



Tenon Medical, Inc.

Fourth Quarter 2022 Earnings Call

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CORPORATE PARTICIPANTS

Steve Foster, *Chief Executive Officer, President and Director*

Steven Van Dick, *Executive Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Bruce Jackson, *Benchmark Company*

PRESENTATION

Operator

Greetings, and welcome to the Tenon Medical Fourth Quarter and Full Year 2022 Financial Results and a Corporate Update Conference Call.

As a reminder, this call is being recorded.

Your host today is Steve Foster, Chief Executive Officer and Steven Van Dick, Chief Financial Officer. Mr. Foster and Mr. Van Dick will present the results of operations for the fourth quarter and year ended December 31, 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 the statements made on the call and webcast may include predictions, estimates, and other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on the 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 these presentation.

Please keep in mind as we are not obligating ourselves to revise our 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. For a more complete discussion of these factors and other risks, you should review our perspectives dated April 26, 2022, particularly under the heading, Risk Factors which is on file with the Securities and Exchange Commission at www.sec.gov.

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

Steve Foster

Thank you, Maria. And good afternoon to everyone.

I'm pleased to welcome you to today's fourth-quarter and full-year 2022 financial results and corporate update conference call for Tenon Medical. Twenty-twenty-two was a transformative year for Tenon highlighted by our \$60 million IPO in April, providing the necessary funds to execute on our commercial plans in closing the year with the successful treatment of the first study patient and a post-market clinical trial of the Catamaran SI Joint Fusion system. Throughout the year, we continue to ramp our commercialization plans to deliver a refined surgical option for patients with chronic sacroiliac joint pain or degenerative sacroiliac that fail conservative care.

Catamaran is now FDA cleared, reimbursement secured, and commercially launched to a large market with accelerating recognition in the physician community. We launched the Catamaran's system at the North American Spine Society Meeting held in Chicago in October. There, we introduced Catamaran to over 3,500 spinal specialists and other healthcare professionals in attendance at the meeting.

As part of our mass activities, we had an interactive hands-on technical exhibit where healthcare professionals learn more about Catamaran in its novel trends fixing (phon) approach, hosted multiple hands-on technical workshops for invited physicians and head outcomes from a single-center experience with Catamaran presented at the innovative technology session.

After the previously announced restructuring of our national distribution agreement, we significantly ramped our commercialization efforts including developing commercial infrastructure and building our sales management team to support top-line growth. These efforts continue as we focus on targeting physicians who have been trained on SI procedures or have significant experience with SI surgical technologies. Utilizing area sales managers, clinical specialists, and independent distributors in an aggressive local workshop program, our go-to-market strategy is taking shape and gaining traction.

During the fourth quarter, our surgical procedures increased 386% compared to the year-ago quarter, and 361% for the year. We anticipate acceleration in the number of procedures as Tenon has completed the design of a synthetic trainer model that will deliver the ability to train locally and to do so in a very efficient manner for the physician. We are also focused on an aggressive informational marketing promotion program including surgical training manuals, whitepaper, website, and other social media.

Taken together, we're receiving highly positive feedback from the clinician community and are focused on showcasing our unique solution through a wide variety of channels, conferences, and hands-on workshops. Looking ahead on our commercialization pathway and the addition of our synthetic training model option, we anticipate further acceleration of our outreach programs.

Turning to our clinical research timeline, during the fourth quarter, we received institutional review board approval from WCG IRB for two separate Tenon-sponsored post-market clinical studies of Catamaran. The approval by WCG represented a milestone for us, which allowed designated Catamaran study centers to begin recruiting and enrolling patients into the respective studies. The objective of our post-market multi-center strategic study is to report on clinical outcomes for patients with sacroiliitis joint disruptions or degenerative sacroiliitis treated with the Catamaran system. The study is designed to enroll up to 50 patients and up to 10 clinical sites across the United States.

The CT scan study will assess patient pain scores, fusion, as well as other patient-reported outcomes out to 12 in 24 months. In November, we were excited to announce the successful treatment of our first enrolled patient at Zion Surgery Center in St. George, Utah. We look forward to additional study centers and investigators beginning their enrollment and continue the process of identifying, qualifying additional clinical sites. We are encouraged by the Catamaran system performance in the OR and the increasing number of surgical procedures utilizing the system.

Our early results show the system delivering on its promises and providing our physician customers with an enhanced option to treat their patients suffering from debilitating SI joint issues.

During 2022, we made significant strides in expanding and improving our intellectual property portfolio. The Company had two patents issued and filed a total of 13 patent applications during the year, which we believe represents our continued advancement and improvement in our intellectual property portfolio to protect our technology and know-how.

As we start 2023, we're encouraged by the significant increase in reimbursement for the SI Joint Fusion procedure. CMS increased the 2023 Medicare facility fee averages by approximately 26% for SI joint fusion procedures performed in the ASC, and 33% for these procedures done in hospital outpatient settings. We believe this increase will drive further adoption of the Catamaran system and allow us to maintain our average selling price.

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

Steven Van Dick

Thank you, Steve. I'll give a succinct review of our financial results. A full breakdown is available in our press release that crossed the wire this afternoon.

Revenue was \$277,000 in the fourth quarter of 2022, an increase of 423% when compared to \$53,000 in the comparable year-ago period. Revenue was \$691,000 in the year ended December 31, 2022, an increase of 332% compared to the \$160,000 in the prior year. The increase in revenue for the three months and Full Year 2022 was primarily due to increases of 386% and 361% respectively, in a number of surgical procedures in which the Cameron system was used, as Steve previously mentioned, combined with lower revenue procedure due to the national distribution agreement in effect for sales from July 2020 through April of 2021.

Gross loss for the three months ended December 31, 2022 was a negative \$270,000 compared to a gross profit of \$36,000 in the comparable year-ago quarter. Gross loss in the year ending December 31, 2022 was \$641,000, compared to a gross profit of \$105,000 in the prior year. The changes were due to the increases in overhead spending and the number of surgical procedures performed.

Gross margin percent was negative 75% in the fourth quarter of 2022 and a negative 93% in the year ending December 31, 2022. This was driven by higher operating overhead spending and partially offset by higher revenue per procedure.

Operating losses totaled \$7.9 million for the fourth quarter of 2022, compared to a loss of \$2.6 million in the fourth quarter of 2021. Operating losses were \$18.7 million for the year ended December 31, 2022, compared to \$6.5 million for the prior year. Operating losses for both the fourth quarter and the year ended December 31, 2022, included a charge of \$3.6 million associated with the termination of the Company's national distribution agreement.

Also, stock-based compensation increased \$1 million in the fourth quarter of 2022 as compared to the same quarter in 2021, and increased \$2.5 million in the year ended December 31, 2022, compared with the prior year. Remaining increases in the operating expenses were the result of the creation of an infrastructure to support future growth, and the cost associated with being a public operating Company.

Net loss was \$7.9 million for the fourth quarter of 2022 compared to a loss of \$2.8 million in the same period of 2021. For the year ended December 31, 2022, net loss was \$18.9 million, compared to \$7 million in the prior year. The Company expects to incur additional losses in the future.

As of December 31, 2022, cash, cash equivalents and short-term investments totaled \$8.6 million as compared to \$7.3 million as of December 31, 2021. The Company believes its cash equivalents and short-term investments will enable Tenon to fund personnel to maintain a commercial sales organization sales and marketing activities, including clinician training and clinical study activities, as well as product development.

With that, I'll now turn the call back to Steve for closing thoughts.

Steve Foster

Thank you Steve. In summary, we continue to believe we are well-positioned to create long-term value for our shareholders. With the national launch of Catamaran, increased Medicare reimbursement, ongoing positive feedback, we're very optimistic for the commercialization of our proprietary FDA cleared surgical implant system, which is designed to optimize SI joint surgery and corresponding outcomes. Post-market clinical studies represent our continued commitment to validating and differentiating patient outcomes in radiographic assessment into Catamaran's system.

It is our strong belief that the Catamaran single titanium implant design that trends fixes helium and sacrum, stabilize the SI joint, as well as an optimized surgical approach, will have a positive impact on patients suffering from sacroiliac joint disruptions.

As we move ahead to 2023, we are focused on the following: one, a continued build-out of our commercial infrastructure and our sales management team in order to ramp our commercial outreach; two, introducing and educating physicians to our optimized surgical approach for SI joint fusion; three, delivering clinical research that reinforces the promise of this distinct technology; four, continue to expand and improve our intellectual property portfolio.

I look forward to providing our shareholders with further updates in subsequent quarters as we scale commercialization and develop our clinical study data. I thank everyone for attending.

Now, I would like to hand the call back to Maria and begin our question-and-answer session. Maria?

Operator

Thank you. Our first question comes from Bruce Jackson with the Benchmark Company. Please go ahead.

Bruce Jackson

Hi. Good afternoon and thank you for taking my questions. I wanted to talk about the SG&A line in the fourth quarter. You had some special charges in there plus some tradeshow expenses, and you're also reworking in the commercial operations. I was wondering just moving into '23, can you give us a sense of what the normalized SG&A line is going to look like, and also maybe the operating expense profile?

Steve Foster

This is Steve. I mean, in terms of the SG&A, if you look at the fourth quarter, as we mentioned in the release, \$3.6 million of that was associated with that a onetime charge related to the termination of the national distribution agreement. I think if you look at the fourth quarter and you have to grow it a bit because—during the fourth quarter we added, our sales structure was pretty much being put in place you're going to see a little bit of a ramp in Q1 and then it's going to stabilize and grow with the commission expense based off of the increased revenue.

Bruce Jackson

Okay. Then the other thing I'm looking at is the revenue ramps. You've done a great job getting the product launched. You've got a lot of prospects coming out of the NASS meeting. The new synthetic training program is able to get everybody up to speed more quickly. How fast do you think that revenue might be able to grow in 2023?

Steve Foster

Thanks, Bruce. So I appreciate the question. It's coming out of NASS in building prospects in parallel with hiring and building out our sales organization was really what Q4 was all about. Now we move into this intensive execution phase where not only are we trying to compel physicians into a training environment, but get them converted and committed, work with their facilities on pricing, things of that nature to clear the pathway to them becoming commercially active. That's really where we are right now. Everything that we have is going into those basic tenants of growing our business.

While we're not providing any specific guidance going forward, since it's so early in the process, we are really encouraged by what we're seeing. The reaction to the training, the reaction to early clinical experience and the subsequent ramp of our volume. Really like what we see. It's early, but we're often running and I'm frankly very excited about it.

Bruce Jackson

Okay. Great. Then just one more question for me about the early adoption behavior of the physicians. Is this something where you'd like to try one procedure and then wait for a certain amount of time? Is this something where—can you just tell us a little bit about what the adoption behavior looks like and how you get the physicians to become regular implanters?

Steve Foster

Yes. This is a great question. One of the blessings of an SI procedure is the primary cause of a patient's pain is disruption of the SI joint - usually - and undue motion. When we implant the Catamaran device, it's a very robust implant and that motion goes away immediately, and so the physician is seen right way.

What are they looking for? If they're looking for, hey, how streamlined and refined is the procedure? Do they like doing it? Is it satisfying to do it? Do they feel like it's getting the job done? Then of, course, they want to see how their patient responds to it, what their recovery pathway is. Do they wake up and is there a difference in their pain? This is what's so important for us, is we see that in the first two weeks that Dr. Shaparo's data presented at NASS show very clearly that those pain scores improved dramatically from eight plus down to sub two in that two-week window.

The good news is the physicians see what the technology is capable of producing for them in the short term. Of course, they do—what they want to see that that is sustained over time, and that means patients healing and fusing. This is really important component and frankly a big component of distinction between what we do and what some of our competitors do. They like what they see early. You ask about that component. Look, if they feel like the procedure's delivering on its promises in a refined way, and they see that kind of quick pain reduction of the patient post-op, they like what they see, they keep moving. They don't wait too long and that's a blessing of SI procedures.

Bruce Jackson

All right. That's perfect. Thank you very much.

Steve Foster

You bet. Thank you, Bruce.

Operator

There are no further questions at this time. I would now like to turn the call back over to Mr. Foster for his closing remarks. Please, go ahead.

Steve Foster

Great. Thank you, Maria.

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 in 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, we'll wish everybody a good day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.