With over 25,000 Hips and 35,000 Knees Implanted by Orthopedic Surgeons in 11 Countries, Consensus Orthopedics, Inc. has a Strong Track Record Reflected by 33% Growth in 2012

Healthcare Ortho Devices
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Mr. Gray received a Bachelors of Science degree in Accounting from Arizona State University.

About Consensus Orthopedics, Inc.:
Based in El Dorado Hills, CA, Consensus Orthopedics’ innovative lines of products are time-tested. Consensus Orthopedics is devoted to improving quality of life through uncompromising standards in its products while utilizing proven technologies. Operating in 11 countries with over 45,000 implants sold to date, Consensus believes the key to this success is in the relationships it forms with medical professionals, patients, investors, and its employees.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Why did you make the decision for that focus and what are some of the special challenges for those two particular areas?
Ms. Gray: The reason for the focus is U.S. physicians and surgeons have varying philosophies. Some like a hip implant with a geometry that is rounder, while others like an implant with a geometry that might be more of a flat surface. There are also many choices and similar surgeon preferences for knee implants. As a small company you really need a variety of products to satisfy the most popular philosophies so you can address the major market segments. This is why we choose to focus on hips and knees for now. As we grow over the years we might choose to expand beyond hip and knee products, but there is a great deal of work to be done in orthopedics to get to the point where you have a broad line of products.

CEOCFO: Would you tell us about the range of products?
Ms. Gray: Consensus offers a complete range of hip and knee product lines. As a small company, we are fortunate in that we design and market both primary and revision implant systems to our customers. We offer fit and fill, tapered, modular, and revision hip systems as well as cruciate retaining, posterior stabilizing, PCL substituting and revision knee systems. It will be the surgeon’s philosophy, medical school training and their fellowship most likely dictating the primary hip and knee products they use.

CEOCFO: How do you develop your products?
Ms. Gray: We are constantly evolving and have many projects under development. We have ten engineers on staff managing multiple projects. Typically these engineers have advanced mechanical engineering degrees with a focus on bio-mechanics. The engineers determine the appropriate project materials to be used. We then put together a design team, consisting of a senior engineer and a marketing team member focused on market requirements. We will then include between two and five surgeons that provide design input to the project. We will also gather information from our customers that distribute our products. We try to reach out to a broad section of people representing various interests in the industry and we take into consideration the current standards of care. We also involve our regulatory staff because, of course, we have to be able to have these devices cleared through the FDA.

CEOCFO: What is new in the hip and knee area?

Ms. Gray: There have been some developments in plastics materials for hip and knee products, where we have evolved into materials that wear less and last longer. There have been some developments on coatings that are applied to the metal parts of knee devices where they will protect patients that have nickel allergies with a ceramic coating on the knee that creates a barrier between the nickel and the patient. When implanting a cementless knee, we have a special coating that helps the implant and the bone inter-digitate with each other so that there is a good foundation and fixation between implant and bone. There is also a movement to more patient specific procedures or devices.

CEOCFO: Why do your customers want a Consensus product?

Ms. Gray: We have been in business for over twenty years. Our products have a very strong track record. Over 35,000 knees have been implanted and over 25,000 hips. We have never had a recall on any product and patient satisfaction is extremely high. The scientific results are all positive, and that alone is a reason to want a Consensus product. We have a broad product line, so we can provide an implant that is appropriate for a wide range of patients. If a surgeon decides to use our products regularly, he has at his disposal many options that can be used on patients of all sizes and ages.

CEOCFO: Do physicians keep some sort of inventory?

Ms. Gray: No, the physicians are not responsible for managing inventory. Typically in the US manufacturers like us will work through a salesperson that is located in a specific territory. The salesperson will provide both logistical and technical support at the hospital and to the surgeon, so that salesperson is both a salesperson and a technical representative to the company.

CEOCFO: What is the competitive landscape?

Ms. Gray: We as a small business compete with some giant companies. There are about five very large companies that participate in the hip and knee market. These are billion dollar companies with multiple product lines outside of hip and knee, so we certainly have to work hard to compete with them. On the other hand, there are many smaller companies we compete against but there is a limited number. Including us, there are about six companies in the US with sales under a billion dollars.

CEOCFO: Do you sell outside the US as well?

Ms. Gray: We do. We sell in Europe, Japan, Turkey and Australia.

CEOCFO: Is there a particular reason you sell to those countries?

Ms. Gray: Actually, we have a long history of selling outside of the US. We ideally look for territories where the medical system in that country is beneficial to both us and the local distributor(s). Outside of the U.S., we do not sell directly to hospitals. We go through a local distributor in that country who is responsible for the physician and hospital relationships.

CEOCFO: How is business these days?

Ms. Gray: For us it has been exceptional. Last year we grew by 33%. The industry overall was somewhat flat, only up about 1%. We have been able to sustain growth by introducing new products that address some of the differing philosophies that I mentioned earlier. We have been able to add many distributors. Some of the larger companies have had many recalls recently. It has been all over both the radio and television news and print. That sometimes makes surgeons and patients a little nervous. It at least makes them more open to working with more conservative companies such as Consensus who have had no recalls. We had a great 2012 and 2013 looks promising.

CEOCFO: What surprised you most as you worked and developed Consensus?

“Implant longevity and materials design will play a major role in future orthopedic manufacturing.”- Colleen Gray

Ms. Gray: Orthopedics, especially hip and knee, is somewhat of a tough business. It is very cash intensive because we need to provide high levels of consigned inventory to sales reps in the field and to surgeons during surgery. During surgery, every size implant must be available for the surgeon to use; because in our medical system, we do not always determine what size implant is required in advance, leaving the final decision until the patient is in the operating room. Just as important as implants is instrumentation. It takes quite a bit of costly instrumentation to implant a hip or a knee.

Expansion can be slow if you do not have adequate funding. The market growth overall even in high-growth years is 5% to 7%; whereas more recently with higher unemployment, the market has been growing by low single digits.

What surprised me the most is, historically, the orthopedic industry has been somewhat recession resistant
but these past few years of slow economic growth has proved that is not always the case.

**CEOCFO:** What do you see a year or two down the line?

**Ms. Gray:** As our economy improves, surgeries will increase, thus increasing the demand for orthopedic devices. Baby boomers are beginning to come into their peak years where they might need hip and knee replacements. In our country, when you couple that with higher average body weights, it really drives demand for hip and knee replacements. We see the industry starting to increase at a faster rate, driven by baby boomers and younger patients wanting to get hip and knee replacements earlier in life. Implant longevity and materials design will play a major role in future orthopedic manufacturing.

**CEOCFO:** Why should the business and investment community pay attention to Consensus Orthopedics?

**Ms. Gray:** We participate in a very large market. The hip and knee market worldwide is huge. As a small company focused on hip and knee orthopedic products, we believe we can continue to grow well above market rates. We have historically achieved high growth and we expect to continue to grow around 25% per year. With our expected market growth and baby boomers driving demand, the hip and knee industry is one to watch. We believe smaller companies are going to continue to gain market share simply because we can focus on quicker customer service and response times. Surgeons want a product they believe in and Consensus provides reliable innovation. That is why I think those in the investment community should pay attention to Consensus Orthopedics.