all of the requirements associated with a specific patient. And so for us to tailor that really enables us to minimize the volume of committed dollars and committed inventory into a specific surgery. So we feel like there's significant opportunity to become more sophisticated as an industry in terms of the volume of things that we have committed into the operating room, a very big deal.

I think the next one is a screw has been foundationally the fixation element in spine. And really what EOS does is provide us demand-matching opportunities for implants based upon bone quality. And where a normal bone quality measurement averages the bone density over multiple levels, what we're going to get is level-specific bone quality information. So it really provides us a new way to think about implants for stabilization. Remember, we talked about decompression, stabilization and alignment really are the tenets of spine surgery. And what we get to do is rethink the way that we fix the spine and stabilize it.

One nice thing is if you look at our portfolio today, we have the only expandable screw on the market. And this would be the type of example that one would give as it relates to options in stabilizing the spine better. And clearly, it's a way to protect price as well.

So lastly, the ability to improve spine alignment restoration or verification is really one of the key value drivers. Just the greatest correlative, as I said, to a successful long-term outcome. And our company, when you start to think about the makeup of our company, we're steeped in know-how in terms of the ability to translate scientific data into objective data-driven restoration. And so we have a lot of enthusiasm in terms of just -- we

have done this before. And so we're walking into a place of significant familiarity. And so just another great way for us to translate the value of the information into the operating room to further the value, not only from a patient outcome experience but also in capturing share of the surgery.

So when companies talk about predictive analytics, they need to combine that with patient-related outcomes. And that requires really, at the very least, pre- and post-op imaging. And EOS provides really an end-to-end solution. So I wanted to go in a little bit about the -- about really what it does. And so really from diagnosis, more accurate understanding of patient alignment through a preoperative experience in terms of understanding the exact requirements of surgery as well as what the plan is. So we'll get that upfront.

We have the SafeOp element that ultimately enables us to reconcile within surgery. So we will work through the elements to reconcile what the proposed plan is. Post-op assessment to determine, "Gosh, did we get what we wanted?" and then the ability to follow up. And so when we start talking about end-to-end value, I think that these are the things that necessarily are the elements that we're talking about.

And so you start to think about, "Gosh, here's Alphatec spine several years ago." And you think about, "Gosh, how will a company like this start to garner significant scale across really a top hospital landscape?"

And so EOS has done a tremendous job in terms of creating academic relevance. Their footprint is really a who's who of academic distinction. And so there's -- I got to tell you there's a little crossover in terms of the resurrected ATEC business. And we feel like the combination gives us a tremendous hunting license in institutions of significant kind of academic prowess that we wouldn't have before.

And so the other thing is I think everybody appreciates that we are a U.S.-centric company in terms of ATEC. And so really kicking off an international experience really provides us an infrastructure and a foundation from which to build. And so much like the U.S. footprint, the international footprint of EOS is really a prestigious assembly of institutions for which we can't be more excited about inserting ourselves in.

And so anyway, I can't be more enthusiastic. I'll turn the -- kind of the financial walk over to Jeff. But we feel like this is really kind of the next step in building the very monster that we intend.

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**Jeffrey G. Black** - Alphatec Holdings, Inc. - Executive VP & CFO

Great. Thank you very much, Pat, and thank you, everybody, for joining us this morning. I thought it was important to at least give everybody here a high-level view of pro forma P&L impact and revenue profile, touch a bit on the financing that we announced this morning and then address, at a high level, deal economics and deal terms.

So when you think about P&L impact at a very high level, clearly, the pandemic had an impact on EOS business. But what hasn't changed is their continued demand for the product. When you take a look at their installed base, they've doubled their installed base over the last 4 years, up to 380 globally. And their revenue profile today represents \$28 million in the last 12 months' revenue and I think, importantly, includes an annual recurring maintenance revenue stream of about \$15 million. So even with the pandemic impact, they've done a very nice job of maintaining that maintenance revenue stream profile.

The strategic rationale investment thesis really remains unchanged from 9 months ago. And that is that we still expect the business to be accretive on a stand-alone basis to adjusted EBITDA and free cash flow following the first full year of operations. Clearly, we'll go through integration costs and transaction costs.

So the way we think about this is while the pandemic has probably had a 12-month impact on their revenue profile, the company has done a phenomenal job of managing cash profile and managing burn. So our investment thesis remains intact.

When you think about pro forma revenue profile -- and again, way too early to be providing forward guidance. But we thought it made sense to give you just a look at combined pro forma revenues based upon Street consensus. And what we're looking at here is an ATEC's standalone business of \$113 million on a pro forma basis based upon Street guidance for 2021, almost doubles that revenue profile. And this doesn't yet include the

impact of revenue synergies we'll realize, cross-selling opportunities, pull-through opportunities. We'll give more details and guidance at the close of the transaction.

In terms of how we finance this business and -- or the transaction and a look at the balance sheet, I guess, starting with Q3. On a pro forma basis, following our October offering, we have a pro forma cash at the end of Q3 of about \$123 million. And that gives us the runway to fund the base business.

Today, we announced a new commitment of \$138 million in a private placement of common shares anchored by Squadron Capital. Again, Squadron has been a long-time, long-term supporter of the company. We appreciate, again, them stepping up in a big way. We also had strong demand and support from new and existing ATEC investors, including Perceptive Advisors, Avidity Partners, and First Light Asset Management.

So thrilled with the syndicate here and the strong showing of support. That will be priced. It's a straight equity deal priced at \$11.11 per share, which represents about a 10% discount to the December 15 close when the commitment was made.

In addition, with Squadron, we maintain significant flexibility. So what we've done here is we've amended the agreement. There was \$30 million in the existing \$75 million secured term debt that we converted to equity and a conversion at the \$11.11 share price. That actually delevers us down to \$45 million in term debt, reduces annual cash interest outlay by about \$3.5 million, extends our debt maturity to June of 2026. Amortization begins -- I'm sorry, amortization begins in January of 2025. Again, we maintain no maintenance covenants or prepayment penalties. So again, appreciate the Squadron stepping up in the existing syndicate and very pleased with where we ended up here.

In terms of deal economics, we thought it important to really take a look at a comparison of where we were on this deal 9 months ago versus where we are today. And I think at a high level, we're looking at about USD 106 million enterprise value versus about USD 122 million 9 months ago. So significant improvement, a decrease in the offer -- enterprise value over long-term revenues. We also -- given our balance sheet position, given the favorable economics here on the financing, we were able to execute this transaction at really more than -- less than half the dilution of what the proposed dilution from the prior deal was.

And then just to summarize deal terms. Economics, again, about \$117 million total purchase price, including the retirement of their existing debt. On an enterprise value basis, including the assumption of their cash, about \$106 million enterprise value. In terms of structure, it's an all-cash deal. We will file a public tender offer for their shares. It will be subject to French regulatory approval. Expectation is we'll file the tender in mid-February, expected to go effective in March with the closing date of Q2 of 2021.

And again, we do have secured tender commitments for greater than 20% of the existing EOS shareholder base. So I feel like we're entering this transaction with a strong foundation of support.

And with that, I'll turn it over to Pat for a wrap-up.

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**Patrick S. Miles** - Alphatec Holdings, Inc. - Executive Chairman, CEO & President

Thanks, Jeff. Appreciate it. So we know that ATEC and EOS is a winning combination. And so we believe that what we're really doing is we're advancing the AlphaInformatiX platform in terms of the delivery of information and it assembled to the competency established with SafeOp. It distinguishes ATEC clinical performance from diagnosis all the way through follow-up.

We also see the opportunity to monetize information by creating more pull-through opportunities, provide immediate access to U.S. installed base with little overlap, facilitate global expansion and really, improve inventory efficiency.

And Jeff walked through the deal elements, so I won't repeat those. But clearly, a better deal. And from a valuation perspective, I think we've been rewarded over the last little while. And it's a better time for us to engage in this activity.

And so ultimately, I think that we've created a business around improved outcomes through the delivery of information. And the EOS will further advance ATEC's clinical prowess. And so we can't be more excited about the assembly of these 2 companies. And we feel like we have a lot of work to do. But we always say that our foundation -- the building of our foundation is in technology. And the last thing we did is a foundation for what we do next.

And so anyway, I can't be more excited about the transaction and look forward to discussing with everybody. But mostly, really appreciate everybody's interest in the company and excited about our route forward. So thanks very much.

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### Operator

That will conclude today's call. Thank you.

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