

# SMTI Earnings Call Transcript

**Date: 2025-11-12**

**Quarter: 3**

Operator: Welcome to the Sanara MedTech Third Quarter of 2025 Earnings Conference Call. Please note that this conference call is being recorded, and a replay will be available on the Investor Relations page of the company's website shortly. The company issued its earnings release earlier today. Before we begin, I would like to remind everyone that certain statements on today's call include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For more information about the risks and uncertainties involving forward-looking statements and factors that could cause actual results to differ materially from those projected or implied by forward-looking statements, please see the risk factors set forth in the company's most recent annual report on Form 10-K as supplemented by the risk factors in the company's most recent quarterly reports on Form 10-Q. This call will also include references to certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most comparable measures calculated and presented in accordance with GAAP are available in the earnings release available on the Investor Relations section of our website. Today's call will include remarks from Seth Yon, President and Chief Executive Officer; and Elizabeth Taylor, Chief Financial Officer. I would now like to turn the call over to Mr. Yon. Please go ahead.

Seth Yon: Thanks, operator, and welcome, everyone, to our third quarter of 2025 earnings call. Let me outline the agenda for today's call. As the recently appointed President and CEO, I'll begin with a brief introduction and provide some opening thoughts on Sanara MedTech. I'll then discuss the announcement we made yesterday regarding Tissue Health Plus. Following this discussion, I'll review our net revenue performance, commercial progress and select operational highlights in the third quarter. Elizabeth will then cover our quarterly financial results in further detail. Following her remarks, I'll share some additional thoughts on our near- and long-term strategic priorities before we open the call for questions. With this agenda as our backdrop, I'd like to take a moment to introduce myself and provide some context on my background with the company. I joined Sanara in March of 2018 as one of our first regional sales managers. Over the next 7 years, I served in a variety of leadership roles on our commercial team, including as National Sales Director, Vice President and President of Commercial and most recently as our President and Chief Commercial Officer. While developing our commercial strategy and leading our sales organization, I've gained a comprehensive view of our business operations, our customer relationships and how our products perform in clinical settings. I was appointed President and CEO effective September 15. I appreciate the level of confidence placed in me by the Board and look forward to building on the foundation established around Nixon's leadership as we pursue the opportunities ahead of us. There are numerous factors that motivated me to lead Sanara MedTech, but let me start with three fundamental aspects of our business that speak to our unique positioning in the surgical market. First, our technologies are both differentiated and effective in addressing real clinical needs in the surgical operating room. Our portfolio is built around 2 key products, CellerateRX and BIASURGE, which have established their utility in clinical practice, helping to improve patient outcomes while reducing overall cost to the health care system. Through my experience leading Sanara's commercial team, I've observed firsthand the benefits of adopting these key products across hundreds of cases as well as their impact on surgical outcomes. Second, Sanara's go-to-market strategy and commercial distribution model have demonstrated their effectiveness over the better part of a decade and enabled us to rapidly grow our key products. We've secured over 4,000

healthcare facility approvals, identified surgeons who would benefit from their use and established a network of regional sales managers and distributors to engage, educate and address the needs of these surgeons. This has enabled us to develop a track record of strong growth in recent years, while positioning us to achieve significant operating leverage as well. Third, Sanara has established an [ impressive ] team with the expertise necessary to achieve our mission of improving clinical outcomes and reducing health care expenditures in the surgical market. I'm proud of the level of talent we've been able to attract in recent years. Though we've made impressive progress, I believe we have opportunities to continue evolving as an organization. I'm confident in our team's ability to achieve the next stage of sustainable growth and development as we continue to expand our share of the large untapped market opportunity that products address. Now I'd like to address the announcement we made yesterday regarding Tissue Health Plus and provide some additional context on this important strategic decision. I'll begin with some background for those less familiar. In parallel with developing and establishing THP, Sanara has been focused over the last 2 years on identifying and engaging with potential strategic and financial part to invest in and assist in the execution of this business. At the beginning of the third quarter, we initiated a formal process of evaluating strategic alternatives for THP, which we announced on our second quarter call in August. We engaged an external strategic adviser to assist in this process as we explored a range of options with the goal of maximizing shareholder value. Together with our external strategic adviser, we performed a market check and explored a range of strategic alternatives during the third quarter. This formal process ultimately did not result in finding a partner to assume significant responsibility for this investment or surface a viable option to monetize our THP asset. After concluding this process, our management team and Board of Directors determined that the most appropriate course of action was to cease operations of THP, which we announced via press release yesterday after market close. Let me walk you through the rationale behind this decision. While our THP team achieved significant progress in developing this platform over recent years, the next stage of bringing THP for commercialization and achieving the scale necessary for THP to be accretive to our adjusted EBITDA would have required considerable investment over a multiple year period. Ultimately, this decision allows us to enhance our operational efficiency and focus our resources on our core Surgical business. We believe this focus will enable Sanara to capitalize on our greatest opportunities and deliver sustained long-term growth and value creation over time. After reaching this decision, we acted promptly to discontinue THP and have made considerable progress in winding down its operation in recent months. We expect process to be substantially completed by the end of 2025. From an accounting and financial reporting perspective, we have classified the operations of THP, which were previously reported as the THP segment, as discontinued operations for the 3 and 9 months ended September 30, 2025 and 2024. Elizabeth will discuss the financial implications of this decision further. However, I want to emphasize that we continue to anticipate total cash investment related to THP will range from \$5.5 million to \$6.5 million in the second half of 2025. This is consistent with the expectation we shared on our last earnings call in August. We also continue to anticipate no material cash spend in THP after 2025. In summary, this strategic realignment of our business is designed to enhance Sanara's ability to capitalize on our strengths, capabilities and opportunities in the surgical market while facilitating a leaner and more efficient organization. After careful consideration, both the Board of Directors and management believes it represents an important proactive step forward for the long-term benefit of Sanara MedTech and our stakeholders. Now let's review our third quarter net revenue performance. In the third quarter, our surgical team achieved net revenue of \$26.3 million, representing growth of 22% year-over-year. Our net revenue growth was driven almost exclusively by our sales of soft tissue repair products. Soft tissue repair product sales increased 24% year-over-year to \$23.4 million, led by strong sales of our key products, CellerateRX Surgical and BIASURGE. Importantly, we complemented our net revenue performance with year-over-year improvements in our gross margins and demonstrated significant operating leverage. As a result, we achieved notable year-over-year improvements in our profitability profile with a \$1 million improvement in net income from continuing operations and a \$2.3 million improvement in adjusted EBITDA on net revenue growth of \$4.7 million. Lastly, we generated \$2.2 million of net cash from operating activities in the third quarter. All in all, we were pleased with our third quarter financial performance, the focus and dedication of our team and the level of demand for our surgical products in the market. With respect to

the key drivers of our net revenue growth, our performance in the third quarter reflects on our commercial team's strong execution across the following three key initiatives: one, developing our relationships with independent distributors; two, selling into new healthcare facilities; and three, penetrating the existing healthcare facilities we serve. I'll now take a minute to touch on each of these three initiatives related to our commercial strategy, beginning with our efforts to develop our independent distributor network. Our team has made considerable progress in identifying and partnering with new independent distributors in key geographies across the U.S. Specifically, during the last 12 months ended September 30, we expanded our network from more than 300 contracted distributors to more than 400. In tandem, we have increasingly focused on onboarding our recently contracted distributors and training their reps to position them for success in selling our products. Truly believe partnering with our distributors for shared long-term growth versus simply contracting with them is a core component of our approach that we believe differentiates Sanara. Philosophy will continue to guide our approach as we focus on optimizing our relationships with existing distributors while expanding our network selectively going forward. Turning to our second commercial initiative, our team continued to leverage our network of distributor partners, whose reps possess strong local relationships across the U.S., to begin selling into new healthcare facilities where our products have been contracted or approved. As a result, we significantly expanded our base of healthcare facility customers over the last 12 months. Specifically, our products were sold into more than 1,400 health care facilities during the trailing 12 months ended September 30 compared to more than 1,200 facilities in the prior-year period. As a reminder, our products are approved or contracted for sale in over 4,000 facilities, so we see considerable runway for future expansion on this front. And in terms of our third commercial initiative, across the more than 1,400 healthcare facilities we currently serve, our penetration of these facilities remains very low. This represents one of our most significant opportunities for future growth. With this in mind, we are focused on increasing the number of surgeons using our products within the existing healthcare facilities by targeting practitioners, both within and outside of our traditional specialties of spine and orthopedics. Our team continued to deliver impressive progress on this front, significantly expanding the number of surgeon users on a year-over-year basis in the third quarter. Lastly, we remain pleased with the performance of BIASURGE in the third quarter and the progress made during its second year of commercialization. Our team continues to facilitate its future growth by securing new facility approvals and introducing it to our existing CellerateRX customers. Turning to our other operational highlights. In addition to executing our commercial plan and navigating the path forward regarding THP, we continue to make progress in expanding our portfolio of clinical evidence and advancing our new product initiatives. With respect to clinical evidence, we are focused on demonstrating the clinical efficacy and cost effectiveness of our key products across a variety of surgical procedures, including some of the most challenging cases. To this end, we are pleased to see the publication of two studies in peer-reviewed medical journals that are worth highlighting this quarter. Both publications discussed retrospective case series, which examined the use of CellerateRX in challenging procedures. The first was published in the Journal of Foot and Ankle Surgery, the official publication of the American College of Foot and Ankle Surgeons. It was focused on the use of CellerateRX in treating high-risk patients with multiple comorbidities. These patients underwent complex orthopedic and plastic reconstructive surgery to preserve their limbs. The researchers concluded that CellerateRX demonstrated significant value in assisting these complex procedures, helping to support the healing of soft tissue in extremely compromised patients. The second was published in the Annals of Case Reports, an open-access multidisciplinary journal. It was focused on the use of CellerateRX in treating surgical wounds following [ lobectomy ] procedures, which tend to involve high complication rates. Based on the findings, the researcher concluded that CellerateRX may serve as a valuable adjunct in enhancing postoperative wound healing for [ lobectomy ] patients. Our expanding portfolio of clinical evidence continues to demonstrate the value our key products bring to the treatment of some of the most challenging surgical wounds, helping us to educate the medical community and raise awareness of their benefits. With respect to our new product initiatives, I'm pleased to report continued progress under our strategic partnership with Biomimetic Innovations Limited, or BMI. By way of background, we have an exclusive U.S. license and distribution agreement with BMI for OsStic as well as an adjunctive fixation technology. OsStic is an innovative and

differentiated product designed to enhance the repair process for periarticular fractures. While not currently cleared for sale in the U.S., it's been granted Breakthrough Device designation by the FDA. Throughout 2025, BMI has been focused on advancing through a series of key product development, clinical and regulatory milestones structured in our agreement. After achieving the first of these milestones during the second quarter, they have made significant progress in recent months. As of September 30, they have completed all of our agreed-upon milestones. Based on the recent pace of progress, we continue to anticipate U.S. commercial launch in the first quarter of 2027. We look forward to leveraging our sales and distribution team to help address the more than 100,000 periarticular fractures that occur annually in the U.S. Elizabeth will now review our third quarter financial performance in greater detail.

Elizabeth Taylor: Thanks, Seth. I will begin by reiterating that the operations of THP, which were previously reported as the THP segment, have been classified as discontinued operations for the 3 and 9 months ended September 30, 2025 and 2024. As such, unless otherwise noted, all commentary that follows relates to our Surgical business on a continuing operations basis. In our 8-K filed with the SEC today, we have included tables detailing the historical results of our operations on a quarterly basis by business for our Surgical and THP businesses in 2025, 2024 and 2023. These materials are also available on the Events section of our investor website, next to the webcast link for today's earnings call. Given that Seth covered our net revenue results for the quarter, I'll begin with gross profit. All percentage changes referenced throughout my remarks compared to prior-year period unless otherwise specified. Third quarter gross profit increased \$4.8 million or 24% to \$24.5 million. Gross margin increased approximately 200 basis points to 93% of net revenue, driven primarily by increased sales of soft tissue repair products. Third quarter operating expenses increased \$2.6 million or 14% to \$21.5 million. The change in operating expenses was driven by a \$2.5 million or 14% increase in selling, general and administrative expenses and to a lesser extent, a \$200,000 or 31% increase in research and development expenses. The \$2.5 million increase in SG&A; was driven primarily by a \$1.4 million increase in compensation and contract services and an \$800,000 increase in direct sales and marketing expenses. Operating income for the third quarter increased \$2.2 million or 278% to \$2.9 million. Other expense for the third quarter was \$2.1 million compared to \$1 million of expense last year. The increase in other expense was primarily due to higher interest expense and fees related to our CRG term loan as well as higher share of losses related to equity method investments. Net income from continuing operations for the third quarter was \$800,000 or \$0.09 per diluted share compared to a net loss from continuing operations of \$200,000 or \$0.02 per diluted share last year. Adjusted EBITDA for the third quarter of 2025 increased \$2.3 million to \$4.9 million. Turning to the balance sheet, as of September 30, 2025, we had \$14.9 million of cash, \$45.1 million of long-term debt and \$12.25 million of available borrowing capacity, which is accessible through December 31, 2025. This compares to \$15.9 million of cash, \$30.7 million of long-term debt and \$24.5 million of available borrowing capacity as of December 31, 2024. Lastly, a few considerations to bear in mind for the remainder of the year. We remain focused on driving strong net revenue growth for the full year 2025, coupled with improvements in our profitability on a continuing operations basis. With respect to our net revenue over the balance of the year, as a reminder, our net revenue in the fourth quarter of 2024 grew 49% year-over-year. This exceptional performance benefited in part from increased demand for BIASURGE following the disruption caused by Hurricane Helene last fall, which caused industry shortages of IV fluids and saline solutions. As we have shared previously, of the \$26.3 million of net revenue generated in the fourth quarter of 2024, we believe approximately \$1.8 million was attributable to this unique dynamic. Excluding this \$1.8 million headwind, we expect our revenue in the fourth quarter of 2025 will increase in the high single digits to low teens on a year-over-year basis compared to strong year-over-year growth in the fourth quarter of 2024. With respect to anticipated cash utilization, as Seth mentioned, we continue to expect the total cash investment related to THP will range from \$5.5 million to \$6.5 million in the second half of 2025. Specifically, our total cash investment in THP was \$4 million in the third quarter of 2025, implying approximately \$1.5 million to \$2.5 million of cash investment in the fourth quarter as we continue to wind down THP. We continue to anticipate no material cash spend in THP after 2025. Lastly, we continue to expect that tariffs will not materially impact our results of operations in 2025. With that, I will now turn it back to Seth for closing remarks.

Seth Yon: Thanks, Elizabeth. Stepping back, over the trailing 12 months ended September 30, 2025, our Surgical business has generated nearly \$102 million of net revenue, representing growth of 31% over prior-year period. In the third quarter of 2025 alone, we generated higher net revenue than over the entirety of 2021. Our ability to achieve the significant commercial scale in a relatively short time speaks to the strength of our key surgical products, our go-to-market strategy and our team. It also represents a validation of our large addressable opportunity we continue to pursue in the surgical market. With clarity on THP, we are moving forward with a leaner organization and a renewed commitment to building on the progress made in our Surgical business. As we close out 2025, our team is focused on executing our commercial plan, including the three initiatives I outlined earlier, while improving our efficiency and investing prudently and strategically in our Surgical business. Longer term, we are focused on supporting the future development and evolution of our surgical business by improving our systems and processes, deepening our competitive moat and enhancing our commercial strategy. Through these efforts, we will position Sanara to continue driving strong sustainable growth, both in 2025 and over the coming years, as we progress to our next phase as an organization. I'd like to close by congratulating the entire Sanara MedTech team on the progress made this past quarter, which is a testament to our collective vision, grit and execution. Thank you as well to our shareholders and customers for their support and to those on today's call for their interest in Sanara MedTech. With that, operator, you may now open the call for questions.

Operator: [Operator Instructions] Your first question is coming from Ross Osborn with Cantor Fitzgerald.

Ross Osborn: Congrats on the progress. So starting off, could you spend some more time on some of your initiatives in driving further penetration within existing facilities? How do your conversations go with new physicians? What are people excited about? What do they have more questions about?

Seth Yon: Ross, it's Seth. Yes, a couple of things to answer that. So we've done a lot at the street level with the sales force, both on our W-2 side plus our distributor side to expand into new specialties. But in addition to that, both our R&D; team and our clinical team as well have worked really hard on both scientific, clinical and even economic evidence that supports the value that our products provide. So it's really a culmination of all those things to continue to expand into new users and also into new facilities at the same time. So we've talked a lot about this in the past. We've grown considerably in the number of facilities, but we know we've got a lot of room to grow there as well. And same is true with our distributor network and surgeon base as well. So we like the formula that we have. We'll continue to take that and replicate that where we can and then get creative as we go into 2026 and beyond.

Ross Osborn: Okay. Great. Then when thinking about operating profitability, are there areas outside of THP where we should expect cash savings? Or should we begin to expect leverage on sales and marketing going forward?

Elizabeth Taylor: I think we've kept our headcount and sales flat with 40 reps and 400 distributors, and it's evidence that the model is working, and you're seeing the operating leverage on the EBITDA line. We're focused on sustainable and profitable growth and -- the balance of which we're going to invest in our product portfolio and growing the top line going forward. And like all medtech companies, we need to invest in our current product portfolio and from an IP perspective, invest there as well. So we see leverage in our sales channel, and we'll continue to invest and no longer be spending some of our cash flow in the THP segment.

Operator: Your next question is coming from Daniel Journey with Unrivaled Investing. [Operator Instructions]

Daniel Journey: A little disappointed with the THP result, but thanks for coming to that conclusion, trying to rationally manage your capital. So based on your outlook for the next quarter, you mentioned that excluding onetime benefits from last year, growth is going to be high single digits, low teens. Is that the right sort of expectation for this business going forward? Are you still -- because it is a significant sort of deceleration from where you've been. And so I'm curious on how you think about the cadence that you're expecting, your internal threshold that you're expecting. And the same thing along with the margins, where I noticed your EBITDA margin was effectively flat sequentially. And so I'm curious, do you have any sort of benchmark or target? So that way, investors can understand, okay, this is a 10%

grower? Is this a 20% grower? And what's the sort of operating margin that you should -- we should be thinking about long term, ballpark?

Seth Yon: Daniel, thanks for the question. We'll kind of divide and conquer on this, if you don't mind. So I'll take part of the question. I'll let Elizabeth do the same. As far as Q4 performance and looking at that, as Elizabeth had mentioned, we grew 49% in Q4 of 2024. If you take out that adjusted \$1.8 million, it's still about 38%, which obviously was just a very, very significant growth quarter for us. And even inside that 38%, when you think about the \$1.8 million that we grew as a result of the saline shortage, that was solely on just new accounts. So we had other growth as well coming from BIASURGE in existing accounts as well. That's not captured in that \$1.8 million. So we know we had a really significant number. We still believe in a very strong quarter this coming quarter as well. And again, I don't think that the expectation going into the fourth quarter should be concerning to anybody. We still feel very confident in our ability to perform at a high level going into the new year, given the opportunities that we have and the number of facilities that we have approved, the distributor partnerships that we have currently in place and those where we'll expand. And again, there's great opportunity to continue to reach more surgeons. So we remain very confident as we go into the new year and how we'll perform. I'll let Elizabeth answer the EBITDA question as well.

Elizabeth Taylor: Great. Thank you. If you look at our trailing 12 months EBITDA, last year, it was \$6.6 million and this year, \$16.4 million. So with a revenue growth of 31%. So you're seeing operating leverage in that. And it's a testament to Seth having built out a really strong sales force, and he's been able to increase sales with a flat headcount for the last 2 years. Will the business require additional headcount? Yes, at some point. But the point is that you're seeing -- we sort of built and then are growing from what we built. So we feel strongly about our performance and feel good about it.

Daniel Journey: Got it. So is there a sense that there is a lot of room still to expand margins, though?

Elizabeth Taylor: Yes, I believe we feel good about where the business is going and what we've shown in the past. We don't give forward-looking guidance. So...

Operator: And before we take any additional audio questions in our queue, we have a question coming from the webcast. The question is, it is my understanding a strategic partner was always expected to be required to bring to the market. Is this correct? With this in mind, why was a strategic partner not considered as an integral part before the costs were incurred?

Seth Yon: Sure. Looking back over the last 18 to 24 months or so, I think it was the beginning of March, if I remember correctly, of 2024, that THP really started to pursue some form of strategic partner and thought that we could do that along the way. Again, the team had done a nice job of developing that software. And our hopes with that, coupled with some of the beta sites that we're also in would start to encourage that activity. And again, unfortunately, that didn't happen, and that put us in a position going into the third quarter and certainly into the end of the year that we needed to make that decision. We did that with confidence, both at the Board level on the managerial group as well. Going into the future, we knew that those resources needed to be put back into the surgical space, and that was a decision that we made back into September as we went forward.

Operator: Your next question from the audio lines is coming from Yi Chen with H.C. Wainwright.

Yi Chen: Now that the THP is going to be discontinued, could you comment on the trend of total operating expenses? Should we project to see a meaningful decrease in operating expenses?

Elizabeth Taylor: Thanks for the question. We don't give forward-looking guidance, but I would remind everyone that we have put a supplemental disclosure on our website that examines the Surgical business as a stand-alone business historically. And I think you'll -- using that information can see good trends in that business and be able to model it from there.

Operator: There appear to be no further questions in queue. I would now like to turn it back to Seth Yon for his closing remarks.

Seth Yon: Like to say again, congratulations to the entire Sanara MedTech team and all our distributors as well for an excellent quarter, really a testament again to the vision and the grit and ultimately delivering on our go-to-market plan. In addition, again, just thank you to all of our shareholders and our customers that see value in us as a company and our technologies as well, and for those joining maybe the call for the very first time as well. Thank you for your time, and have a great day.

Operator: Thank you, everyone. This does conclude today's conference call. You may disconnect your

phone lines at this time, and have a wonderful day. Thank you for your participation.