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INITIATION / SHORT

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INITIATION: **Alphatec Holdings (ATEC: $14.75) September 29, 2025**

Position: **Sell** Setup: **Misunderstood Business** Target: **$10.52**

$MM	2Q25a	3Q25e	4Q25e	2025e	2026e	2027e
Revs	186	183	204	742	851	955
Adj. EBITDA	23.5	22.4	26.6	83.0	115.4	140.7
Y/Y Growth	322%	202%	29%	171%	39%	22%
EV/S				3.5x	3.1x	2.7x
Cnsns Revs		183	205	742	877	1,034
Cnsns Adj. EBITDA		19.7	29.3	82.9	134.7	184.0

Shares Out: 147M Market Cap: $2.2B FYE: Dec

CONCEPT

1. ATEC's extraordinary historical growth appears to have resulted from buying growth at any cost. While the company recently has cut back on spending to improve profitability and reduce cash consumption, we think these spending cuts should result in ATEC's future revenues falling well short of the "street's" growth targets.

2. Industry participants suggest that disruption in the spine industry – a tailwind for ATEC that has been a key tenet of the bull thesis – is now dissipating and competition is intensifying.

3. While bulls view ATEC as "NuVasive 2.0," industry participants suggest ATEC's PTP approach is not revolutionary, nor is its product portfolio or suite of enabling technologies particularly exceptional. How then can ATEC drive rapid and profitable organic growth in a mature, competitive industry?

4. Although ATEC wants investor to focus on Adj. EBITDA, this low-quality metric does not represent the true cash earnings power of this very capital-intensive business.

To speak with the analyst on this name, please email research@offwallstreet.com, or call 617 868 7880.
For important disclosures, please refer to the end of this report.

SUMMARY

Alphatec Holdings (ATEC) designs, develops and markets products and technology for the treatment of spinal disorders. Its product portfolio includes patient positioners, access systems, interbody implants, fixation systems and various biologics. Its suite of enabling technology includes the SafeOp neuromonitoring system, EOS imaging system and Valence robot.

ATEC estimates it has ~8% share of the ~$8B+ US spine market, which management estimates is growing at a ~5% underlying rate. The company competes with MDT (~25-30% share), GMED (~20-25%), VB Spine (~10%), JNJ (~10%), OFIX (~HSDs%), Highridge Medical (~MSDs%), SIBN (~LSDs%) and KIDS (<1%), as well as tens if not hundreds of tiny private competitors (collectively holding ~HSDs% share).

The bull case for ATEC begins with a market full of disrupted and distracted competitors. To wit, in January ’23, OFIX merged with SeaSpine; in September ‘23, GMED merged with NuVasive (NUVA); in December ‘23, ZIMV sold its spine business to private equity-owned Highridge Medical; and in April ’25, SYK sold its spine business to private equity-owned VB Spine. Meanwhile, both JNJ and MDT are massive medical conglomerates whose spine businesses are but tiny afterthoughts. Such an environment is ripe for a nimbler and more focused player like ATEC to rapidly gain market share, or so say the bulls.

In addition, ATEC is not just any spine company. Filled with former NUVA alumni and led by industry-legend CEO Pat Miles, ATEC is seen as “NuVasive 2.0.” Just as NUVA did in the early 2000s with its revolutionary lateral approach, in 2020, ATEC pioneered and launched its own new approach to spine surgery: the Prone Transpsoas (PTP) approach. This “next-gen” lateral approach, paired with the company’s SafeOp technology, differentiates and insulates the company from its competitors. In addition, the company boasts a unique imaging system (EOS) and will soon also be launching a unique robotic system (Valence). The success of this strategy, according to bulls, is plain to see: ATEC has grown revenues at a ~36% CAGR over the last three years, with its market share rising from ~3% in 2021 to ~8% in 2024.

Thus, with a seemingly strong product and technology portfolio in a market full of disrupted and distracted competitors, bulls expect ATEC’s rapid revenue growth and share gains to continue. The “Street” estimates the

company's revenue will grow at a ~19% CAGR through 2027 (with its market share reaching ~11-12%), while adj. EBITDA margin will expand from ~5% in 2024 to ~18% in 2027.

We, however, are skeptical. We think ATEC is a misunderstood business – that its rapid historical growth reflects an aggressive strategy of buying growth at any costs rather than any revolutionary innovation – and furthermore, that prior tailwinds are fading while headwinds are rising. Without the benefit of unsustainable tailwinds and tactics, we think ATEC will struggle to drive the rapid and profitable organic growth bulls are expecting.

Former ATEC employees, as well as current and former competitors, consistently suggest that much of the company's revenue growth in recent years has been driven by tactics that essentially amount to "buying growth." ATEC is notorious in the industry for aggressively using lucrative consulting and royalty agreements to entice spine surgeons to use its products. ATEC is similarly notorious for offering extraordinary commission rates (at least 15-25 points above industry norms) to win over competitor sales reps and distributors. This latter tactic has been particularly effective in recent years as M&A across the industry, especially the GMED-NUVA merger, left many sales reps and distributors looking for other opportunities.

However, under pressure from shareholders tired of years of losses and dilution (from 2022-2024, ATEC posted cumulative GAAP operating losses of -$456M while its share count exploded by almost 50%), ATEC has recently been forced to rein in its spending. On its 2Q25 earnings call, management alluded to "changes implemented [in 2024] around expense control," while industry participants suggest commission rates at the company have come down in line with industry norms. The impact of these changes on profitability appears clear: in 2Q25, ATEC's GAAP operating loss narrowed to just -$13M while FCF inflected positively to $5M. While bulls have celebrated this turnaround, it highlights an unavoidable dilemma: if ATEC's historical market share gains were fueled by an unsustainable "growth-at-any-cost" strategy, and recent improvements in profitability and cash flow reflect a retreat from that strategy, how will it maintain rapid growth and share gains in the years ahead?

At the same time, industry participants suggest that competitive disruption and distraction is fading. For example, while GMED has gone through a period of significant disruption, it is now settling down. MDT, meanwhile, is doubling-down on its spine business and becoming more aggressive than it has been in years. And while SYK only just recently sold off its spine business, it was

so poorly operated before its sale that the bar for improvement is low, and its new owners may be capable of turning it around.

Finally, while bulls view ATEC as the "new NuVasive," industry participants cast doubt on that narrative. The company's PTP approach is not seen as particularly revolutionary or differentiated, nor is its product portfolio or suite of enabling technologies. ATEC also faces structural competitive challenges in an increasingly consolidated and commoditized market, as well as upcoming competition from next-gen technologies in robotics, AR and AI that, unlike anything ATEC is offering, could be potentially transformational.

To summarize, just as ATEC has to shift from "buying" growth at any cost to driving rapid, profitable growth organically, it must also overcome fading tailwinds and rising headwinds. Thus, while bulls expect both rapid revenue growth and significant margin expansion over the next few years, we suspect ATEC will struggle to deliver on one front (i.e., profitability and cash flow) without negatively impacting the other (i.e., revenue growth). In other words, if ATEC can no longer "buy" growth via outlandish commissions rates and aggressive consulting/royalty agreements, we suspect it'll struggle to grow anywhere near as fast as it has historically. Conversely, if ATEC leans back into such tactics, we suspect it'll struggle to achieve bulls' lofty margin (and cash flow) expectations. We think there is already some evidence that expense cuts are negatively impacting growth in ATEC's recent results.

Our target price is $10.52 (-29% downside), representing a ~2.3x EV/Sales multiple on our 2027 sales forecast of $955M. That compares to ATEC's current EV/S multiple of ~3x, its 3-year average of ~3.4x, and a spine peer-average of ~2.7x (~2.1x excluding MDT and JNJ). Given the structural and financial challenges facing ATEC that we outline in this report, as well as its very poor quality of earnings, we think our target multiple is appropriate, and possibly even generous. We expect ATEC's multiple to compress as its growth decelerates and profitability and cash flow falls short of expectations. Moreover, given ATEC's large net debt position (~$397M) and lack of FCF generation, the risk of additional share dilution via a secondary appears elevated. That should also weigh on the stock's multiple.

Borrow Information: ATEC

Supply Quantity	Short Interest	Available to Borrow	Date
$626M	$94M	$533M	9/29/25

Source: PB Optimize, Datalend

BACKGROUND

Founded in 1990 by Shunshiro “Roy” Yoshimi, ATEC originally operated as a contract manufacturer of medical devices before pivoting to become a vertically integrated designer, developer, manufacturer and marketer of orthopedic trauma products. In 2003, the company expanded its focus to include spinal products, and in 2006 the firm went public on the NASDAQ.

Following years of disappointing performance and a punishing legal settlement in 2014, ATEC was struggling financially and on the verge of bankruptcy in 2017. Separately, over at NUVA, Pat Miles had spent almost two decades working his way up within the company to become President and COO (in 2015) and then Vice Chairman (in 2016). Legendary within the spine industry, Miles had hoped to become CEO of NUVA. But instead, he was passed over for Gregory Lucier, an outside hire with no experience in the spine industry. The two had a contentious relationship, and in 2017, Miles resigned his position at NUVA to become Chairman and CEO of ATEC. (NUVA subsequently sued Miles, alleging, among other things, that he violated his non-compete and breached his fiduciary duty, the latter charge relating to a $500K investment that Miles made in ATEC in March 2017 but failed to disclose to NUVA. The case was eventually closed, with the non-compete ruled invalid under California law and the failure to disclose the investment not deemed a breach of fiduciary duty.)

Miles subsequently embarked on a wholesale transformation of ATEC, replacing most of its executives and directors, as well as many other employees. In 2018, with the support of a new financial backer (L-5 Healthcare Partners), ATEC announced the acquisition of SafeOp Surgical and its advanced neuromonitoring technology for ~$27M in cash and stock. Simultaneously, ATEC announced the appointment of Luiz Pimenta, who had previously pioneered the lateral approach in the early 2000s with NUVA, as Chief Medical Officer. With Pimenta and SafeOp, ATEC had all the pieces it needed to develop the “next generation” of lateral spine surgery: the Prone TransPsoas (PTP) approach, which it launched in 2020.

Nevertheless, ATEC was not done building out its suite of enabling technologies. In December 2020, ATEC announced an agreement to acquire EOS Imaging for ~$117M, financed by a private placement led by Squadron Capital (from which ATEC had previously secured a term loan facility back in 2018). Then, in 2023, ATEC acquired the REMI Robotic Navigation System from Fusion Robotics for $55M, funded by a ~$60M offering of common stock. (ATEC

subsequently renamed the robot “Valence”). Together, these acquisitions helped ATEC assemble a comprehensive portfolio with the trifecta of spinal enabling technologies: neuromonitoring, imaging, and navigation/robotics.

Today, ATEC’s product portfolio includes patient positioners, access systems, interbody implants, fixation systems and various biologics, as well as the three acquired technology systems. ATEC estimates it has ~8% share of the ~$8B+ US spine market (a market management estimates is growing at a ~5% rate). The company competes with MDT (~25% share), GMED (~25%), VB Spine (~11%), JNJ (~9%), OFIX (~8%), Highridge Medical (~4%), SIBN (~2%) and KIDS (<1%), as well as tens if not hundreds of tiny private competitors (collectively holding ~8% share). (Note: Market share estimates are based on the pie chart on slide 7 of ATEC’s January 2024 JPM presentation.)

DISCUSSION

1. Industry participants suggest that ATEC’s extraordinary growth has primarily been driven by unsustainably "buying growth" at any cost.

In the mature and slow-growing US spine market, ATEC’s recent historical growth has been extraordinary. The company has grown revenues at a ~36% CAGR over the last three years, with its market share rising from ~3% in 2021 to ~8% in 2024. Much of this growth has been volume driven – with ATEC calling out Y/Y procedure volume growth of 25% in 2022, 31% in 2023, and 19% in 2024. Notably, however, much of this has been driven by growth in the number of surgeons utilizing ATEC’s products. Specifically, ATEC has noted that surgeon adoption grew 22% Y/Y in 2022, 27% Y/Y in 2023, and 18% Y/Y in 2024.

ATEC’s management team has framed this as a positive, stating at a 9/3/25 conference, “If I go back to my long-range plan assumptions, we assumed 10% surgeon adoption growth. And we've seen high-teens to 20s.” Generally, we would agree that this as a good thing. But what has driven ATEC’s above-plan adoption growth?

To quote management again from the same conference, “If you look back, even the past eight quarters or so, you'll see that new surgeon metric has hovered around 20%, give or take. And I think what you can safely assume is behind that is we're adding reps to support those surgeon adds. And when we

look at the environment, company by company, we won't, but there's either something disruptive or distracting going on in almost every case." Or to quote from the 2Q25 earnings call, "Clinical distinction does compel surgeons and we are compelling surgeon adoption. I think it's reflective of the 21% new surgeon growth and we continue to expand and elevate the salesforce."

Thus, to hear the company tell the story, its rapid historical growth in surgeon adoption reflects ATEC capitalizing on an industry full of disrupted and distracted competitors to steal competitor sales reps and market share while offering surgeons compelling solutions with a clinically distinct portfolio.

Industry participants, on the other hand, tell a very different story. Former ATEC employees, as well as current and former competitors, consistently suggest that much of the company's revenue growth in recent years has been driven by tactics that essentially amount to "buying growth." Moreover, there appears to be little by way of differentiation that would compel surgeons to choose ATEC solutions, as we discuss later.

(Note, clients with access to the AlphaSense/Tegus platform will find that there is a litany of expert interviews with supporting evidence. Below, we highlight some of the most notable quotes but there are far more that we did not include to save space. In addition to reviewing this lengthy record, we spoke directly with several contacts in the spine industry ourselves who consistently echoed and confirmed the sentiments expressed below.)

To quote a former Area Director at GMED in a 9/11/25 AlphaSense interview, "Alphatec will throw very clearly unprofitable points at distributors in order to gain that short-term pop in business. The problem is that can only go on for so long… if I pay these unprofitable points this year and next year, I'm going to have to walk it back the following year and now I'm probably going to lose that business. If a distributor is only doing business with me because I'm paying them more points than my competitors, that's not a long-term strategic partnership that's based around clinical outcomes."

And from that same interview, "Alphatec is the most notorious for [physician consulting agreements]… Alphatec is definitely the most aggressive that I know of as far as offering projects to surgeons in ways that aren't necessarily based in the best clinical benefit… It's a dangerous world to grow business based on consulting and product development relationships. Not just because of that potentially fickle nature of the financial return, but it's also that gets into a whole world of [potential] regulatory [issues]."

Or, as a current District Sales Manager at MDT stated in a 9/4/25 interview, “Unfortunately, the spine business is a dirty, dirty business. That's how you see the rise of ATEC and stuff. It's all through surgeon engagement. Surgeon engagement is very expensive… We're paying the surgeons $100,000 to "consult" for us, but nobody needs consulting on how to make a pedicle screw. Nobody needs consulting on how to make a plate. It's a filthy business. You can't even hide. There's no other word to describe it.”

And as a current Area Vice President at Spinal Elements noted in a 9/23/24 interview, “Pat [Miles], like Santa Claus with a bag full of money, has been running around and getting surgeons on contract. Not only is he paying for the business that way by involving surgeons and getting their feedback on the prone lateral system that ATEC has… two, he's paying out his distribution components… high points, 45%-50% on the dollar.”

Or to quote a Former VP of Sales at DePuy Synthes (JNJ) in 1/26/24 interview, “now, Alphatec is doing that… offering outrageous rates to reps to move over, and then they go over there for two or three years. They get those tremendous commission, but the top-line revenue never really comes over in full, number one. Number two, Alphatec… then has to deal with absorbing that and getting it to a more reasonable rate.”

And lest bulls push back that competitors can’t be trusted, to quote a former Managing Director from ATEC in a 8/7/24 interview, “What drove [the rapid historical growth] was they were paying a ton to us salespeople, so it was easy to transfer over when you were making double the amount of money… the way that they were converting a lot of the NuVasive, Medtronic, Stryker, huge distributorships, [was] they were paying them at least 15 points more than they were making currently with their current employer.”

As noted, there are far more interview quotes than this, and we also spoke directly with several contacts in the spine industry ourselves who consistently echoed and confirmed the sentiments expressed above.

We think it is clear that ATEC’s primary growth strategy historically has been a two-pronged approach that entails using lucrative consulting and royalty agreements to entice spine surgeons and paying unsustainably high commissions to attract sales reps and distributorships. That strategy has been so successful in part because, as industry participants consistently note,

especially in spine, the relationships between sales reps and surgeons are far more important than any small, nuanced differences between spine products.

Notably, however, as the quotes above show, there are risks to such a strategy. Not only is it unprofitable, it's also unsustainable – those surgeons, sales reps and distributors are loyal to ATEC's excessive cash handouts, not its products – and there are also potential regulatory/legal risks.

2. Under pressure from shareholders to generate profits, ATEC appears to be reining in its previously profligate spending habits, risking its future growth prospects.

Last summer, ATEC's stock crashed to its lowest levels since the depths of the COVID crisis in 2020 after the company reported 2Q24 results that revealed significantly higher-than-expected cash burn. Investors made their displeasure known to management and, in response, management began making changes.

For example, on its 2Q25 earnings call, after reporting better-than-expected profits and cash flow, management alluded to "changes implemented [in 2024] around expense control." More specifically, the same former ATEC employee we quoted earlier stated later in that same 8/7/24 interview, "[ATEC's commission rates are] getting to more of the common area rather than the outlier… pretty much standard across the board." In a more recent 9/11/25 interview, one competitor noted, "[ATEC is] walking [commission rates] back that I've seen… [and] becoming very difficult to work with for those relatively small $1 million and $2 million distributorships… I think that's really going to hurt them because that's their user base and that gives them access to all these different institutions and all these different surgeons."

To be clear, the changes are having the intended effect on profitability and cash flow: in 2024, ATEC reported a GAAP operating loss of -$136M and FCF of -$128M. But in 2Q25, ATEC's GAAP operating loss narrowed to just -$13M while FCF was +$5M.

But if ATEC's historical market share gains were fueled by its unsustainable "growth-at-any-cost" strategy, and recent improvements in profitability and cash flow reflect a retreat from that strategy, how will it maintain rapid growth and share gains in the years ahead?

To put a finer point on it, ATEC's sales have grown by $108M-$131M annually over the last three years. Over the next three years, the "Street" expects annual sales growth of $131M-$156M. At the same time, adj. EBITDA is expected to grow from $31M in 2024 (a ~5% margin) to $184M (a ~18% margin), while FCF is expected to inflect from -$128M in 2024 to $95M in 2027.

We suspect ATEC will struggle to deliver on one front (i.e., profitability and cash flow) without negatively impacting the other (i.e., revenue growth). In other words, if ATEC can no longer "buy" growth via outlandish commissions rates and aggressive consulting/royalty agreements, we suspect it'll struggle to maintain its historic growth rates. Conversely, if ATEC leans back into such tactics, we suspect it'll struggle to achieve bulls' lofty margin (and cash flow) expectations.

There is some evidence that expense cuts are impacting growth already: on a 2-year CAGR basis, ATEC's Surgical revenue growth slowed from a 40%+ rate in 2021-2023 to a low-30s rate in 2H24, and then further to a high-20s rate in 1H25. Management's FY25 revenue guidance implies a continued deceleration to a low-20s rate by 4Q25. The slowdown in 2025 is particularly notable given that this is the first year most of the sales reps ATEC hired away from its disrupted competitors (as we discuss below) are free of their non-compete agreements (which typically last ~1 year). In 2026, we expect to see growth decelerate even further.

3. Industry participants suggest ATEC has benefitted mightily from competitor disruption in recent years. But that tailwind appears to be fading and the competitive environment intensifying.

MedTech M&A is notorious for being disruptive, especially so in the spine space. One need look no further than GMED's stock price (which, after more than two years, is essentially back where it was when the NUVA merger was first announced) for evidence. To quantify it, after the merger closed, GMED guided for ~$150M in sales "dis-synergies" in 2024 as a result of the transaction. Industry participants also make it clear that this was a disruptive merger that ATEC directly benefited from.

To quote an Orthopedic Surgeon in a 7/7/25 AlphaSense/Tegus interview, "From a surgeon volume and surgeon preference standpoint, I think that [GMED/NUVA] probably lost more than they thought they were going to lose because a lot of the reps that folks were comfortable with went to the Alphatecs of the world."

Or as a former Regional VP at Life Spine noted in 8/9/24 interview, “[The GMED NUVA merger is] probably worse than the Synthes J&J merger. Everybody used to talk about initially the K2 and Zimmer Biomet mergers that were very disruptive. This one is very bad and putting a very bad taste into the sales channel.” And a former GMED Salesperson in a 3/18/24 interview, “I know actually some distributors [who left and took] their business to ATEC… I'm also seeing a lot of the newer reps getting pushed out.”

Note, the September 2023 GMED/NUVA merger was the largest and most disruptive in the space in recent years, and thus the most beneficial for ATEC. But it’s also worth remembering that the company also likely similarly benefited from disruption related to the OFIX and SeaSpine merger in January 2023, as well as ZIMV’s sale of its spine business in December 2023 to Highride Medical.

Importantly, however, industry participants suggest disruption in the industry is now fading. This should not be surprising given that most of these M&A transactions happened ~two years ago now. Some period of disruption is to be expected, but it won’t last forever. The only disruption that has occurred recently was SYK’s decision to sell its spine business to private equity-owned VB Spine in April 2025. But as we noted earlier, that business had been in outright decline since 2021. And unlike its old owner, it’s new owner (VB Spine, owned by the Viscogliosi Brothers), is deeply focused on the spine market (the Viscogliosi Brothers' broader portfolio includes Centinel Spine, Companion Spine, and Spine BioPharma) and will likely be a far more effective competitor in the space than SYK has been.

This is a critically important point. While ATEC benefitted from significant industry disruption in recent years, going forward, it must contend with a competitive landscape that is now intensifying.

Merger disruption aside, GMED is an extremely formidable competitor. As one former Regional Manager at GMED noted in a 3/10/25 interview, “NuVasive did a really good job selling procedural solutions, and I think they were a step ahead of the others from that standpoint. I think Globus and NuVasive by joining forces, they could really eliminate a lot of the competition out there by doing that.” This is a particularly notable threat to ATEC as selling procedural solutions was previously one of their strongest vectors of attack against GMED (which focused more on highly-engineered robots and enabling technologies).

In addition, industry participants describe MDT as more active and dangerous in the spine market today than it has been in years. As a current District Sales Manager at MDT stated in a 9/4/25 interview, “Medtronic is finally awake… You've got a new [spine] robot coming out with Medtronic which will fundamentally change the robotics space… you're going to have upwards of a tremendous amount of product coming out from Medtronic… [competitors have] never seen Medtronic launch products like we're about to launch products.”

Or, as a current Area Vice President at Spinal Elements noted in a 9/23/24 interview, “now [MDT has] started to double down in spine yet again. They have navigation, they have O-arm. Those two pieces of the puzzle for Medtronic are very integral to their domination in this space… [and] while everybody wasn't looking… Medtronic came out in the middle of nowhere and started buying up distributors… About five years ago, Medtronic was doing the whole W-2 dance… There was a mass exodus at one point from Medtronic. I think Medtronic has realized that, and now has turned the tides as of January 1 this year, and is now maybe rethinking their strategy when it comes to spine.”

So, to be clear, going forward, ATEC will have to contend with two massive competitors that collectively already hold ~45%-55% market share and are becoming more aggressive, with better, more comprehensive portfolios than they have had in years. The days of picking up low-hanging market share fruit from disrupted and distracted competitors appear to be over.

4. While bulls view ATEC as the “new NuVasive,” industry participants cast doubt on that narrative.

Key to the bull case is the idea that ATEC is the “new NuVasive.” With Pat Miles and Luiz Pimenta at ATEC, the band is back together and ready to repeat exactly what NUVA did when they pioneered their lateral (XLIF) approach in the early 2000s and the company subsequently flourished. The only difference between now and then is the name of the company (ATEC) and approach (PTP).

Industry participants, however, throw cold water on that story. To quote a current Area Vice President at Spinal Elements in a 9/23/24 AlphaSense/Tegus interview, “ATEC is trying to repeat exactly what NuVasive did when they launched the lateral program, period. When the lateral procedure was introduced… they went fast and furious. They did exactly what Medtronic did in the late 1990s, early 2000s and trained everybody on the lateral procedure. They did a bang-up job, and then rightfully so, that company flourished like gangbusters. That was a time and a place. That time and place is not today. Our

friend is trying to repeat the past… The advancements in that space, in my opinion, is done. Everybody has a lateral offering, whether it's prone lateral, whether it's direct lateral, whether it's transpsoas. The approach itself is now understood. The retractor system, even though there's multiple varieties that every spine company now offers, again, you've run out of runway to advance this surgical procedure. I think Pat Miles is still trying to push the envelope there, but only a few people are buying."

The challenge is that ATEC's PTP approach today is simply not revolutionary in the way that NUVA's XLIF approach was when it was launched. In the early 2000s, most spinal fusions were performed as open surgeries, which involved large incisions, significant muscle retraction, and longer, more painful recoveries. While some other minimally invasive techniques had been developed, the XLIF procedure was revolutionary for lumbar fusions because it provided a new, less disruptive corridor to a significant portion of the lumbar spine. With direct access via the psoas muscle, XLIF avoided cutting through significant back muscles or moving abdominal organs and major blood vessels. It also allowed for the insertion of a much larger interbody cages than traditional approaches. XLIF boasted smaller incisions, less blood loss, shorter hospital stays and quicker patient recovery.

Contrast that with ATEC's PTP approach. Surgeons consistently state that the primary advantage of PTP over the traditional lateral approach (XLIF) is workflow efficiency. Specifically, by enabling both anterior and posterior work from one prone position, it eliminates patient flipping and saves ~30-45 minutes. (Some early literature suggests there may be a lordosis benefit with PTP, but that remains uncertain.)

To quote one spine surgeon in an 8/7/24 interview, "At the end of the day, I think that the lordosis is maybe a benefit. I think the literature is starting to show that but I think for the vast majority of folks that adopt PTP into their practice, it's because of the efficiency of workflow, where you're cutting out 30, 45 minutes operative time by keeping the patient in the same position. That being said, you can do single-position lateral surgery. I still do a combination of two, depending on what the anatomy of the patient is… [PTP is] actually not as ergonomic as much as people try to sell that… There is added risk to it in my mind… I think that's the big hurdle. I think, again, it has its role, just like every other procedure has its role for the right patient."

Obviously, a new approach (PTP) that primarily reduces operating time (by only 30-45 minutes), and potentially carries added risk, is significantly less

“revolutionary” (if one can even use that word) than a new approach (XLIF) that significantly reduces incision sizes, blood loss, hospital stays, and recovery time.

Moreover, not only is ATEC’s PTP approach not revolutionary, industry participants suggest that it is no longer differentiated either. To quote a current Area VP at Spineology in a 9/11/25 interview, “ATEC obviously is the original and they probably have the best. [But] Globus just came out with one. It's pretty good… That's the thing. There's a reason why ATP still exists, the ALIF still exists, lateral still exists and all these companies still have those product lines because they know that at the end of the day, there's never going to be one single offering that is going to appeal to everybody. At the same time, they recognize that PTP is at least a hot topic at the conferences and stuff like that. At least for the time being, the interest is going to be there and there are obviously some adopters of it. They're starting to try to dabble in that space.”

That middle part is important: PTP is not and never will be the end-all be-all. To quote a former GMED Salesperson in a 3/18/24 interview, “I think there's people that believe in the lateral approach, and there's people who think they can get the same results from going posterior on a patient. At the end of the day, it's hard to get someone to change the way they're doing things and especially if they're comfortable with a certain procedure and now you're asking them to go into territory that they're unfamiliar with… A lot of people think you can get the same result better from doing a PLIF or TLIF.”

Ultimately, ATEC’s PTP approach appears to be a niche procedure with limited benefits that is now being copied by ATEC’s competitors to boot. What else, then, is going to drive the significant organic growth and share gains that ATEC bulls are hoping for?

Industry participants consistently note that, aside from being the original PTP player, its product portfolio is nothing special (unsurprising given how commoditized the market is). Moreover, while its pre-op EOS Imaging system is described by industry participants as unique and “neat,” it’s not clear that surgeons really understand what to do with it, nor do hospitals seem to understand what its economic value proposition is. In contrast, industry participants emphasize that intra-operative imaging systems like MDT’s O-arm continue to dominate the spinal imaging market with clear clinical and economic value. Unfortunately for bulls, ATEC does not have an intra-operative imaging offering.

Moreover, while bulls may hope that ATEC can make a splash with the launch of its upcoming Valence robot, we are skeptical. ATEC is very late to the spinal robotics market, which is now dominated by MDT's Mazor robot (introduced in 2016) and GMED's Excelsius robot (launched in 2017). Meanwhile, JNJ launched its VELYS spine robot last year, while SYK launched its Mako Spine robot this year (which will work exclusively with implants now sold by VB Spine). For its part, ATEC is aiming for a late 4Q25 launch. While details are somewhat limited so far, nothing about ATEC's Valence robot appears to be particularly exciting or differentiated. Industry participants suggest the company faces an uphill battle against its far larger competitors that have already secured implant volume commitments from hospitals in exchange for free robot placements.

Finally, it's worth remembering that ATEC faces structural industry and competitive headwinds, as well as upcoming competition from next-gen technologies in robotics, AR and AI, challenges that NUVA never had to contend with in its heyday. Industry participants consistently highlight the relentless pricing pressure the spine market has experienced historically, and expect that to continue to be a headwind going forward. They also note that, not only do smaller players like ATEC now have to compete against massive, consolidated players like MDT and the new GMED, but they are also selling to a hospital customer base that has also become more consolidated. That has given their customers more leverage just as those same customers are trying to reduce the number of vendors they work with and get the remaining vendors on contracts with volume-based pricing concessions.

Moreover, while most industry participants view the current generation of spine robots as nothing more than glorified screw placement machines, some suggest that upcoming next-gen robots under development by large players like MDT and startups like LEM Surgical and Vista Robotics may have truly transformational potential. For example, while the current generation of spine robots is mostly limited to simple single-arm screw navigation and placement, the next-generation looks to feature multiple arms with active and automated robotic assistance throughout spine procedures. Already behind its competitors in the current generation of spine robots, and with no augmented reality offering (unlike, for example, GMED) nor any advanced AI technologies, ATEC seems to be falling further and further behind the technology leaders in its industry.

MANAGEMENT COMPENSATION

ATEC's management team is compensated primarily through a mix of a fixed cash base salary, a variable short-term bonus (previously 100% cash but split 50/50 between cash and RSUs beginning in 2025), and a variable long-term bonus (in the form of PRSUs and RSUs). PRSUs and RSUs vest over a three-year period.

For example, in 2024, CEO Pat Miles earned total compensation of $6.2M, consisting of $757K in cash from his base salary, a $400K cash bonus, $5M in long-term stock awards (of which ~$3.8M came in the form of PSRUs), and ~$36K in other compensation (health and health related benefits, disability insurance premiums and matching 401(k) contributions).

Notably, the short-term bonus is based 75% on revenue goals and 25% on adj. EBITDA goals. The PRSUs granted as part of the long-term bonus plan are tied to revenue over a one-year period and "a pre-established market performance condition achieved at the end of a three-year performance period." The heavy emphasis on revenue targets in these compensation plans suggests that ATEC's management team will prioritize revenue growth, potentially at the expense of profits and cash flow.

It is worth noting that every single executive at ATEC is paid significantly more than the executives at the company's largest pure-play competitor, GMED (which is more than 3x ATEC's size). For example, Pat Miles enjoys a base salary almost 60% higher than that of GMED's CEO, and even his total compensation is 25% higher. These lavish executive compensation packages come at the cost of significant dilution for ATEC shareholders.

ACCOUNTING

(1 = no significant issues, 2 = some issues, 3 = major issues)

Score: 3

a. ATEC's Adj. EBITDA is not representative of the true cash earnings power of its business.

ATEC wants bulls to focus on revenue first and foremost, but second to that, it directs them to focus on Adj. EBITDA, when analyzing its business and

valuing the company. But Adj. EBITDA is not representative of the cash earnings power of ATEC's business. In addition to consistently adding-back recurring cash expenses (as discussed below), adj. EBITDA also excludes depreciation, which, unlike most businesses/industries, is a very real recurring cash expense for ATEC, as well as investments in working capital (primarily inventory), which are a consistent cash drag necessary to support rapid growth.

ATEC relies on third-party manufacturers for its products. As such, it doesn't have manufacturing facilities. Instead, PP&E primarily consists of surgical instruments (~83% of gross PP&E). Surgical instruments are re-usable devices used by surgeons during spinal surgeries to assist with access and placement of products like implants. They are purchased by ATEC (which shows up as CapEx), held on its balance sheet as long-lived assets included in PP&E, and depreciated over their useful lives (4 years). They are a recurring, cash expense that is required to operate in the spine business (and one of the reasons that business so capital-intensive, low-ROIC and generally unattractive). To exclude the cost of these required capital outlays when analyzing the profitability of ATEC overstates its true cash earnings power.

The result is a dramatic difference between ATEC's Adj. EBITDA and FCF, as shown in Exhibit 1, below.

Exhibit 1. ATEC's adj. EBITDA vs. FCF.

(millions of USD)	2019	2020	2021	2022	2023	2024
Adj. EBIT	-26.9	-26.7	-59.6	-69.0	-51.4	-33.3
Adj. EBITDA	**-19.8**	**-17.5**	**-39.2**	**-38.0**	**-9.2**	**30.6**
OCF excl. WC	-24.7	-30.5	-48.3	-52.1	-24.3	22.6
Changes in WC	-8.4	-16.0	-25.1	-23.1	-54.2	-67.3
OCF incl. WC	-33.1	-46.4	-73.3	-75.1	-78.5	-44.7
CapEx	-13.0	-23.1	-68.5	-49.5	-80.5	-83.2
FCF	**-46.2**	**-69.5**	**-141.9**	**-124.6**	**-159.0**	**-127.8**

Source: ATEC filings.

b. ATEC's Adj. EBITDA is inflated by adding-back consistently recurring cash expenses.

ATEC calculates Adj. EBITDA by adding back stock-based compensation, purchase accounting adjustments, contingent consideration fair value adjustments, litigation-related expenses, transaction-related expenses, restructuring expenses, and other non-recurring expenses. While none of these are particularly unusual add-backs, it is unusual to see almost all of these add-backs recur every single year (with the exception of SBC, of course). The point of adjusted calculations is generally to normalize for non-recurring and/or non-

cash expenses. If such expenses recur every year and/or must be paid in cash, they would seem to be part of ATEC's normal business operations.

The most egregious of these is litigation-related expenses, which have ranged from 2%-8% of sales every year since 2019. For example, in 2024, ATEC reported Adj. EBITDA margin of 5%. If litigation-related expenses had not been added-back, Adj. EBITDA margin would have been 3.4%. Restructuring charges are another recurring add-back, which, for example, boosted Adj. EBITDA by ~53bps in 2024.

If ATEC did not add back recurring, cash expenses (litigation-related, transaction-related and restructuring), Adj. EBITDA and Adj. EBITDA margin would have been substantially lower, as shown in Exhibits 2 and 3, below.

Exhibit 2. Impact of recurring, cash expenses on ATEC's Adj. EBITDA.

(millions of USD)	2019	2020	2021	2022	2023	2024
Reported Adj. EBITDA	-19.8	-17.5	-39.2	-38	-9.2	30.6
Adj. EBITDA excluding recurring cash expenses	-28.5	-30.3	-58.4	-63.9	-34.3	17.3

Source: ATEC filings.

Exhibit 3. Impact of recurring, cash expenses on ATEC's Adj. EBITDA margin.

	2019	2020	2021	2022	2023	2024
Reported Adj. EBITDA margin	-17.5%	-12.1%	-16.1%	-10.8%	-1.9%	5.0%
Adj. EBITDA margin excluding recurring cash expenses	-25.1%	-20.9%	-24.0%	-18.2%	-7.1%	2.8%

Source: ATEC filings.

c. ATEC's Adj. EBITDA and cash flow is inflated by extremely high SBC relative to peers.

Stock-based compensation expense at ATEC has ranged from 10%-17% of total revenues since 2019. In comparison, SBC at GMED (and NUVA before the merger) ranges from 2%-3% of total revenues. Even at OFIX and KIDS, which are tiny compared to ATEC, SBC ranges from 3%-5% and 4%-9%, respectively. Only at SIBN, which, like ATEC, is perennially unprofitable, is SBC higher, ranging from 11%-22%.

Effectively, ATEC is shifting part of the cost of its employees directly to shareholders (via dilution), and doing so to a much greater extent than any of its peers. This, in addition to ATEC's heavy reliance on convertible notes and follow-on offerings of common stock, has contributed to a rapid increase in ATEC's share count over the last five years. For context, diluted shares

outstanding increased 174% from 2019-2024, 18% Y/Y% in 2024, and 5% Y/Y in 2Q25.

VALUATION

Our target price for ATEC is $10.52, representing a ~2.3x EV/Sales multiple on our 2027 sales forecast of $955M. That compares to ATEC's current EV/S multiple of ~3x and its 3-year average of ~3.4x (with a low of ~1.7x in October 2024 and a high of ~5.3x in July 2023).

Finding an appropriate valuation comparison for ATEC is challenging. Consider its publicly-traded peer group: GMED, MDT, JNJ, OFIX, SIBN, KIDS. The average NTM EV/S of the group is ~2.7x.

Both JNJ and MDT trade at significantly higher EV/S valuations than the group average (4.8x and 3.9x, respectively), but their spine businesses are relatively small parts of their broader portfolios. As such, they are not appropriate valuations comps for ATEC.

For the pure-play spine companies, EV/S valuations range from of 0.8x (OFIX) to 2.5x (GMED), with an average of ~2.1x. But both KIDS and SIBN are somewhat niche (focused on pediatrics and the sacropelvic area, respectively), and OFIX has struggled with idiosyncratic issues following its merger with SeaSpine. Moreover, all three are tiny, sub-$600M market cap stocks. For those reasons, none are really appropriate valuation comps for ATEC either.

As for GMED, it's currently in the investor dog-house after its merger with NUVA has been more challenging than hoped, but over the last 15 years its average EV/S has been ~4.3x. GMED, however, is not really an appropriate comp for ATEC either as it's a structurally more profitable business. For example, GMED boasts 28%-30% Adj. EBITDA margins (driven by 67%-69% gross margins and SG&A in the high-30s to low-40s) and an ROIC in the HSD-LDD range. By contrast, despite boasting gross margins of ~72%, NUVA only ever achieved Adj. EBITDA margins in the low-20s independently (because it never got SG&A below 52%) and an ROIC in LSD-MSD range. As a result, NUVA historically traded at a ~40%-60% discount to GMED, with an average EV/S of ~2.6x over the 13 years prior to its merger with GMED. Arguably, even NUVA is a generous comp for ATEC given that NUVA had already achieved Adj. EBITDA margins of 21% by the time it was the size ATEC is today.

ATEC appears to be a structurally less profitable business than its peers. Part of that relates to its propensity for buying growth, as we discussed earlier, but it also reflects specific business decisions made by ATEC management. To quote a former competitor in a 9/5/23 AlphaSense/Tegus interview, “The challenge is… it's a very, very capital-intensive business to start, but even more so when you are having to innovate and create products that are not sold, so like the patient positioner. The only way you pay for that is with implants. Implants are seeing increasing downward price pressure on them. If you've got to spend millions of dollars every year to have the next-gen patient positioner out, that's a capital-intensive way to sell the same interbody cage… I think there's still a lot of risk in the fact that [ATEC’s] growth strategy is highly capital-intensive with all these other adjacent or enabling technologies that they've got to put into the surgeon's hands to actually put in the same interbody cage.”

ATEC’s management loves to say that the spine industry “needs” them, because unlike competitors who only focus on the actual implants that are sold, ATEC focuses on all the other instruments and accessories that a surgeon might want to use to assist with the surgery. We can see why that might be nice for surgeons, but it’s clearly a more capital-intensive and lower-profit way to operate a spine business, and ATEC’s financial performance reflects that.

To its credit, ATEC’s management has been somewhat explicit about this, consistently telling investors that “it takes $0.75 of investment in sets and inventory to drive $1 of incremental revenue growth.” Consider what that statement implies. ATEC reported a gross margin of ~70% in 2024, implying inventory costs of ~$0.30 for each $1 in revenue. That suggests instrument set costs of ~$0.45 for each dollar of incremental revenue. Sets last for four years so call it $0.1125 for any one year. While accounting rules run this expense through SG&A as depreciation, it’s effectively a cost of goods sold, suggesting it may be more accurate to view ATEC as a business with ~59% gross margins. Meanwhile, the company spent 9% of sales on R&D in 2024 and ~57% of sales on SG&A (excluding depreciation). From that perspective, it’s no surprise the company has never made any money!

Given the structural and financial challenges facing ATEC we outlined above, we think ATEC shares should trade at an even greater discount to GMED than NUVA historically did. As such, we think our 2.3x EV/S target multiple is appropriate, and possibly even generous.

We expect ATEC’s multiple to compress as its sales growth rate decelerates and profitability and cash flow falls short of expectations. Moreover,

given ATEC's large net debt position (~$397M) and lack of FCF generation, the risk of additional share dilution via a secondary appears elevated. That should also weigh on the stock's multiple. For example, last year, when ATEC reported/guided for higher-than-expected cash burn in/after 2Q24, it stoked fears of another capital raise, and investors reacted by selling the stock down to ~$6 (~1.7x EV/S) in the following months. If such fears resurface (perhaps driven by a deeply negative FCF print in 1Q26 if the company is forced to ramp back up investments in inventory and instrument sets after having run down stockpiles this year in order to show positive FCF…), the stock could end up at its former lows once again.

RISKS

The primary risk to our thesis is that ATEC is able to achieve bulls' growth and margin expectations over the next few years, for one of several reasons. If we are wrong, it could be that we have overestimated the impact of ATEC's aggressive sales tactics on its historical rapid growth and operating losses/cash burn, and therefore underestimated its organic growth and margin expansion/cash flow potential going forward. Or, ATEC's EOS imaging system and upcoming Valence robot could become much more significant contributors to the company's growth trajectory than we expect. It is also possible that competitor disruption/distraction in the US spine market is greater and longer-lasting than we expect, providing material and sustained tailwinds that allow ATEC to continue gaining rapid share with minimal effort.

A secondary risk is that ATEC is acquired. We consider the risk of this to be low for two reasons. First, it is unclear who would be interested in acquiring the company given that the general trend has been for large MedTech players to exit the spine market due to its low growth and high capital intensity. We would be very surprised to see a previously uninvolved player like BSX or ABT decide to enter what appears to be a generally unattractive industry via an acquisition of ATEC. Second, at ~3x EV/S, ATEC is not at all cheap for a spine business. While some private equity players have recently acquired spinal businesses (specifically, the former implant businesses of ZIMV and SYK), those were poor performing assets sold at a bargain (at least in the case of ZIMV, which sold its spine business for less than 1x EV/S; SYK did not disclose the sales price for its business).

FINANCIAL PROJECTIONS

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