



Tenon Medical, Inc.

Second Quarter 2022 Financial Results and Corporate Update

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C O R P O R A T E P A R T I C I P A N T S

Steve Foster, *Chief Executive Officer*

Steven Van Dick, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Bruce Jackson, *The Benchmark Company*

P R E S E N T A T I O N

Operator

Greetings and welcome to the Tenon Medical Second Quarter 2022 Financial Results and Corporate Update Conference Call.

As a reminder, this conference is being recorded.

Your host today is Steve Foster, Chief Executive Officer and President, Steven Van Dick Chief Financial Officer, will present results of operations for the second quarter ended June 30, 2022, and provide a corporate update.

A press release detailing these results was released today and is available on the Investor Relations section of our Company's website, www.tenonmed.com.

Before we begin the formal presentation, I would like to remind everyone that statements made on the call, and webcast may include predictions, estimates, or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements which reflect our opinions only as of the date of this presentation.

Please keep in mind that we are not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events.

Throughout today's discussion, we will attempt to present some important factors relating to our business that may affect our predictions. You should also review our most recent prospectus and Form 10Q for a more complete discussion of these factors and other risks, particularly under the heading Risk Factors.

At this time, I'll turn the call over to Tenon Medical's Chief Executive Officer, Steve Foster.

Steve Foster

Thank you, Mike. I appreciate you, and good afternoon to everyone. I'm pleased to welcome you to today's second quarter 2022 financial results and corporate update conference call for Tenon Medical.

Twenty-Two was a milestone year for our organization transitioning to a public company and positioning us for commercialization of our Catamaran SI joint fusion system.

In the second quarter, we closed on a \$16 million IPO, providing the necessary funds to execute on our commercial plans and support our mission to deliver a refined surgical option for patients with chronic sacroiliac joint pain that fail conservative care. For those of you who have not had the opportunity to meet, I'd like to briefly describe our opportunity.

The sacroiliac joint or SI joint is the last segment of the spine connecting the sacrum to the ilium. A literature estimates that approximately 25% of all lower back pain maybe attributed to dysfunction of the SI joint, often presenting as sciatica-like symptoms producing buttock and upper leg pain. Most common causes of SI joint pain or injuries, pregnancy and childbirth, degeneration.

Managing SI joint symptoms typically involves physical therapy, stretching exercises, pain medications, and joint injections. While many patients respond to non-surgical treatment, surgical options to fuse that joint stop painful motion may be recommended.

Catamaran's SI Joint Fusion system is intended to facilitate SI Joint Fusion to treat SI conditions including sacroiliac joint disruptions in degenerative sacroiliitis. The global SI joint market's a major untapped market opportunity estimated to grow to \$650-plus million by 2028 at a compounded annual growth rate of 18%. This growth is being driven by improved surgical approaches, specialized implant designs, procedure safety and efficacy, clear physician reimbursement, and growing recognition from physicians seeking better options for their patients.

We founded Tenon Medical Inc. in 2012 and developed a proprietary U.S. Food and Drug Administration cleared surgical implant system, which we call the Catamaran SI Joint Fusion system. System offers a novel lesson basis inferior posterior approach to the SI joint using a single robust titanium implant. This implant is the Catamaran fixation device, which transfixes the SI joint ilium to sacrum. Specialized instrumentation is utilized to harvest patients own bone during the drilling process and properly place the fixation device. The procedure provides for disruption, fixation, and grafting of the joint to help facilitate the fusion response. These are required aspects of any authentic arthrodesis.

We believe that the implant design and procedure we have developed along with 2D and 3D imaging protocols for proper implantation will continue to be well-received by the clinician community who have been looking for a next-generation device.

Our initial clinical results indicate that the Catamaran's system implant is promoting fusion across the joint, as evidenced by post-op CT scans, which are a gold standard for fusion assessment in the surgical community. Catamaran's system has been designed to produce broad and demonstrable advantages over market competitors.

Additionally and equally important is surgery response to the benefits of the system which have been extremely positive to date. Tenon and its commercial partner have been focusing on compelling positions to workshops settings, and then assisting them with access to do cases in their facilities. We are preparing for a full national launch of the technology at the upcoming North American Spine Society meeting to be held in Chicago in October this fall.

We continue to target physicians who have been trained on SI procedures or have significant experience with SI surgical technologies. To date, we have posted 21 physician education workshops, and in addition Tenon has completed design synthetic trainer model that will deliver an accelerated ability to train locally, and to do so in a very cost-effective manner.

Lastly, Tenon Medical is preparing to initiate a prospective multi-center post-market study of the Catamaran SI Joint Fusion system. The objective of this post-market study is to report on the clinical outcomes in patients with sacroiliac joint disruptions or degenerative sacroiliitis treated with the Catamaran system. The study is designed to enroll up to 50 patients, up to 10 clinical sites in the United States. Company is currently in the process of identifying and qualifying clinical sites with plans to initiate enrollment in the fall of 2022.

We continue to be encouraged by our progress towards bringing our Catamaran's system to market and the increasing number of surgical procedures utilizing the system. Early results show the system delivering on its promises and providing our physician customers with an enhanced option, treat their patients suffering from debilitating SI joint issues.

With that, I'll now turn it over to Mr. Steve Van Dick, our Chief Financial Officer, to discuss our financials.

Steve Van Dick

Thank you, Steve.

I will give us a (inaudible) review of our financial results. A full breakdown is available in our regulatory filings and in the press release that crossed the wire this afternoon.

Revenue was a \$135,000 in the second quarter ended June 30, 2022, an increase of 514% compared to the \$22,000 in the comparable year-ago period. The increase was primarily due to a 433% increase in the number of surgical procedures in which the Catamaran system is used.

Revenue for the six months ended June 30, 2022 was \$206,000 up 457% from the \$37,000 in the year-ago period.

Gross loss in the three months ended June 30, 2022 was \$136,000, compared to a gross profit of \$13,000 in the comparable year-ago quarter, primarily due to the increase in operations overhead and spending.

Gross margin percentage decreased from 59% to a negative 101%, primarily driven by higher operations overhead spending and partially offset by higher revenue per procedure, which resulted from an amended and restated national distribution agreement.

Operating losses totaled \$5.5 million for the second quarter of 2022, compared to a loss of \$1.6 million in the second quarter of 2021. The increase in operating expenses was a result of the creation of an infrastructure to support future growth in the ongoing transition to a public operating company. The operating loss for the second quarter of 2022 includes a \$1.5 million charge for the issuance of common stock under an anti-dilution provision of agreement. A \$574,000 charge for the settlement of our arbitration with our CEO, prior CEO, as well as an increase in stock-based compensation of \$491,000 over the second quarter of 2021.

Net loss was \$5.5 million for the second quarter of 2022, compared to a loss of \$1.7 million in the same period of 2021. Net loss for the six months ended June 30, 2022 was \$7.8 million compared to \$1.9 million in the prior year period. We do expect to incur additional losses in the future.

As of June 30, 2022, cash, cash equivalents in investments totaled \$16 million. The Company believes that the cash, cash equivalents and investments will enable Tenon Medical to fund the hiring of additional personnel, product development, and sales and marketing activities, which include clinician training and clinical research.

I'll now turn the call back to Steve Foster for closing thoughts

Steve Foster

Thank you, Steve.

In summary, we're very well-positioned to create long-term value for our shareholders. Thus far, throughout 2022, we've made significant advancements for commercialization of our proprietary FDA cleared Surgical Implant system, which is designed to optimize SI joint fixation fusion surgery, and corresponding outcomes.

We enter the second half of 2022 with increased momentum, resources, and enthusiasm. Our finalized commercial ready product and first cases are completed. We're now focused on introducing and educating physicians to our optimized surgical approach for SI joint fusion that has the potential to deliver significant and sustained reduction in SI joint pain for their patients. With our transition to a public company which resulted in an addition of new capital, our path is cleared to execute on the full commercial launch of the Catamaran system.

I look forward to providing our shareholders with further updates in subsequent quarters as we move to full scale commercialization. I thank everyone here for attending and now like to hand it back over to Mike, our Operator, so we can move into the Q&A session.

Operator

Thank you. For the first question, which comes from the line of Bruce Jackson from The Benchmark Company. Please go ahead.

Bruce Jackson

Hi. Good afternoon, thank you for taking my question. With regard to the training sessions, how many doctors do you train on average per session, and can you tell us a little bit more about the topics you cover and what you do in order to get the physicians comfortable with the procedure to the point that they can perform it by themselves on a regular basis?

Steven Foster

You bet. Thank you. Bruce. A couple of things. One, the numbers of physicians at these sessions is actually changing a bit as I mentioned the introduction of this synthetic model. In normal course we'll do a training session with anywhere between six and 12 physicians in a cadaveric setting, and this is a setting where physicians have to fly to a lab and usually spend an evening to attend a training session such as this. This synthetic model allows us to bring training opportunities to their locale and it gives us a much faster, a more reliable, and consistent training experience and we're actually very excited about it. But what it we'll do is it'll create more sessions with fewer physicians. We'll do one or two or three locally, as opposed to bigger groups, which we think actually will move our training faster and frankly be much more convenient for our physician customers.

The components of a training session involved, as you might imagine, a didactic session that covers everything from anatomical considerations, imaging, everything that the physician needs to be comfortable with and understand well in order to move forward with adopting the technology. Of course, we'll move into the lab, which is a more hands-on experience with all the instrumentation, the sequence of the instrumentation, the way we do the imaging protocol and the placement of the implant, etc. So we try to give them a full experience so when they walk away, they're prepared to adopt the technology in the practice, and of course afterwards there's some work to do, usually with their facilities, to secure pricing, to secure access, so they have access to the technology in their hospital or their ASC setting.

Bruce Jackson

Great. Then do you have any special events scheduled around (inaudible) keeping the meter (phon) talks or special events, anything like that?

Steven Foster

We do—quite excited. As part of our Alpha series in the early cases, Dr. Michael Chaparro down in West Palm Beach, Florida, completed a series of these cases and we have prepared that series and it's been accepted in the New Technology Forum at North American Spine Society so that Chaparro will be presenting on his experience, which is a fantastic opportunity to put the performance of Catamaran out in front for everyone to see at a major meeting like that. Of course we'll have a booth presence there out on the convention floor. We'll also be running targeted workshops in the evening for physicians who are interested in getting their hands on the technology, and as I mentioned before, utilizing the synthetic model for a hands-on experience.

Bruce Jackson

Great. Then a question for Steven about the operating expense profile going forward. Do you have a lot of promotional activities going on here? Do you have a burn target on operating expense target for the remainder of the year?

Steve Van Dick

No, at this point, we really don't have any forward-looking guidance that we're providing. We would expect that the third quarter is going to be pretty well in line with Q2. We would expect some ramping of the expenses we get to be more into the full launch of the Catamaran system nationwide. As we go through the next couple of quarters and we get into early 2023, we'll revisit our decision not to provide forward-looking guidance and probably have a better idea on when that would be more appropriate.

Bruce Jackson

Fair enough. Thank you very much for taking my questions.

Steven Foster

You bet, Bruce. Thank you.

Operator

I will now turn the call over to Mr. Foster for his closing remarks.

Steve Foster

Thanks, Mike. I appreciate that. I'd like to thank each of you for joining our earnings conference call today and look forward to continuing to update you on our ongoing progress and growth. If we were unable to answer any of your questions, please reach out to our IR firm, The MZ Group, who would be more than happy to assist.

With that I wish everyone a good day and appreciate everyone being here.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.