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Q3 2024 ATRICURE INC EARNINGS CALL

EVENT DATE/TIME: October 29, 2024 / 8:30PM UTC

CONFERENCE CALL PARTICIPANTS

- **Operator**
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- **Michael Carrel** *AtriCure Inc - President, Chief Executive Officer, Director*
- **Angela Wirick** *AtriCure Inc - Chief Financial Officer*
- **William Plovanic** *Canaccord Genuity - Analyst*
- **Marie Marie** *BTIG - Analyst*
- **Mike Matson** *Needham & Company Inc. - Analyst*
- **Danielle Antalffy** *UBS Equities - Analyst*
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PRESENTATION

Operator

Good afternoon, and welcome to AtriCure's third-quarter 2024 earnings conference call. (Operator Instructions)

I would now like to turn the call over to Marissa Bych from the Gilmartin Group for a few introductory comments.

Marissa Bych *Gilmartin Group - Investor Relations*

Great, thank you. By now you should have received a copy of the earnings press release. If you have not received a copy, please call 513-644-4484 to have one emailed to you.

Before we begin today, let me remind you that the company's remarks include forward-looking statements. Forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond AtriCure's control, including risks and uncertainties described from time to time in AtriCure's SEC filings. These statements include, but are not limited to, financial expectations and guidance, expectations regarding the potential market opportunity for AtriCure's franchises and growth initiatives, future product approvals, clearances, competition, reimbursement, and clinical trial outcomes. AtriCure's results may differ materially from those projected. AtriCure undertakes no obligation to publicly update any forward-looking statement.

Additionally, we refer to non-GAAP financial measures specifically constant currency revenue, adjusted EBITDA, and adjusted loss per share. A reconciliation of these non-GAAP financial measures with the most directly comparable GAAP measures is included in our press release, which is available on our website.

And with that, I would like to turn the call over to Mike Carrel, President and CEO.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Great. Good afternoon, and thank you for joining us, everyone. I'm happy to share that our third-quarter results, which reflect another strong quarter for AtriCure. We achieved total revenue of $116 million, or approximately 18% growth, showing broad-based demand across our portfolio of innovative products for patients with atrial fibrillation and postoperative pain. In addition to our top-line performance, we continue to make progress to expand profitability, producing nearly $8 million of positive adjusted EBITDA for the

quarter. We also generated over $16 million in positive cash flow this quarter, marking our second consecutive quarter of positive cash flow.

As a result of the strength in our third-quarter results, we are raising our full year 2024 revenue guidance and now expect a range of $459 million to $462 million, reflecting growth of approximately 15% to 16% over full year 2023. We are also reaffirming our plans to deliver a full year adjusted EBITDA of $26 million to $29 million.

Turning to updates on our business and highlights in the quarter. Starting with our pain management franchise, which grew 36% worldwide, marking another quarter of acceleration in sales. Our performance was led by growth in our international markets and bolstered by the US launch of our cryoSPHERE+ probe. We've seen outstanding adoption of this device, which contributed nearly half of our pain management sales in the quarter, and are hearing consistent, positive feedback from our physician partners on the 25% reduction in freeze time.

We are also excited about the recent launch of our cryoSPHERE Max Probe, which builds upon the success of cryoSPHERE+. Our Max Probe features a larger 10 millimeter ball tip designed to optimize procedure efficiency by reducing freeze times even further than the cryoSPHERE+.

Additionally, we are seeing a growing body of evidence supporting the economic value of cryo nerve block therapy. At the most recent AATS thoracic surgical Oncology Summit in New York City, Dr. Dan Miller, Chief of Thoracic Surgery at the Medical College of Georgia and Georgia Cancer Center, presented robust, multi-sensor data demonstrating a reduction in hospital stay duration by more than one day after cryoablation, representing more than $5,000 of reduced cost, 26% less opioid refill dosage at 90 days for all patients, and 28% less opioid refill dosage at 90 days after cryoablation in chronic opioid users and total healthcare cost reduction by $8,000 over six months for the cryo-nerve block patients.

As we look back on the past five years, our progress in establishing this therapy has been remarkable. With new innovation leading to re-acceleration of growth, our success in thoracic procedures also gives us confidence and even broader opportunity for our pain management products as we continue to explore additional applications to expand our addressable markets.

Shifting now to our franchises centered on the treatment of atrial fibrillation. Our open ablation franchise grew 16% worldwide, driven by nearly 50% growth in the ENCOMPASS clamp in the United States. We are adding accounts and new surgeons with the ENCOMPASS clamp and recently completed our first cases in Europe. This device has accelerated treatment in our core market of cardiac surgery, and we look forward to driving sustainable growth with this product worldwide.

Next, our appendage management franchise achieved worldwide revenue growth of 18% with outsized contribution from open chest devices. In the United States, we saw a third consecutive quarter of acceleration in sales of open appendage management devices, achieving 20% growth in the third quarter. We believe this acceleration is a testament to the pioneering design, quality, and performance of our AtriClip devices, which have reached over 600,000 units sold life to date.

And on the innovation front, we completed the first cases with our new AtriClip FLEX-Mini device following the US launch in the third quarter. The AtriClip FLEX-Mini is the smallest profile clip on the market, offering enhanced access and visibility of the appendage. Feedback from early adopters has been overwhelmingly positive, particularly on the enhanced visibility with the device. While still early in the launch, we anticipate AtriClip FLEX-Mini will drive a strong tailwind for our appendage management franchise well into the future.

Internationally, we received an expanded CE-Mark indication for AtriClip devices to include patients at high risk for thromboembolism. The expanded indication resulted from a wealth of existing robust clinical data on our AtriClip devices through 85 peer-reviewed papers representing over 11,000 patients studied and analyzed. We are also adding clinical evidence and awareness of the benefits of LAA management to our investment in the LEAPS Stroke Reduction Trial, the anticipated success of which will expand our global addressable market considerably.

The LEAPS trial is expected to show a clear benefit when using AtriClip devices to manage the appendage in patients who undergo cardiac surgery without preoperative Afib diagnosis, a market of well over 1 million patients globally. To date, we have enrolled nearly 3,700 patients, and we are on track to complete enrollment of 6,500 patients in this study by mid-2025.

Finally, Our hybrid AF therapy remains resilient despite the market effects of broadening PFA adoption. In the third quarter, we saw continued positive trends with a number of accounts performing our convergent procedure as well as new account activations. However, given increased physician time focusing on PFA, we are experiencing pressure on the pace of MIS adoption or ablation and MIS AtriClip growth in the US.

We know that hybrid therapy plays a vital role in practice and remains the only therapy with differentiated and durable results for longstanding persistent AF patients. As we have seen in Europe, over time, we expect the broad tailwinds PFA is driving around the awareness and diagnosis of Afib to expand the number of treatable patients for this therapy.

To build on that point, we believe that continuous innovation in Afib therapies has grown patient treatment across all markets. Therefore, we are excited to announce that we have entered into an exclusive license and development agreement with an expert in the PFA field to accelerate the introduction of PFA technology to our cardiac surgery devices.

Ultimately, we anticipate PFA will be another foundational element of our portfolio of epicardial surgical ablation devices. We expect to announce more details on our PFA development program and clinical progress early next year.

In closing, we are incredibly pleased with our third quarter's performance and trajectory of our business as we enter the fourth quarter. Our strong growth stems from investments across the pillars of our business of innovation, clinical science, and education, and is a testament to the strength of our diversified portfolio. Furthermore, recent product introductions and continued efforts to advance standards of care in each of our markets globally have made our entire team excited for the future of AtriCure.

And with that, I'll turn the call over to Angie Wirick, our Chief Financial Officer.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Thank you, Mike. Our third-quarter 2024 worldwide revenue of $115.9 million increased 17.9% on a reported basis and 17.8% on a constant currency basis when compared to the third quarter of 2023, demonstrating ongoing strong performance in key markets around the world and the impact of our diverse range of products. On a sequential basis, the 0.3% decline in worldwide revenue from the second quarter to the third quarter of 2024 reflects normal seasonal variation in underlying procedures.

Third-quarter 2024, US revenue was $95.5 million, a 16.8% increase from the third quarter of 2023. Open ablation product sales in the US were $30.6 million, up 18.4% over 2023, from robust ENCOMPASS clamp sales across both existing and new accounts.

US sales of appendage management products were $37.4 million, up 15.6% over the third quarter of 2023. Within US appendage management revenue, our open appendage management products, driven by our AtriClip FLEX-V device, realized a third sequential quarter of acceleration, reaching 20% growth over third quarter of 2023.

US minimally invasive ablation sales were $11.1 million, up 2.1% from 2023. As Mike mentioned in his remarks, although we are activating new accounts and seeing positive trends with respect to the accounts ordering, we continue to experience pressure on the pace of hybrid AF therapy uptake.

And finally, pain management product sales were $16.3 million, up 29.6% over the third quarter of 2023, reflecting accelerated growth driven by the recent launch of our cryoSPHERE+ probe.

International markets once again delivered excellent results with revenue of $20.5 million, up 23.3% on a reported basis and 22.4% on a constant currency basis as compared to the third quarter of 2023. European sales contributed $12.2 million in the quarter, representing 33% growth while sales in Asia Pacific and other international markets grew 12% to $8.2 million.

Similar to the first half of 2024, our international business grew across key product lines and in nearly all major markets. Looking forward, we expect continued strength in our international business as we focus on growing adoption of our therapies as well as new product introductions.

Our gross margin this quarter was 74.9%, a decrease of 27 basis points from the third quarter 2023, driven primarily by less favorable geographic and product mix. Operating expenses for the quarter totaled $94.2 million, an increase of $12.2 million, or 14.9% from the third quarter of 2023.

Research and development expenses rose 3% from the third quarter of 2023 with patient enrollment in our LEAPS clinical trial driving the increase. The expansion of R&D expense was offset by timing of product development costs as we've completed development and clearance efforts for three major product releases in the US thus far in 2024, the cryoSPHERE+ Probe, AtriClip FLEX-Mini, and most recently our cryoSPHERE Max Probe.

SG&A expenses increased 18.9% primarily from personnel and travel costs due to the measured expansion of our teams globally, as well as one-time consulting costs associated with our planned facilities expansion.

Adjusted EBITDA for the quarter was $7.9 million compared to $4.7 million for the third quarter of 2023, an increase of 68%. Our basic and diluted net loss per share, as well as the adjusted loss per share, was $0.17 in the third quarter 2024, as compared to $0.20 in the third quarter 2023.

Our overall capital position remains strong as we enter the third quarter with $130.3 million in cash and investments, representing positive cash generation of $16.3 million for the quarter.

As Mike mentioned earlier, we have advanced our plans to bring PFA technology to market in our devices by entering into an exclusive licensing and co-development agreement with an expert in this field. As part of this arrangement, we will incur a cash charge for the acquired IPR&D of $12 million in the fourth quarter, which is excluded from our adjusted EBITDA and adjusted EPS guidance. Absent this payment, we expect positive cash generation in the fourth quarter, and a modest burn overall for full year 2024.

Now closing with our outlook for the remainder of the year. Considering our third-quarter results and trajectory across our business, we now expect to achieve approximately $459 million to $462 million in full year 2024 revenue, reflecting approximately 15% to 16% growth compared to 2023. We remain confident in our extensive portfolio delivering sustainable growth within the large, underpenetrated markets we serve globally. From a margin perspective, we are reaffirming our full year 2024 gross margin to be roughly consistent with 2023 with the potential for varying impacts from geographic and product mix.

Turning to the bottom line, we reiterate our commitment to increasing profitability while also continuing to invest in driving growth and innovation To that end, we are maintaining our positive adjusted EBITDA outlook of approximately $26 million to $29 million for the full year 2024, corresponding to adjusted loss per share of approximately $0.74 to $0.80.

We are very proud of our progress across many key strategic, operational, and financial metrics so far this year. Our team's continued dedication to AtriCure's mission, supported by investments in innovation, clinical science, education and awareness has led to tens of thousands of patients treated. The same dedication has created multiple avenues of growth for our company and will continue to propel us into the future.

Now, I'll turn the call back to Mike.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Thank you, Angie. As we enter the second half of 2024, we saw strong growth on the top and bottom line. Continued innovation with the AtriClip, FLEX-Mini, and cryoSPHERE Max launches. and expansion of the geographic reach of our products with our AtriClip now approved in China, our ENCOMPASS launch in the EU, and our AtriClip Stroke Label Expansion in Europe as well. Our strong revenue growth in the third quarter is a testament to the resilience and diversification of the portfolio of therapies we have built.

With the strength of our team worldwide, the quality of our products, and the clinical data behind our therapies, there is little doubt in my mind that AtriCure is well positioned to drive compelling growth and expand profitability for years to come. And with that, we'll turn it over to the operators.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robbie Marcus, JPMorgan.

Unidentified Participant 1

Hi, this is Lillian for Robbie. Thanks for taking the question. Just wanted to get your thoughts on the trends that you're seeing from PFA. Is this the new normal to expect with pressure to both MIS Ablation and the MIS Clip business? Or do you think momentum in those areas can improve as CFA becomes more commonplace in the market. And what sort of assumptions regarding those dynamics are you taking into guidance?

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, as we looked at the rest of this year, I'd say that's kind of more the new normal for the rest of this year. But as you look out over into the future, because there's going to be a lot, there's a lot of new products coming into market, et cetera, right now, causing the distraction of the site as they get up and running, using those new products, et cetera.

But what we're also seeing is an incredible amount of new patients coming into the funnel so that the top of the funnel of patients is very large. And with our experience in Europe, what we can see is that they eventually have non-responders, a great deal of non-responders. And so what we do anticipate is that that funnel is going to lead to a lot more patients needing to be treated once they don't respond to PFA or that second or third ablation. They're going to kind of fall down that funnel.

Now, we do believe that in 2025, we'll start to see some of those. We've seen some of it already a little bit from patients that were involved in some of the original PFA trials here in the US. We do anticipate that that will probably begin to start up in 2025. Not ready to kind of give any kind of month or quarter that you're going to start to see any kind of spike necessarily, but we do anticipate that with that huge volume in the top of the funnel, you're going to see a lot more patients come out that need another ablation [epicardially] to really help them out for those long-term and difficult-to-treat patients.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

And Lily, relative to the guidance, I would say, as you know, Q4 last year was a very strong quarter for our US hybrid and also our MIS AtriClip business. So that was one of the considerations as we thought through kind of the rest of the year guide.

Unidentified Participant 1

Got it. That's helpful. And then as a follow up, I was hoping you could give a bit more color on the PFA partnership. Is there anything you can share on who this partner is that you're working with and what sort of timeline should we expect for a launch here? Thanks so much.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, I appreciate that question. And of course, I anticipated, you know, we're really excited about what we've done there. The reason we were able to announce now is obviously we signed the agreement and we'll be obviously writing the check that Angie talked about.

But in addition to that, we've made a tremendous amount of progress over the course of the last nine months on development. And we feel like we're in a really good development place for that as well. So there's a lot of confidence on our side that this is going to be a real technology for us that's going to be embedded into our cardiac surgery devices, not ready to give timelines on first in human or when we might go into a clinical trial with it, or who the partner is yet, but in due time that will definitely come out.

Unidentified Participant 1

Great. Thanks so much.

Operator

William Plovanic, Canaccord Genuity.

William Plovanic *Canaccord Genuity - Analyst*

Just first on ENCOMPASS CLAMP, I just wanted to clarify, did you say that the US business, the CLAMP, grew 50% year-over-year, is that correct?

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Yeah, it was about 50% growth of the ENCOMPASS CLAMP in the third quarter.

William Plovanic *Canaccord Genuity - Analyst*

Okay, and then as we think about ENCOMPASS OUS, you just got that CE-Mark. Given the growth OUS in the third quarter, I would assume that you really didn't see a benefit from that. If anything, you might have seen some destocking or what have you. How should we think about that impact as you go into the fourth quarter and forward now that you have that CE-Mark, given what we've seen in the US from that product?

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, first I'll start. And I mean, the European team is really excited about the ENCOMPASS clamp. I was over at the major cardiac surgery society meeting over there called EACS just in the early part of October. Our booth was packed. We had a simulation lab and we had over 250 people and physicians visit our booth, go through simulation lab, leveraging that. We actually launched the product officially while we were there. And then we also had a standing room only audience to kind of talk about what that product meant for the market as well. So the team there is really excited. They've been well trained and positioned on it in the market.

We won't see much of an impact in the fourth quarter, per se, but we do see that we'll obviously have an impact on next year, for sure, as we enter the market. It won't go as fast as the US, just because individual countries have different reimbursement plays, et cetera, but they're ready to kind of get through that, and we do anticipate some impact in 2025.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Yeah, Bill, just would add, relative to the international numbers and open ablation, more impacted by kind of our markets outside of Europe. Our European growth in open ablation was very strong. This is more kind of the distributor ordering in the third quarter that impacted open growth.

William Plovanic *Canaccord Genuity - Analyst*

Okay. And then just on this PFA partnership, I know you'll give us more details in the future, but I'm kind of curious, I think you've had plans of kind of getting to that cash flow consistently positive. Now you're talking about an investment in this PFA for the cardiac devices. Does that change the kind of near-term, intermediate-term outlook? Is maybe you're increasing the R&D spend, or is this just shifting priorities within an R&D? And thanks for taking my questions.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

I think this was part of our overall R&D plan and has been for a while. No change in terms of outlook relative to kind of overall spend or cash burn. Obviously, we'll take a charge here in the fourth quarter for the upfront cost, but even with that charge expected to be an overall modest burn for full year 2024. So no change relative to the trajectory there, and it's something that we've been working towards, like Mike said, for a while now, and part of our longer-term plans.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

And I think that consistent with what Angie has, and we've stated before, that when we look at, we're not giving guidance for 2025, but we've always talked about the fact that we're going to continue to improve our bottom line from year to year. And so, with that,

it's not changed at all, and our thoughts on that haven't changed in any way.

William Plovanic *Canaccord Genuity - Analyst*

Great, thanks for taking my questions.

Operator

Thank you. Our next question comes from Matthew O'Brien with Piper Sandler. Your line is open.

Unidentified Participant 2

Hey, this is Phil on for Matt. Thanks for taking our questions. I guess just, another, a third great quarter of the US open business. Is it safe to say that a bigger competitor coming into this market is perhaps aiding in general market growth? Any thoughts on what that underlying market grew in relation to your 20% domestic growth here in the quarter?

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, I mean, as we talked about earlier, and it's a great question, Phil, when we looked at the market and competition coming in, we always said competition is a good thing, because it does create awareness exactly as you've described. And I think we're definitely seeing that greater awareness get created in the market by having somebody else that's out there talking about the benefits of treating the appendage. And so I'd say the answer, the simple answer is absolutely.

I can't give a specific underlying growth, but I know that the competition is getting some share. Obviously, they're getting some sales that are out there, but we still feel like our product is -- our original product, the FLEX-V, is an exceptional product was the best product on the market before the FLEX-Mini, and the FLEX-Mini that we talked about on this call has been receiving great reviews. It is a much smaller profile product on the market.

I've been out on the road talking to a lot of customers, getting feedback, and just looking at them as they kind of use it for the first time, and it's been just incredible feedback. So that product is going to make a big difference, not just for the end of this year, but also for many years to come.

Unidentified Participant 2

Thanks, that's helpful. My second question is, we've been hearing some recent chatter on the HEAL-IST study. You haven't talked about it in a little bit of time. Any renewed interest there? Any updates would be helpful. Thank you.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

HEAL-IST is an important study relative to a patient population. For those that don't recall, it's for patients that have inappropriate sinus tachycardia. It's important, not necessarily for our long-term growth, but for the hybrid aspect of our business.

We do believe it's really where a surgeon is working with an electrophysiologist to solve this very difficult patient that, quite frankly, has zero solution out there in the market right now. We've had solid enrollment to date, but we've got to train all these sites as we get them up and running. So there hasn't been a lot to update, per se, until we get to some sort of enrollment that we can actually look at the data, which we anticipate sometime in 2025, and we can kind of get more reporting out at that point in time.

Unidentified Participant 2

Helpful. Thank you.

Operator

Marie Thibault, BTIG.

Marie Marie *BTIG - Analyst*

Hi, thanks for taking the questions this evening and congrats on a nice quarter. I wanted to see if I could kind of understand a rundown of product catalysts, other market catalysts that we might see throughout 2025. Definitely not looking for guidance, but just trying to understand tailwinds, headwinds, things that might be anniversary as you think about the products launching here now and products that you've enjoyed throughout 2024. Just how to think about those catalysts in 2025.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Great question, Marie. I'd say if we start at the top with our open franchise The expansion of the ENCOMPASS clamp in Europe, you'll see, obviously, a full year's worth of activity over there. That being said, we still think that this is a catalyst for the US business as we continue to reach additional accounts. We've made great progress on that front, a little under 700 accounts at this point in time, so still room for us to continue to grow in the US.

When we think about our pain management franchise, you'll have a full year of the cryoSPHERE Max as well as the cryoSPHERE+ Probe, both offering reduced freeze times, which we think are accelerating our growth. We've obviously seen that this past quarter in the US and we'll continue our efforts to expand pay management throughout our international markets. We've seen some nice activity in Europe in particular on that front.

Within our hybrid franchise, I'd say this is one where we're likely to see pressure, no catalyst per se at this point in time. And I'd say within appendage management, the big thing will be our FLEX-Mini clip full year of activity within the US as well as the expansion of AtriClip into China and the enhanced labeling within Europe. So I think that probably the biggest headwind for growth for us, I think, would just remind law of large numbers, we continue to make great progress here and the growth that we're expecting off of a pretty nice runway over the past couple years.

Marie Marie *BTIG - Analyst*

Really helpful rundown, Angie, appreciate that. My follow-up on the PSA partnership, at the risk of sounding a little naive, is this for the MIS product? Is it also for the open product? Is the vision eventually that PFA replaces the RF ablation within your franchises? And what sort of change? I know you've known and followed the PFA space very, very closely for a few years. What sort of precipitated this decision? Thanks so much.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, we've been looking at PFA for over five years in terms of getting it into our cardiac surgery products. There really isn't a change. It's just we finally got realization that now we've actually got product. We've actually done testing on it.

We're at the point that we could actually feel comfortable coming out and giving you some guidance that we're very close to being able to give some very specific milestones and deadlines here to the market. And so we want to kind of preliminary kind of say that. But we've been working on it for a long time, and there really isn't any changes. Angie talked about earlier.

In terms of our focus and our strategy, it's really all of our epicardial ablation products. We do anticipate bring it to market through those. We'll give more details at a later date, but the plan is to bring that in.

It's not planning on replacing our RF and cryo. RF and cryo are incredibly durable, they're incredibly safe, and they work incredibly well in the market today. They're great products.

However, we're an Afib ablation company, and we feel that we need to have all ablation technologies to be able to offer to people, and then give physicians that choice as to which they may or may not like better based on whatever their preferences are and what

types of tools they might want to use. And so, yes, it will be embedded into some of our existing technology in terms of the disposables that we have today. But our overall vision is to be able to provide a full solution so that we can give our customers, our physicians, a choice as to how they want to treat their patients best.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Yeah, maybe to put a finer point on that, Marie, we would expect, as Mike said in his prepared comments, first up would be an open cardiac clamp, then followed by some more work in the minimally invasive space.

Marie Marie *BTIG - Analyst*

Got you. Thank you so much.

Operator

(Operator Instructions) Mike Matson, Needham.

Mike Matson *Needham & Company Inc. - Analyst*

Congrats on the strong quarter. Maybe a question for pain management. I think you both had talked about cryoSPHERE Max really being more of a product to break into the sternotomy market as opposed to PLOS or the original cryoSPHERE. So what, I guess, what are your expectations for the sternotomy market in 2025 now that the Max has been launched?

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, and the [ceramic] market is something that we anticipate could be a potential market for us, but we're not going to commit to any kind of revenue or guidance on it quite yet. We do think that being able to reduce the time in half, that it's going to definitely be something that is going to be much more approachable for a surgeon to kind of add it to their procedure at that time. That was one of the primary reasons we did it, but it also affects pretty much every other usage of the technology today. We're already seeing it in mini thoracotomies and regular thoracotomies, and people are adopting it very, very quickly.

We're not focused in saying we're definitely going after Sternotomy quite yet. We kind of want to let it kind of grow organically. Once we get that and we get some more feedback, and our people want to spend any time doing that for the benefit they get, we'll have more to kind of talk about relative to Sternotomy.

Mike Matson *Needham & Company Inc. - Analyst*

Okay, great, great. And then maybe one on cash flow. Had a couple of quarters, positive cash flow. Angie, I think you said, excluding the cash charge next quarter would have positive cash flow. So I'm just kind of wondering how you guys are thinking about that moving forward into 2025, do you think AtriCure is consistently cash flow positive moving forward?

Angela Wirick *AtriCure Inc - Chief Financial Officer*

I think on a full year basis, 2025, likely to be cash flow positive. The first quarter tends to be very heavy burned, just structurally with some of the payments that are made in the first quarter around variable compensation, et cetera, tends to be a heavy cash burn. You've seen that for a number of years now, but on the balance. And I would just end by saying really happy with the progress that we're making in this area and expect to continue to be able to enhance our cash flow going forward.

Mike Matson *Needham & Company Inc. - Analyst*

Okay, very helpful. Congrats on the quarter.

Operator

Danielle Antalffy, UBS.

Danielle Antalffy *UBS Equities - Analyst*

Just two quick product questions. One on the AtriClip business. You talked a little bit about the competitive dynamics here. I'm just curious, Mike, if we look at the trend throughout the year, it feels like Q1 was maybe the nadir for AtriClip US growth. And I'm wondering if you would agree with that. Are we past the sort of trialing dynamic here? And maybe you could comment on how you're seeing centers adopt both the clip and the competitive product, or have you lost any centers? Any sort of commentary you can give there would be helpful.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, I mean, the competition is out there, and as I think I had referred to in one of the questions earlier, Danielle, what we do see is that, obviously, market growth is growing as a result of having competition in the space. That's definitely what we're seeing, and why you saw an acceleration overall in ours.

Plus, we're also bringing out new innovative products. So you come out with the FLEX-Mini, and I anticipate that's going to also help drive the growth relative to that.

We do see them in some accounts. In those accounts, we haven't lost those accounts completely. They definitely use both of the technologies. I've had the opportunity to kind of meet with many of those accounts, had very nice conversations with them, and they just kind of make that choice on their own relative to some of, whether it's anatomy or something, that they're basically making some personal physician choice on it.

But I feel really confident in the quality of our product, the quality of what we bring to the market relative to this, both in terms of the innovations with the FLEX-Mini and with the FLEX-V original product. They are just outstanding products.

And the fact that we've invested in clinical evidence, which you can see what happened in Europe with the 85 peer-reviewed papers and over 11,000 patients. That is a lot of evidence demonstrating how good the closure rates are and actually even the impact on stroke rates are. And so that got us that label over in Europe. And that's a long way for anybody else to kind of catch up to that. and we're running this trial here. I think that we're really making the right types of investments for the long term for this franchise.

And the investments aren't just for existing Afib patients. LEAPS is all about tripling the size of that market and getting to over 1 million more patients that undergo cardiac surgery globally. So we're pretty excited about kind of where we are. Again, we do see the competition, but I think it's really good for us and for the market overall.

Danielle Antalffy *UBS Equities - Analyst*

Okay, that's helpful. And then just a quick question on another great quarter for ENCOMPASS. I mean, this clamp just has really seemed to open up the [cabbage] market, especially for you guys. Just curious about what you can say as far as where we are from a penetration perspective at this point with [cabbage], now that you've got what's it been like two years, I guess, rolling out ENCOMPASS here in the US? Thanks so much.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Yeah, I mean, it's a great question. And I do think that we're making impact on adoption, for sure, of people treating, but we still have a long way to go. I mean, we're still, I'd say that we used to quote, call it that 25% to 30%. We're probably closer to 30% to 35% of the patients today that are actually getting treated overall for cardiac surgery that have Afib, which tells you there's still 65% of the patients that should be treated.

All of the guidelines globally, I mean, let me repeat that, every guideline globally from every society, HRS, ACC, EACS, which is the surgical one over in Europe, ERAS over in Europe as well, which covers all cardiology, and also STS, which covers cardiac surgery in the US. Every one of them have a class 1A level guidelines for it, and that you should be treating this patient population, both with an ablation and with managing the appendage.

And so, from our standpoint, we think that there's still a long way to go just within that patient population, and a lot of growth ahead of us with that. And I think the ENCOMPASS clamp hopefully is going to unlock it to make it a lot easier for patients to get treated.

Danielle Antalffy *UBS Equities - Analyst*

Thanks all.

Operator

(Operator Instructions) Suraj Kalia with Oppenheimer & Co. Your line is open.

Suraj Kalia *Oppenheimer & Co., Inc. - Analyst*

Hey, congrats on a nice quarter. So Mike, one question for you, one for Angie, and I'll pose the first one to you, Mike. On the surgical PFA products, so Mike, there was a point in time specifically picking off on hybrid or convergent. The whole argument was like, look, hybrid prevents esophageal fistulas. You can do back wall ablation. So this is additive to existing cash flow relation, right? That was the whole argument.

When surgical products have PFA, I guess, help us understand what is the clinical need from a surgical product for a new energy modality? It isn't very obvious to me in terms of how you are thinking through this. Also, what is going to be the regulatory pathway? Would you all have to do new clinical trials for this new energy modality?

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

It's a really great question, Suraj, and I think there's a lot of questions to be answered about what the additional clinical benefit is going to be for PFA. As I mentioned, we have great cryo and great RF. We do believe that with obviously all of the excitement around this energy source, that it was imperative and important for us to basically bring it into our products as well so we could offer it as a solution.

I think whether or not it is more efficacious than the cryo or the RF is to be determined at this point in time. When it comes to the clamp technologies, it really, quite frankly, is something that we have to learn through the trials that we have to run relative to going into that area. Relative to the MIS space and putting it onto like an EPi-Sense-like type device, that's where speed is going to probably matter a little bit because you'll be able to kind of take out some of the time relative to that.

On the open cardiac side, you can take out some speed, but it's not, that's not where the time is based on the time on the open cardiac with the clamps is mostly in getting access to it, not necessarily in the time for using RF per se.

That's different on the MIS side. And so there will be a different use case for it from that standpoint. So that's some of the thought process behind it. I think we have to have it. I think it's an important energy to study and to learn about.

I believe that the FDA has made it very clear that the PFA technology, epicardially, will likely have to go down a PMA-type pathway. And so we're anticipating, that's why I say we'll give timelines and guidelines in the future about what that might look like once we're kind of at that point.

Suraj Kalia *Oppenheimer & Co., Inc. - Analyst*

Fair enough. Mike, appreciate the transparency. Angie, one question for you. What was ASP contribution for the new line of cryoSPHERE probes? I guess just for pain management, what was the net ASP impact in the quarter? Thank you for taking my

questions.

Angela Wirick *AtriCure Inc - Chief Financial Officer*

Suraj, good question. Almost nothing. The majority of the revenue was the cryoSPHERE+. cryoSPHERE Max, not a big contributor in the third quarter. cryoSPHERE+ is at the same ASP as our legacy cryoSPHERE devices. So when you see 29.6% growth in the quarter, that is all volume growth.

Suraj Kalia *Oppenheimer & Co., Inc. - Analyst*

Fantastic.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn it back to Mike Carrel for closing remarks.

Michael Carrel *AtriCure Inc - President, Chief Executive Officer, Director*

Great. Again, everyone, thank you for joining us today, and we look forward to talking to you after the fourth-quarter call. Have a great evening. Bye now.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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