CRG EXECUTIVE Q&A

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premier
healthcare
investment partner

CRG

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INTRODUCTION

CRG's Brian Englander sat down with Erik Timko, CEO of OrthAlign, to discuss the orthopedic surgery market, his career, and how his team is working to improve surgical outcomes for patients undergoing knee replacement and hip replacement surgeries.

Founded in 2004, OrthAlign is a commercial stage orthopedic medical device company. The Company is headquartered in Aliso Viejo, CA and markets a variety of orthopedic surgery solutions designed to enhance the precision and accuracy of orthopedic surgeries, specifically in the knee and hip arena. Through its products, OrthAlign seeks to provide real-time, precision guidance to orthopedic surgeons in joint replacement surgeries. To date, OrthAlign has served over 300,000 patients and is supported by 30 peer-reviewed journals. The investment, which was completed in December 2023, was made out CRG's Fund V.

"OUR MISSION STATEMENT IS THAT WE ARE COMMITTED TO MAKING EMPOWERING TECHNOLOGIES ACCESSIBLE TO ALL. THAT'S OUR MANTRA. THAT'S WHAT WE SPEAK ABOUT IN EVERY MEETING."

ERIC TIMKO, PICTURED ABOVE

BRIAN: Thanks for taking the time to speak with us today, Eric. We have a long history with you at CRG, but to kick it off, can you start by sharing a little bit about your background and your career journey to date?

ERIC: Sure, the key question is how far do you want to go back? I've been doing this 33 years, so a very long time. My history is a bit non-traditional. I graduated college with a communications degree. I actually wanted to be a sports broadcaster. I played football in college but didn't have the face for television.

I ended up selling real estate out of college and quickly pivoted to a sales trainee job with a company called Siemens Medical Systems, one of the largest medical device companies in the world. I spent 10 years with Siemens and worked my way from an associate sales trainee all the way to running everything west of the Mississippi in that span.

At that point in time, I just loved management. I loved leading people, and more importantly, I loved surrounding myself with smart people that were smarter than me and building teams. After 10 years at Siemens, I made the decision that I wanted to run a company and left to run a medical technology company called ZEISS. ZEISS is a world leader in microscopy and I was really intrigued on the neurosurgery, ophthalmology and the ENT side. I took over leadership of ZEISS in the US for North America and had a great time. I restructured the entire company, grew the business significantly, and again, built a great team of people that knew how to execute and were way smarter than I was.

In the midst of my time at ZEISS, I started looking at investing in early-stage startup companies and decided that that's where I wanted to be. I wanted to use my neuro background. I shifted gears because I had run what I would say is a fairly big company, then I had run a medium company and then I was looking forward to doing something more entrepreneurial with an earlier stage company.

I switched to startups and have done that ever since. That goes all the way back to 2005 or 2006, so it's been a long time. I have found really what I believe is a sweet spot in early stage companies where it is past the phase of being a "science project", but still early revenue, high growth, and has a product with the potential to make an impact, bringing it to the market and working to achieve strong commercial growth.

BRIAN: That’s an awesome story, and it's no secret to you that part of what got us so excited about OrthAlign was the opportunity to partner with you and Mike Bushlack again. Can you talk a little bit about your relationship with CRG over the years, going back to the Blue Belt days?

ERIC: At Blue Belt, when we started looking for financing solutions, we looked at not only the deal structure, and deal structure is important, but really the people. We spent a great deal of time with Luke Duster and David Carter. I walked away from every meeting with CRG thinking these people will be really solid partners. These aren't people coming in to jam down your throat what their expectations are. They're true partners and are really strategic and smart.

When you put all that together, you build a story that led us down this path of really working well together, both when there was a Board meeting, but more importantly when there wasn't a Board meeting. I could count on CRG when I needed a relationship connection in the Healthcare industry, when I needed some strategic thinking, or just needed advice on how to navigate a situation. CRG was always available and always easy to have a conversation with.

And again, I think it's really important to note that there has never been a conversation that wasn't both parties talking back-and-forth together, working collaboratively to arrive at a solution that works for the organization. As an operator, this is really important these days because there are a lot of high pressure situations and in order to be able to handle them and you want to have financing partners that you can trust in order to get to a result that works for the company.

BRIAN: I know Luke and David would certainly echo all of that.

ERIC: And we've had a blast. I mean, I think that's the other piece of the puzzle. We've been through some really difficult times. We've had some great experiences, some great exits, and I think that's all really, really important. But we were always level-headed and never too emotional even in difficult situations or really exciting situations where you needed to keep your cool. I think we always have done a really nice job together of having great conversations.

Family is important to all of us. We love to talk about families and who's doing what and all those things. And again, I think it just goes back to relationships. I've built my career on relationships. I'm not that smart, but I love to surround myself with smart people and have strong relationships.

BRIAN: Definitely, and you obviously had a great exit with Blue Belt back in 2015. You jumped right back into it with OrthAlign. Could you talk a little bit about what led you to come to OrthAlign?

ERIC: I love this story because I said “no” to OrthAlign probably, I don't know, three or four times. And a couple of the board members who I really respect said, "Eric, do your research before you say no and speak with the surgeons that built Blue Belt, but more importantly speak with the surgeons that weren't involved with Blue Belt."

And so I did, Mike (Bushlack) and I both went back to the drawing board. I knew that at some point I would pull Mike over if I took the job. We went in eyes wide open together. What we found was two things:

(1.) We were wrong on the robotics penetration at Blue Belt. I think we predicted that we would be at 40% robotics penetration in five years. Fast forward 12 years and I think it's about 17% or 18%. And again, there's a lot of reasons for that which we can talk about.

(2.) The data for both robotics and what we do at OrthAlign is better than manual instrumentation. Our conclusion was that everybody should be using technology. However, what I found was robotics was not for the masses. If you look at the market even today, 75% of surgeons still use manual instrumentation without any technology. And converting from no technology to a robot is a really, really long haul. So following a lot of these discussions, I looked at the OrthAlign product and said, "Wow, not only is it accurate, it's really simple." It's the perfect way to convert surgeons from using manual instrumentation to technology versus making the leap to robotics.

At first, I joined the board. We had, I don't know, I guess three or four board meetings and I just kept saying, "We should be growing at a much, much higher rates." And the board agreed and I said, "We should probably start thinking about a new CEO." I wasn't looking for a job at the time and it had been about six months since I had sold Blue Belt and my wife told me to get out of the house.

After several conversations, and looking at several different things, I thought OrthAlign was the best fit and it has been a great decision. I think what we have at OrthAlign is something really, really special and there are a lot of good things to come.

Addressing Shortcomings in Knee Alignment

IMPROVING OUTCOMES AND DECREASING COSTS

350 Thousand	OrthAlign procedures performed to date
150x	Less expensive than robotic competition
$17.4 billion	Knee and Hip market spend annually

BRIAN: And you touched on it a bit, but can you tell me a little bit more about the company's mission?

ERIC: Yes, it's simple. We think every patient deserves great outcomes and great healthcare. If you look at patients getting access to technology to help dictate a better outcome, it's few and far between. We actually lead every one of our presentations to the Company with our mission statement. I'll read it to you and it speaks the truth driven by the belief that everyone deserves exceptional healthcare. “We are committed to making empowering technologies accessible to all.” That's our mantra. That's what we speak about in every meeting. That's our creed, it's all over our walls in our new facility.

But if you think about it, if you're going to have your hip or knee done and your surgeon is not using the technology that's available to them, that's not good for the patients and it's not good for the surgeon. So we believe that's the key to success for not only for our business but for patients and surgeons as well. And it's moving quicker than it ever has to using technology at a faster pace.

BRIAN: Makes complete sense – You've been at OrthAlign for a while now. You guys have been in high growth mode for quite some time, but over the last few years, what are a few key themes you've seen in the business as you've grown it?

ERIC: Yeah, we've got some great tailwinds. I think that, again, the shift to using technology is huge for us. Where we sit and how we position our technology is, I think, really something that gets surgeons excited. With our lead product, Lantern, we metaphorically have an iPhone in the sterile field. Everybody uses an iPhone. Everybody's got a bunch of different apps on their phone, so they drive their Lantern, their iPhone with the apps, whether it's a total knee, a partial knee or a revision knee, a balance knee, they can use it, just as they use their iPhone.

The surgeon drives the technology. The surgeon is the one doing the work, and not having to point to somebody sitting in a corner driving a robot. This leads to the move to technology being at a much faster pace.

Now the other thing that's really, really favorable and has been expedited by COVID was the move to the Ambulatory Surgery Center market ("ASC"). If you start thinking about what happens in a surgery center. Again, you've got dedicated teams that run rooms. They focus on throughput, so getting as many patients through the door as possible with a key focus on costs. If you start rolling all that up, what we have is very accurate, very efficient, and requires very little upfront capital costs. There are no service contracts. Every product that we deliver is the latest and greatest including all of our software upgrades.

We are providing now to the ASC market, I think, a technology that is really positioned for the surgery center that becomes the market, not of the future, but today. I mean, it is growing so quickly and we've got some great things in store that are specific for the surgery center market that we think are game-changing for the industry.

BRIAN: There are a ton of tailwinds for OrthAlign as you mentioned, I'm sure we could spend the entire interview talking about those. But things aren't always up and to the right, especially for a growth stage business. Could you talk us through a few challenges that you've run into?

ERIC: I think the biggest thing we've been grappling with is ramping so quickly. We've gone from a $12 million business on the topline to over $50 million last year. With that comes the churn and burn of product and components and cost of goods, and all of those things that you sit in your chair going, "My gosh, we really need smart people to not only navigate through making sure we have product to service our customers, but looking at the cost and not reacting end of life situations for key components."

And then I think the other thing is people. We are a distributor-based organization. So while we have a direct team and really strong direct sales leadership, onboarding new distributors to keep pace with what we're doing is really a challenge because again, most of them carry an implant. Most of them have a robot. So they're all really competitors, but yet, they all love our product because again, they go and lead with their robot and when a surgeon says no, it opens the door up for Lantern, or OrthAlign.

We're a great fallback and I think that's why we're performing at such a high level. We're also a compliment to the robot. Not only that, we're a way for these distributors to put some dollars in their pocket.

BRIAN: Absolutely, and you all have done an incredible job of navigating through these challenges. To wrap things up, you turned down the job multiple times, but you're still here! What excites you the most about the future of the business?

ERIC: We're Just getting started. It's incredible. The run from $12 million to $50 million of revenue was hard and took a long time. The run from $50 million to $100 million is going to be so much quicker because of not only the products, but the people who run our business on a day-to-day basis. They are really, really talented. They've been there, done that. They have experience that not only takes us from a $12 million to a $50 million company, but more importantly a $50 to a $100 million company.

Our product and development portfolio is solid. We have Lantern Hip launching this year. We've got a game-changing reusable product launching mid-next year that we think will just be incredible for the market and for OrthAlign.

The other piece of the puzzle is everything that is happening in the market, the surgery center trends and the shift to technology. There is nobody better positioned than we are. We've treated 350,000 patients. We've got great data. Our accuracy is rock solid. We pride ourselves on being efficient and simple to use. We won't veer off that. And at the end of the day, it's all about our surgeons and their patients, and we are giving them something that they need, they want, and they love. Our product is so sticky that after a surgeon performs five cases, they remain a customer for a long time. That's our focus right now.

We're also seeing some things in the marketplace where some of the large joint companies that we didn't work with a bunch in the past, are flooding our incoming calls and leads, and so are their surgeons. And I think that's the exciting point. For a while, all of the focus was on the robot. They're all looking for something to complement the robot and more importantly, put technology in their surgeon's hands.

There's robots and there's us, and I say that sincerely, and I don't want to sound arrogant, but there's really nothing out there that moves the needle like we do. And I think that that's why I firmly believe we're just getting started.

We're going to focus on execution. We've got our heads down. We've got a lot of good things happening. We've got a leadership team that is committed to milestones on a quarterly basis. We pride ourselves in living and dying by our milestones and making sure that we're accountable. And this year is no different. We're focused on building for growth and the future.

BRIAN: We certainly agree and are excited for what the future holds. It is always a pleasure speaking with you and thank you again for your time.

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