MiMedx Announces 2012 Results

PR Newswire

KENNESAW, Ga., March 7, 2013 /PRNewswire/ -- **MiMedx Group, Inc. (OTCBB: MDXG)**, an integrated developer, manufacturer and marketer of patent protected regenerative biomaterials and bioimplants processed from human amniotic membrane, announced today its results for the year ended December 31, 2012.

Highlights of 2012 Results include:

- ***Tripling of Revenue over 2011***
- ***First full year of positive Adjusted EBITDA***
- ***Adjusted EBITDA increased by nearly $9 million***
- ***Gross Margins at record level of 81%***

Full Year and Fourth Quarter 2012 Results

The Company recorded record revenue for the year ended December 31, 2012, with revenue of $27.1 million, more than three times 2011 full year revenue of $7.8 million. Earnings before interest, taxes, depreciation, amortization, impairment of intangibles, earn-out liability and share based compensation (Adjusted EBITDA*) for the year ended December 31, 2012, were $2.4 million, a $8.7 million improvement as compared to the Adjusted EBITDA loss of $6.3 million for the year ended December 31, 2011.

The fourth quarter of 2012 marked the 8th consecutive quarter in which the Company reported improved gross margins. The Company's 2012 gross margins of 81% are nearly a forty-two percentage point improvement over full year 2011 gross margins of 57%.

The Company recorded record revenue for the quarter ended December 31, 2012, with revenue of $10.5 million, an increase of 299% or $7.9 million over fourth quarter of 2011 revenue of $2.6 million, and a 32% increase over the third quarter of 2012. Adjusted EBITDA* for the quarter ended December 31, 2012, were $411,000, a $2.1 million improvement as compared to the Adjusted EBITDA loss of $1.64 million for the quarter ended December 31, 2011.

Management Commentary on 2012 Results

Parker H. "Pete" Petit, Chairman and CEO, stated, "2012 was an excellent year by all measurements. We increased revenues quarter-over-quarter, produced revenue growth of over three times the previous year, improved our gross profit margins by over 40 percentage points, more than tripled the number of employees in key areas of the Company, and significantly improved the management quality and depth of our organization, particularly in the sales and management functions. Most

importantly, we did this while increasing our positive Adjusted EBITDA. The largest portion of our 2012 revenue growth was primarily attributed to our EpiFix® wound care allograft gaining physician acceptance in numerous Veterans Health Administration ("VA") Hospitals. We made a strategic decision to add a direct sales force to focus on these government and military accounts since they are not dependent on third party reimbursement for our EpiFix® tissue grafts. This has proven to be an especially beneficial strategy for the Company that should continue to produce quarter-over-quarter sales growth. Late in the second quarter, we added a national sales director to head up the government sector of our sales force, and we began adding sales executives to that team in early July. The government-focused team today consists of 27 sales executives. Also in the second quarter, we began expanding our direct sales teams focused on the commercial wound care market. That sales team consists today of 15 sales executives. Managing our surgical and sports medicine distributors and sales agents is a group of four sales executives. This group brings our total sales force to 46 people."

Petit continued, "Physicians quickly understand the healing qualities of our amniotic membrane tissue allografts and are requesting the Company to provide them with clinical studies on various uses for our tissue. As a result, we have begun numerous prospective Randomized Controlled Trials (RCTs) and retrospective clinical studies to provide clinical and cost performance data. As the leader in amniotic membrane tissue processing, we expect to have numerous opportunities to capture additional market presence based on the anticipated results from these studies. In addition, we are rapidly conducting broader clinical evaluations of our AmnioFix® allografts used for surgical procedures and our micronized version of AmnioFix® used for soft tissue injections. To meet these market opportunities, we are continuing to increase the staff in our clinical research area to complete these studies on an aggressive timetable."

Bill Taylor, President and COO, commented, "The results we expect from our clinical studies will further validate the clinical and cost effectiveness of our EpiFix® and AmnioFix® allografts. With the publication of these studies, we expect to see reimbursement coverage broaden among commercial health insurance plans and Medicare intermediaries. The various Medicare intermediaries generally do not reimburse products in this category without additional clinical data to support their efficacy; however, based on the impressive results for the studies to date, we have received positive notification from five of the nine intermediaries."

Last month, the Company announced that the U.S. Patent and Trademark Office issued four new patents to MiMedx related to its placental-based allografts, bringing the Company's total patent coverage to five U.S. patents. "We expect at least one more placental- based patent to be issued over the next two months. We currently have a total of 24 pending patent applications relating to our proprietary AmnioFix® and EpiFix® technologies and our placental tissue allografts. Our strategy has been to patent the key elements of our Purion® Process, as well as the resulting EpiFix® and AmnioFix® graft configurations. In addition, we are developing several patent applications around our base patents to build a barrier around our key intellectual property, and make it much more difficult for anyone to replicate our allografts," stated Taylor.

During the year, the Company initiated a strategic focus to expand and further develop its nation-wide placenta recovery network. "Today we recover placentas in 19 hospitals in five states. In addition, we are in negotiations with several new hospital systems for recovery contracts that will give us preferred access to additional hospitals nationwide. We expect that our recovery network will support our donor requirements well into 2014 and beyond. We will continue to broaden the outreach of our donor network in order to meet the growing demand for our amniotic membrane tissue allografts," concluded Taylor.

Balance Sheet and Cash Flow

Cash on hand as of December 31, 2012, was $6.75 million, an increase of $2.64 million, as compared to $4.11 million, as of December 31, 2011. Stockholders' equity as of December 31, 2012, was $20.0 million, a 68% increase in stockholder's equity of $11.90 million as of December 31, 2011.

During the year, the Company raised over $7.0 million from the exercise of warrants and options. Cash flow from operating activities was a negative $3.4 million, and was primarily influenced by increases in working capital to fuel the Company's sales growth. During the year, the Company invested $583,000 in capital equipment to continue its ramp-up of tissue processing activities to meet the market demand for its grafts.

Reported total current assets were $18 million and current liabilities were $5.1 million resulting in a current ratio of 3.57 as compared to 3.0 at the end of 2011 when adjusted for amounts payable in stock. The earn-out liability related to the acquisition of Surgical Biologics was $5.8M as of December 31, 2012, which will be paid in MiMedx common stock in the first quarter of 2013. Also, on the balance sheet at year end is the senior secured convertible promissory note which was converted to stock during the first quarter of 2013. During the year, the Company repaid the convertible debt related to the Surgical Biologics acquisition.

During the year, Contingent Warrants for the purchase of over three million shares of common stock with an exercise price of $.01 were voided per the terms of the 2012 Contingent Warrant agreement related to the trading price of the Company's Common Stock.

GAAP Earnings

The Company recorded a Net Loss of $7.7 million, or $0.09 per diluted common share, for the year ended December 31, 2012, a $2.5 million improvement as compared to the Net Loss of $10.2 million, or $0.14 per diluted common share, recorded for the year ended December 31, 2011. Included in the 2012 Net Loss was a fair value adjustment of the earn-out liability of $1.6 million and a $1.8 million impairment of intangible assets related to our HydroFix® platform. Selling, general and administrative expenses increased due to the decision to build out the Company's direct sales force for government accounts, as well as to add key management and infrastructure related resources to support the Company's

growth. Also included in the reported Net Loss for 2012 is non-cash related financing expense associated with the debt discount of $1.5 million for the full year of 2012 related to the Company's convertible notes. Additionally, other recurring non-cash items of $2.5 million in share-based compensation expense, $1.4 million in amortization expense, and $465,000 related to depreciation expense are included in the 2012 Net Loss from Operations.

The Company recorded a Net Loss of $1.6 million, or $0.02 per diluted common share, for the quarter ended December 31, 2012, a $1.0 million improvement as compared to the Net Loss from Operations of $2.6 million, or $0.03 per diluted common share, recorded for the quarter ended December 31, 2011. Included in the Net Loss is a charge of $247,000 related to the Surgical Biologics acquisition earn out due to higher than expected tissue revenue. The Net Loss also includes approximately $1.6 million in non-cash related expenses including $780,000 in share-based compensation expense, $492,000 in non-cash refinancing expense tied to debt discounts, $263,000 in amortization of intangibles, and $111,000 in depreciation expense.

Use of non-GAAP financial measures

Management has disclosed adjusted financial measurements in this press announcement that present financial information that is not in accordance with generally accepted accounting principles (GAAP). These measurements are not a substitute for GAAP measurements, although Company management uses these measurements as aids in monitoring the Company's on-going financial performance from quarter-to-quarter and year-to-year on a regular basis, and for benchmarking against other medical technology companies. Adjusted EBITDA* is earnings before interest, taxes, depreciation, amortization, share-based compensation, non-cash impairment and earn out liability charges. For a reconciliation of this non-GAAP financial measure to the most directly comparable financial measure, see accompanying table to this release. Adjusted financial measures used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Investors should consider adjusted measures in addition to, and not as a substitute for, or superior to, financial performance measures prepared in accordance with GAAP.

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