

**Investor presentation**  
*7 September 2020*

**1H 2020 Results**



# DISCLAIMER

This presentation (the "Presentation") has been prepared by Medacta Group SA ("Medacta" and together with its subsidiaries, "we", "us" or the "Group"). The information contained in the Presentation does not purport to be comprehensive. Please refer to the financial reports available on our website at <https://www.medacta.com/EN/investors>.

## ***Unaudited Financial Results***

The financial information contained in this Presentation is unaudited.

## ***Forward-looking information***

This Presentation has been prepared by Medacta and may include forward-looking information and statements concerning the outlook for our business. These statements are based on current expectations, estimates and projections about the factors that may affect our future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates", "targets", "plans", "outlook" or similar expressions.

There are numerous risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from the forward looking information and statements made in this Presentation. The important factors that could cause such differences include: changes in the global economic conditions and the economic conditions of the regions and markets in which the Group operates; changes in healthcare regulations (in particular with regard to medical devices); the development of our customer base; the competitive environment in which the Group operates; manufacturing or logistics disruptions; the impact of fluctuations in foreign exchange rates; and such other factors as may be discussed from time to time. Although we believe that our expectations reflected in any such forward-looking statement are based upon reasonable assumptions, we can give no assurance that those expectations will be achieved.

## ***Alternative Performance Measures***

This press release contains certain information that it refers to as "constant currency", which is a non-IFRS financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates. The Group believes that the reconciliations of changes in constant currency provide useful supplementary information to investors in light of fluctuations in foreign currency exchange rates. Furthermore, the Group believes that constant currency measures provide additional useful information on the Group's operational performance and is consistent with how the business performance is measured internally.

Francesco Siccardi

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*Chief Executive Officer*

# H1 2020 Key Highlights

- H1 2020 revenue at €134.8 million, with a negative growth of 11.1% vs H1 2019 (-12.2% in CC<sup>1</sup>)
- Good backlog recovery in June, July and August with double digit growth, but we remain very cautious about the second semester given the uncertainties by the Covid-19 pandemic
- Resilient adjusted EBITDA margin<sup>2</sup> of 23.8% (23.7% reported) due to flexible cost base and lower travel and marketing costs
- Retained 100% of workforce
- Continuously strong R&D and innovation focus with 25+ New Products cleared (CE or FDA)
- Strong demand in Medacta's redesigned and expanded Marketing & Education offering with 1'800+ surgeons attending our digital education programs
- €20M+ investments to prepare for expected recovering demand and future growth and subsequent negative free cash flow
- Strong liquidity position and well funded for future growth

**Notes:**

1. CC: Constant Currency
2. Adjusted & normalized EBITDA margin is calculated as adjusted & normalized EBITDA as a percentage of Revenue for the period

# Redesigned Marketing and Education Offering to our Surgeons

Thanks to several new marketing initiatives and digital education programs we were able to keep existing surgeons fully involved and engaged new customers, leveraging national experts.

#1'800+ surgeons attended our online and digital education programs, with significant savings in travelling and consulting costs for Medacta:

- Medacta TV, a streaming platform to give access Medacta Medical Education programs
- «More in touch» program, a series of webcast and educational events
- Mobile trucks as Learning Centers
- E-learning education and training classes
- Web Based Expert Meetings
- MEDACTA USA has converted a National MORE Event (originally planned for June in California with c. 250 surgeons) on Personalized Knee Replacement and Kinematic Alignment into a worldwide webinar

The «MORE Surgeon to Surgeon» meetings have restarted in several Countries together with classic Learning Centers.

Further additional marketing and education initiatives are already in the pipeline for Q3 and Q4.

# Strong R&D focus with 25+ new Products cleared in 1H 2020

#25+ new Products cleared (CE or FDA) in 1H 2020 in line with MDR/MDD switch original plan including:

## Hip

- Renewed Primary Implants offering (Quadra-P Family)
- Expansion of Revision Implants offering (M-Vizion Femoral Revision Range Extension)
- Introduction of Personalised 3D Hip Planning and Execution (MyHip Planner and MyHip Verifier)

## Knee

- Metal sensitivity GMK Revision Solution

## Shoulder

- Long Diaphysis and Stemless Metaphysis implants for Shoulder joint replacement

## Spine

- Mecta-C Stand Alone Anterior Cervical Interbody Fusion Device

## SportsMed

- Multiple products, among which MectaScrew for ligament repairs and MectaTap for rotator cuff repair

In July Medacta launched the first FDA-cleared augmented reality-based surgical platform for Total Knee Replacement

# Product Innovation – Medacta's NextAR™ Surgical Platform



Medacta developed the first FDA-Cleared Augmented Reality-Based Surgical Platform for Total Knee Replacement

- Low upfront capital investment
- Reduced cost per case vs other technologies
- Advanced personalised planning tools
- Unique soft tissue assessment
- Accurate Surgical execution

NextAR TS Revolutionary proprietary tracking system and Augmented Reality to potentially improve surgery accuracy and efficiency,

The NextAR™ TKA is the first application of a new platform technology, which will be extended to hip, shoulder and spine procedures

Optimal solution particularly for U.S. ambulatory surgery centers (ASCs)



Corrado Farsetta

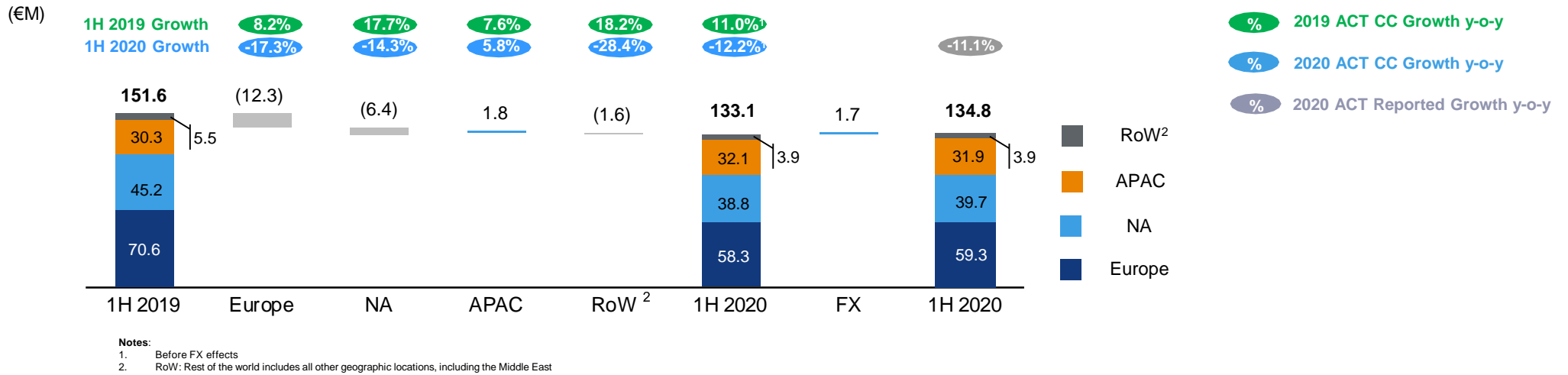
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*Chief Financial Officer*



# 1H 2020 Results – Revenue by Region

## Revenue Bridge by Region



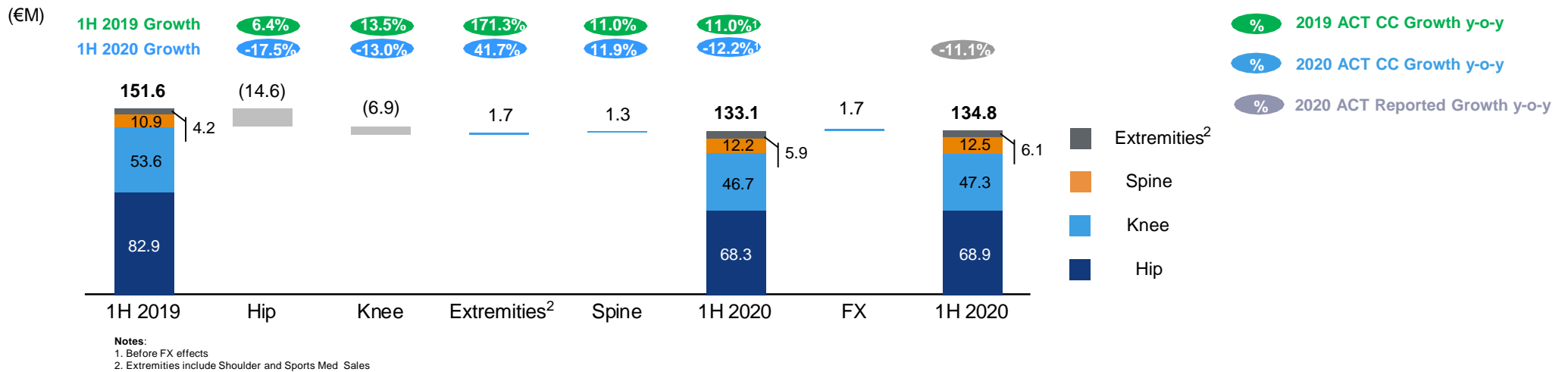
## Commentary

### Revenue decrease of 11.1%<sup>1</sup> due to COVID-19 pandemic with significant difference by geographies:

- Europe (-17.3%) registered the largest decline in sales within the key markets driven by Italy and France, “DACH” area recorded the smallest impact.
- NA (-14.3%) was heavily affected by COVID-19 with the high negative peak (in April) but also the strongest reacceleration (in June) among all relevant countries. Activity level and focus on ASCs is increasing, in line with our US market strategy.
- APAC (+5.8%) registered the best performance thanks to limited COVID-19 impact in Japan and very short lock-down period in Australia.
- RoW (-28.4%) affected by the situation in Latin America, South-Africa and Israel.
- New distributors in the pipeline in the Middle East and Eastern Europe areas.

# 1H 2020 Results – Revenue by Product

## Revenue Bridge by Product



## Commentary

Negative growth in “Joints” segments (Hip -17.5% and Knee -13.0%) reflecting COVID-19 restrictions and lock-downs in almost all countries.

New business lines Spine and Shoulder registered a growth both in Q1 and Q2 despite highly challenging market conditions:

- Shoulder (+41.7%) was able to keep its strong momentum in sales growth given the high ratio of new/old customers at the beginning of the COVID-19 outbreak.
- Spine (+11.9%) was heavily affected compared to the first months of the year, but still able to deliver a positive performance thanks to the strong growth registered at the beginning of 2020 driven by a strong increase of demand for MySpine products.

# 1H 2020 Results – Resilience of EBITDA

## Profit & Loss Statement

(Million Euro)	1H 2020	1H 2019
Revenues	134.8	151.6
Cost of Sales	-40.9	-40.1
<b>GROSS PROFIT</b>	<b>93.9</b>	<b>111.6</b>
GROSS PROFIT MARGIN	69.7%	73.6%
Research and Development expenses	-3.3	-3.5
Sales and Marketing expenses	-54.4	-61.6
General and Administrative expenses	-23.0	-24.0
Other income and expenses	-0.2	-5.2
Total OPEX	-80.8	-94.3
<b>OPERATING PROFIT (EBIT)</b>	<b>13.1</b>	<b>17.3</b>
EBIT MARGIN	9.7%	11.4%
<i>Depreciation and Amortization</i>	<i>18.8</i>	<i>16.2</i>
<b>Reported EBITDA</b>	<b>31.9</b>	<b>33.5</b>
EBITDA MARGIN	23.7%	22.1%
<b>Adjusted EBITDA<sup>1</sup></b>	<b>32.1</b>	<b>48.4</b>
ADJUSTED EBITDA MARGIN <sup>2</sup>	23.8%	31.9%
Financial result	-3.8	-3.9
<b>PROFIT BEFORE TAXES</b>	<b>9.3</b>	<b>13.4</b>
Income taxes	0.4	-2.1
<b>PROFIT FOR THE PERIOD</b>	<b>9.7</b>	<b>11.3</b>

### COVID-19 IMPACT

- Under-utilisation of existing instruments
- Change in geographic mix

### COVID-19 IMPACT

Savings delivered in 1H20, mainly in S&M (travels and events, consulting fees, hiring freeze) and government subsidies.

Resilient EBITDA margin due to flexible cost base and lower travel and marketing costs

Reduction of Corporate Income Tax rate in CH, from **18.6% to 17.3%**. +€2M from deferred taxes assets and liabilities release

#### Notes:

1. Adjusted EBITDA is calculated as EBITDA, adjusted for non-recurring items: IPO costs, one-time tax duty, provisions on litigation, extraordinary legal expenses etc. and normalized for half-year phasing. In H1 2020 references to "Adjusted EBITDA" are the equivalent to "CORE" references and to "Adjusted and normalized EBITDA", only used H1 2019 (i.e. Adjusted EBITDA, CORE EBITDA and Adjusted and normalized EBITDA are interchangeable). We did not recognize any normalization adjustments in 2020.

2. Adjusted EBITDA margin, is calculated as adjusted & normalized EBITDA as a percentage of Revenue for the period.

# 1H 2020 – Investments to Prepare for Recovery

## Investments in Tangible and Intangible Assets

(Million Euro)	1H 2020	1H 2019
<b>CAPEX</b>	<b>20.4</b>	<b>25.8</b>
<i>% on revenues</i>	<i>15.1%</i>	<i>17.0%</i>
<b>Tangible</b>	<b>15.7</b>	<b>20.4</b>
Instruments	13.1	16.3
Other Tangibles	2.6	4.1
<b>Intangible</b>	<b>4.7</b>	<b>5.4</b>

### COVID-19 IMPACT

Investments in new instruments driven by new customers and recovering demand

Investing into the business

# 1H 2020 Results – Free Cash Flow

## Free Cash Flow

(Million Euro)	1H 2020	1H 2019
<b>PROFIT FOR THE PERIOD</b>	<b>9.7</b>	<b>11.3</b>
<i>PL Adjustments:</i>		
Income tax expenses	-0.4	2.1
Depreciation and amortisation	18.8	16.2
Other PL non-cash transactions	1.9	4.2
Movements in working capital and other	-17.4	-19.0
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>12.5</b>	<b>14.8</b>
CAPEX	-20.4	-25.8
Other investments	0	-0.4
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-20.4</b>	<b>-26.2</b>
<b>REPORTED FREE CASH FLOW</b>	<b>-7.9</b>	<b>-11.4</b>
<i>Adjustments for:</i>		
IPO Costs		2.8
Legal costs	1.7	1.4
Stamp Duty		5.7
Incremental cost 9 <sup>th</sup> M.O.R.E. Symposium		4.9
Rancate investments	1.5	
<b>ADJUSTED FREE CASH FLOW</b>	<b>-4.7</b>	<b>3.5</b>

Approx. €10M out of €17M for inventory increase to support expected recovering demand and to avoid supply chain shortages

Highly resilient operating cash despite lower revenue base supported by flexible cost base and working capital management

Negative free cash flow associated to €20M investments in new instruments to prepare for recovering demand and future growth

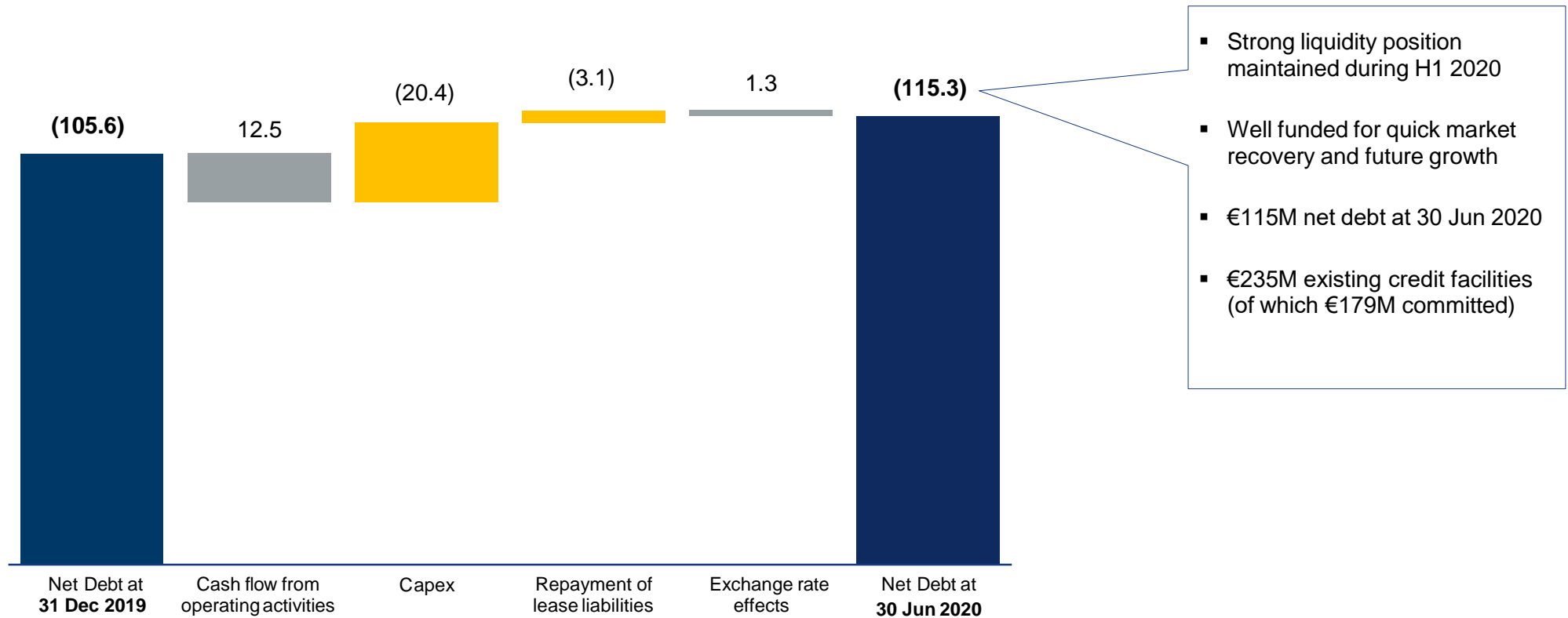
**Notes:**

1. Adjusted Free Cash Flow is calculated as Free cash flow, adjusted for non-recurring items: IPO costs, one-time tax duty, extraordinary legal expenses etc. and normalized for half-year phasing. In H1 2020 references to "Adjusted Free Cash Flow" are the equivalent to "Adjusted and normalized Free Cash Flow", only used H1 2019 (i.e. Adjusted Free Cash Flow, Adjusted and normalized Free Cash Flow are interchangeable). We did not recognize any normalization adjustments in 2020.

# 1H 2020 Results – Strong liquidity and well funded for future growth

## Net Financial Debt<sup>1</sup> Development (since end of 2019)

(€m)



Francesco Siccardi

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*Chief Executive Officer*

# Outlook

- In June, July and August, the double digit growth of sales confirms that backlog recovery can occur quickly if the market conditions allow.
- While recent sales performance is encouraging, speed and impact of recovery in H2 largely depends on the evolution of the COVID-19 pandemic in our key markets which remains unpredictable currently.
- Given the uncertainties around COVID-19 and future market developments we cannot provide a short-term guidance at this stage.
- In the mid-term, we are convinced that Medacta's positioning in the global orthopedic market and expected growth trajectory remains unchanged.
- Several activities are in place to regain full momentum in the second semester and build up for 2021
  - Strong R&D focus with 25+ new Products cleared
  - Restart of Medacta MORE education activities
  - Hiring plans to expand global sales force
  - Continued US focus on ASC
  - Preparing for 2H20 / FY21 reacceleration (investments in new instruments and inventory)



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THANK YOU

# APPENDIX

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- 1) P&L
- 2) B/S
- 3) Cash flow

(Thousand Euro)	Unaudited 30.06.2020	Unaudited 30.06.2019
Revenues	134'808	151'638
Cost of Sales	(40'862)	(40'059)
<b>GROSS PROFIT</b>	<b>93'946</b>	<b>111'579</b>
Research and Development expenses	(3'265)	(3'502)
Sales and Marketing expenses	(54'404)	(61'566)
General and Administrative expenses	(22'992)	(24'009)
Other income	393	1'172
Other expenses	(562)	(6'365)
<b>OPERATING PROFIT (EBIT)</b>	<b>13'116</b>	<b>17'309</b>
Financial income	1'775	1'227
Financial costs	(5'616)	(5'132)
<b>PROFIT BEFORE TAXES</b>	<b>9'275</b>	<b>13'404</b>
Income taxes	409	(2'108)
<b>PROFIT FOR THE PERIOD</b>	<b>9'684</b>	<b>11'296</b>

#### ATTRIBUTABLE TO

Equity holders of the parent	9'684	11'296
Non-controlling interests	-	-
<b>Basic earnings per share *</b>	<b>0.48</b>	<b>0.56</b>

\* In the periods ended June 30, 2020 and 2019, there is no effect of dilution, and diluted earnings per share equals basic earnings per share.

ASSETS (Thousand Euro)	Unaudited 30.06.2020	Audited 31.12.2019
Property, plant and equipment	139'808	135'350
Right-of-use assets	23'320	22'104
Goodwill and intangible assets	47'717	45'584
Other non-current financial assets	504	456
Deferred tax assets	24'162	21'283
<b>TOTAL NON-CURRENT ASSETS</b>	<b>235'511</b>	<b>224'777</b>
Inventories	112'200	101'634
Trade receivables	45'373	48'049
Other current financial assets	225	259
Other receivables and prepaid expenses	10'458	10'604
Cash and cash equivalents	23'985	27'241
<b>TOTAL CURRENT ASSETS</b>	<b>192'241</b>	<b>187'787</b>
<b>TOTAL ASSETS</b>	<b>427'752</b>	<b>412'564</b>

LIABILITIES AND EQUITY (Thousand Euro)	Unaudited 30.06.2020	Audited 31.12.2019
Share capital	1'775	1'775
Capital contribution reserve	21'227	21'227
Retained earnings and other reserves	112'284	102'885
Foreign currency translation reserve	43	(2'653)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>135'329</b>	<b>123'234</b>
Non-controlling interests	-	-
<b>EQUITY</b>	<b>135'329</b>	<b>123'234</b>
Non-current financial liabilities	103'691	85'379
Other non-current liabilities	1'475	7'919
Non-current provisions	9'574	11'183
Retirement benefit obligation	12'121	11'142
Deferred tax liabilities	38'220	38'654
Non-current lease liabilities	14'875	14'539
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>179'956</b>	<b>168'816</b>
Trade payables	18'007	17'845
Other current liabilities	31'484	26'101
Current financial liabilities	35'545	47'505
Accrued expenses and deferred income	21'570	23'628
Current lease liabilities	5'861	5'435
<b>TOTAL CURRENT LIABILITIES</b>	<b>112'467</b>	<b>120'514</b>
<b>TOTAL LIABILITIES</b>	<b>292'423</b>	<b>289'330</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>427'752</b>	<b>412'564</b>

# Cash flow

	Unaudited 30.06.2020	Unaudited 30.06.2019
(Thousand Euro)		
<b>PROFIT FOR THE PERIOD</b>	<b>9'684</b>	<b>11'296</b>
Adjustments for:		
Income taxes	(409)	2'108
Depreciation, amortisation and impairment of tangible, intangible and right-of-use assets	18'756	16'180
(Gain) / loss on disposal of tangible and intangible assets	267	46
Foreign exchange result	659	3'072
Interest expenses	982	1'110
Income taxes paid	(1'825)	(2'738)
Interest paid **	(982)	(931)
(Increase) / decrease in trade receivables	2'599	(6'769)
(Increase) / decrease in other receivables and prepaid expenses	264	(5'255)
(Increase) / decrease in inventories	(9'733)	(9'510)
Increase / (decrease) in trade payables	(118)	3'157
Increase / (decrease) in other payables, accruals and provisions	(7'633)	3'048
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>12'511</b>	<b>14'814</b>
Purchase of tangible assets	(17'065)	(22'558)
Purchase of intangible assets *	(4'722)	(5'411)
Proceeds from disposal of tangible assets	1'377	2'163
Cash consideration for acquisitions, net of cash acquired	-	(874)
Changes in financial assets	(40)	448
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(20'450)</b>	<b>(26'232)</b>
Proceeds from borrowings	4'540	-
Repayment of borrowings	(194)	(7'933)
Repayment of lease liabilities	(3'077)	(2'623)
Interest paid on lease liabilities **	-	(179)
Capital contribution ***	-	5'723
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>1'269</b>	<b>(5'012)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6'670)</b>	<b>(16'430)</b>
Cash and cash equivalents at the beginning of the period	27'241	33'710
Net effect of currency transaction on cash and cash equivalent	3'414	2'287
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>23'985</b>	<b>19'567</b>

\* "Purchase of intangible assets" excludes unpaid acquisitions of intangible assets.

\*\* "Interest paid on lease liabilities" as of June 30, 2019 included interest paid on lease liabilities, that were reclassified starting from December 31, 2019 in the line "Interest paid" in the "Cash flow from operating activities" section of the Consolidated Statement of Cash Flow, according to Medacta policy for the classification of interests.

\*\*\* Refer to the Medacta's Annual Report 2019 Note 6.16 "Medacta Group stockholder's equity" paragraph "Capital Contribution".