Company Name: AtriCure, Inc. (ATRC)
Event: Canaccord Genuity 43rd Annual Growth Conference
Date: August 10, 2023

<<Bill Plovanic, Analyst, Canaccord Genuity>>

Welcome to Canaccord Genuity's 43rd Global Growth Conference. My name is Bill Plovanic. I'm a senior medical technology analyst with Canaccord. We're excited to host AtriCure, and we have Mike Carrel, the company CEO; and Angie Wirick, the CFO. Thanks for joining us today. The format is going to be a brief overview followed by a fireside chat. And with that, I'd like to invite Mike up to the podium.

<<Michael H. Carrel, President and Chief Executive Officer>>

Okay. Thank you, sir. Hello, I'm Mike Carrel, President and CEO of AtriCure. And welcome, nice to see everybody. Let's get through our disclaimers here. And as Bill talked about, I've got about the five or 10 minutes just to give you a brief overview of the company. But the thing first to walk away with is our dedication and focus on really treating the most complex forms of atrial fibrillation. I'm going to walk through kind of the size of the markets here briefly. But it's really important to understand we are the number one player in the world in really dealing with patients that have complex forms of Afib or other arrhythmias. And that is where you really need a lot like cancer. Afib is a progressive disease and many diseases are progressive.

In order to do that, you've got to combine therapies. And so we're a combination therapy with other types of therapies that are out there, like the catheters, and you hear all the noise and news coming out about all the new innovations there. We are still and remain very complementary to the – for those complex patients that quite frankly go untreated out in the market. And so our markets are large. And I'll talk about how big those markets are. But they're very large markets of patients that have basically been in atrial fibrillation are really complex arrhythmias for a long time.

The other piece is that about four or five years ago, we really kind of got into a new market because we are so good at ablation and in particular cryoablation. And by being so good at that, we basically were able to kind of move into a space to reduce pain after surgery, leveraging our Cryo platform. So we leveraged an existing technology and customized it a bit for the thoracic surgeon to kind of get into that space. And we've seen that business be one of our fastest growing businesses over the last three years. And it's also a testament to how we grow markets and build markets.

We really help build and grow these large unmet needs out in the marketplace. And that's something when you think about AtriCure, that's how you should think about us from that standpoint. And on top of that, we've got a strong portfolio today to address these needs. We don't have – we are continuing to innovate. But we don't have like the need to actually add a ton to our new bag from a portfolio standpoint. We have to continue to make improvements in terms of kind of where we are. But we've got a great robust portfolio that is already in existence today, which obviously leads us to a bright future. So why is Afib important? I'll just do this real quickly. I think many of us know, Afib is a debilitating disease. You've got a five to six times more likely chance of having a stroke. If you talk to anybody with Afib, this

is what they're talking to you about. But they also feel terrible and it does lead to other cardiovascular events.

It on – in of itself is not going to kill you Afib itself. But it is going to lead other cardiomyopathy because you're not getting enough oxygen to core areas of your body, other parts of your heart as a result of being in Afib. And so you're going to feel lethargic, you're not going to feel good. You're not going to exercise as much et cetera. So you've got a really large chance of having a greater risk of mortality. But the stroke is really where people tend to focus a lot of their time and attention. So it's a big market. When you think about the size of the market, it's an over $5 billion market and growing across the globe. And we look at this both from an – kind of the U.S. and from the international. I'm going to go deeper into each one of these existing markets here for a second.

So let's go into our business really separates into three major therapy areas. Cardiac surgery, where you're – you have atrial fibrillation and you have to undergo cardiac surgery, what we call kind of our sole-therapy or hybrid area where all you have is Afib and then the pain management. The first area is that area where it's concomitant. You have to undergo cardiac surgery for like a valve, or you're undergoing it for a coronary bypass. You've had a heart attack. You've got a blockage. This market is a pretty – it's a very mature market in the sense that you have. Cardiac surgery is pretty stable. It's about 300,000 procedures in the U.S. and about a 1.5 million procedures globally of patients that undergo cardiac surgery every single year. Now that number is growing a little bit, even with all the new innovative technologies around the market that actually is growing because of just the patient population getting older around the world, people are living a lot longer.

That pool is actually very large and there is a need for the more complicated surgeries that happen there. About one third of all those patients have atrial fibrillation, one third. Those are the patients that we are focused on, because you have a chance that you've already – you're already going in for that open surgery. You're going to go treat that patient and they have the Afib, you can actually do the best. You've got great visualization to treat it. And every society and every guideline that is out there tells them they should treat it. So you're probably asking why aren't you at a 100% penetration since those guidelines have been out there. And we've made great progress 15 years ago before labeling and all the work that we've done to educate and create awareness around this, that number was around 10% of penetration. That number is up to closer to 30% today.

And how do we get it from 30% to 50% to 70%? The good news, we've made progress from 10% to 30%. Now as we look at the market, we've come out with new technologies in this area. Last year we rolled out something called the EnCompass clamp that EnCompass clamp enables us to basically make it easier for those patients to actually get treated and cut the time that they're actually in surgery to treat the atrial fibrillation. And we've seen a great growth come off of that. We came from kind of high single digit growths in that part of our business. This part of our business has now been growing actually north of 20% for the last year. And we've seen really robust and good growth in adoption as a result of new technology. The second thing is on the reimbursement front, we've also seen positive movement where we've had – we've never had great reimbursement in this area. Never been bad, never been great.

However, in October 2021, they added about $10,000 to the reimbursement for CABGs. They just recently added for some valvular procedures, another amount as well. This also opens up the market. It's a large market opportunity. We believe over the next decade, we

can get, take ourselves from 30% to a 100%. If we do that, we're able to actually expand that quite dramatically.

Also in this space is when you do the procedure, you manage the appendage and you're managing the appendage both to reduce the Afib and the burden of Afib on that patient. But also if you're taking out the area where the strokes or the clots happen, they believe that you can actually reduce the strokes. And we're running the largest cardiac surgery trial ever being done in this space to expand this market opportunity. So I just talked about the Afib side, but let's briefly talk about patients that don't have Afib. Because if you're undergoing cardiac surgery, your chance of having Afib in your lifetime are close to 50%.

As a result of that, we believe that if you take out the appendage at the time of surgery, you'll enable and reduce that stroke rate for that patient over their lifetime. Our trial is to expand that. What that does is that opens up our market. So instead of going after one third of those 300,000 patients or 1.5 million patients globally, we believe putting an AtriClip on every one of those patients could possibly reduce the stroke rate. And that's why we're doing this major seminal trial. The largest cardiac surgery trial ever been – ever done, 6,500 patients, 250 sites around the globe. And we've had incredible, like all the big names in the space are getting involved in this trial and they're lining up to be a part of it. And we've enrolled already over 500 of those patients in a very, very short period of time as we're just getting started with it.

Moving on to the hybrid opportunity briefly. This is the opportunity where you've got lone Afib. All you have is atrial fibrillation. That's your primary disease state. There are three forms of Afib, paroxysmal, persistent. Persistent basically means you've been in Afib between seven days and 12 months, and then over 12 months. We're the only company in the world who has a label and has done a randomized controlled trial, many randomized controlled trials to demonstrate that when you combine an epicardial approach to an endocardial approach, you get superior outcomes, like almost twice the benefit by basically adding the epicardial.

We do the epicardial side. That's why it's hybrid. We're not by ourselves in this procedure. You work in conjunction with the catheter. The combination of the catheter-based systems with our systems improve that result quite dramatically for those really complex to treat patients. Now, this patient population is huge. You're talking about 4 million patients in the United States alone. Last year we did 3,000 procedures. It's an absolutely enormous market. These patients are not getting treated properly today. And as a result, we feel like they're obviously passing away earlier, they're having more strokes, et cetera. We believe we've got a solution for that and combined. But one of the things we've got to work on is you're bringing two therapies together. Much like TAVR was in the early days where they were bringing the interventional cardiologist with the cardiac surgeon, we're now bringing the cardiac surgeon with the electrophysiologist and they've got a partner in this together.

And that's the biggest challenge. The data's there, it works, it's safe, it's a great procedure, now getting that to work. The other good news is reimbursement is there as well. There's excellent reimbursement in this area. So everybody wins when you get this, but it's getting that kind of momentum going and we've started to get some of that momentum going again. We're the only player in the world with a label or randomized trials to demonstrate that superiority.

And then finally, on the pain management side, one of the fastest growing parts of our business today from pain management, this is the area where you're ablating the intercostal nerves so that if you undergo a thoracotomy, anybody that's ever had or been punched in the rib, you feel you've got your right there, your intercostal nerves. It's incredibly painful when they actually manipulate and put probes in there.

People are in extensive pain. When you apply Cryo to it, it's not to replace what else they're doing, the epidurals or anything else that they might be doing to reduce your short-term pain on that. This is to basically block the pain. You ablate that intercostal nerve. It blocks it out for six to eight weeks where you feel very little to no pain in that area. And it regenerates and grows back. This market, 150,000 patients in the United States undergo thoracic procedures. It's more than double that on an international basis outside of the United States. We're now moving into sternotomy, and this has been one of the fastest growing pieces of our business. I often get asked why is this growing so fast? Simple. It works. You see significant reduction in their pain scores, in their uses of opioids, in their ability to recover more quickly.

So it's a great product, a very large market opportunity for us. That's over $1 billion as well. So when you combine the three market opportunities in front of you, you've got three that really do demonstrate multiple billions of dollars of market opportunity. In each category I just talked about, everyone, we're number one in the world. We've got data and we have products. We've continued to innovate over the years and we've got more products coming down the pipeline.

On the clinical front, we've continued to invest. If you look at our P&L, you'll see these two areas on our R&D front. We invest heavily. We invest very heavily in R&D because we believe this is where you can differentiate a company like ours and build durable, longstanding markets. So that we can actually get to those $5 billion a year annual numbers that I talked about.

And we've invested heavily in these. I talked about the one big trial LeAAPS earlier, which is the prophylactic clip trials, an example of where we lean in heavily into these areas. And I think the results speak for themselves at this point. Historically, we had been a grower where we always were like kind of 14% to 15% super durable double-digit growth for many years. I used to be super proud of saying 29 straight quarters of 20 or of double-digit revenue growth and then COVID hit. So we all got kind of hit for a little bit, but then we kind of got back on track. But what we said was, we're going to come off of those numbers. We're actually going to accelerate all this investment that we've made in these big markets. We believe are going to accelerate our growth over that 15% for the foreseeable future.

And so when you look at our guidance for this year, we started the year kind of in the lower portion of that, kind of just over 15%. Now we've beaten raised the last two quarters. We're going to do 19% to 20% growth for the year. It'll be our third year of heavy growth above that 15% average. Coming out of COVID, we're 31% growth, last year at 21% growth. And this year we're at the 19% to 20% overall growth rate. So you can see we have raised the bar for the growth on that. At the same time we've gotten ourselves and from a profitability standpoint, we had a record EBITDA quarter for ourselves last year. And a year to date, we're at about $10 million and project to be at about $12 million of positive EBITDA for the year. So we're growing and we're bringing dollars to the bottom line.

So with that, we will turn it over to questions.

Q&A

<Q – Bill Plovanic>: Excellent.

<A – Michael H. Carrel>: Was I 10 minutes, was that?

<Q – Bill Plovanic>: You got right on the money.

<A – Michael H. Carrel>: Very good.

<Q – Bill Plovanic>: All right. We'll bring Angie up.

<A – Michael H. Carrel>: Awesome.

<A – Angela L. Wirick>: Got the center.

<Q – Bill Plovanic>: Can you turn that light down please?

<A – Angela L. Wirick>: Perfect.

<A – Michael H. Carrel>: Thank you. It's pointing.

<Q – Bill Plovanic>: All right. Thank you for that. Appreciate it. So let's get started. So let's – we will, everybody likes to start with financials. We'll start with guidance. You had a strong quarter. You beat, you raised $3 million top and 7 million bottom line. Just what is really driving kind of the delta between the top and bottom end in terms of the guidance as we look in the back half of the year?

<A – Angela L. Wirick>: I think the start to the year beyond just the second quarter, the first and the second quarter. Both were exceptionally strong. So thinking about that and then the momentum that we're seeing within each of our markets and across the business. This isn't one area of fuel and growth. We feel really confident in each of the drivers of the business globally which really says, look, think about kind of the lower end of the range, what it would've implied otherwise would've said pretty meaningful deceleration. And we just don't see that in the business for the rest of the year.

<Q – Bill Plovanic>: Okay. And if anybody has questions, just let me know and we'll fit those in. And then as we look at the bottom line, that's been a pretty significant change. You're looking for a breakeven, you're now $12 million in a positive adjusted EBITDA. And talk about the leverage. Like I think that was a great slide, your final financial slide because you said I used to grow double digits every year and you saw that negative EBITDA bounce around negative, right?

<A – Angela L. Wirick>: Yes.

<Q – Bill Plovanic>: And all of a sudden this is a pretty significant change in terms of going positive. Is this a strategic change? Is this just scale? You can't spend it anymore? It's hard to spend, I mean, what's…

<A – Angela L. Wirick>: I'm sure there are people in the business that would say we could spend it. I think it's been an incredible start to the year from the bottom line. And I think we're seeing leverage in the right places, so to speak. We're continuing to invest very heavily within R&D, but had strict to the start of the year, saw a very strong gross margin. I think our operations team has done a really nice job despite a pretty back – pretty tough backdrop, really delivering a very strong margin. But we're seeing really nice leverage within SG&A, I think that really stands out in our P&L. When you look year to date, kind of the results, the growth of SG&A, you're talking single digits yet delivering high double digit revenue growth. I think that that's been a nice area where we've seen a couple things I would call out very specifically leveraging within the sales team, the commercial team.

I think, kind of the work that they've done, the investments that we've made to get us to this point. I think there's – while we'll still continue to expand the team. I think that they – this is a team that's able to continue to deliver high revenue growth and we're seeing nice leverage off the team there. And then also within our professional education, I just been really impressed with the work that that team has done to continue to deliver really effective education. But think about it from a sustainability standpoint and also just how can we be really efficient with our spend. So those are a couple of the big drivers when you think about why isn't SG&A growing as quickly. So those – and I'm really proud of kind of the results that have been driven.

<Q – Bill Plovanic>: And as you look at where you are today. I mean to go from $400 million run to an $800 million run. Do you have to keep reinvesting in the sales, marketing and the G&A or is it now going forward we should, the trend we've seen that's more of a continuation, right? Because companies go through the evolution where you got to put a lot of investment, a lot of infrastructure, and then finally you get to a point. And so the question is really, are we going to see a consistently positive in growing adjusted EBITDA and free cash flow eventually, or is this kind of a flash in the pan and you plan on like taking that money and reinvest in the future at some point?

<A – Angela L. Wirick>: No, there's definitely investment, but it would be in the area most largely in R&D, I think across the business, we'll continue to invest. If you recall, we started the year, the guide was breakeven EBITDA and improving annually thereafter. The breakeven component has changed. We're now guiding to $12 million. The improving annually thereafter has not changed. Our view is that we'll continue to make progress on the bottom line for years to come.

<Q – Bill Plovanic>: Excellent. Let's switch over to AtriClip. So the appendage management business is $40 million. It's 40% of the company revenue roughly in a big driver. And you've got this LeAAPS trial. Talk about the impact of the LeAAPS trial and especially, I mean, the enrollment has been amazing, right? And so how does that impact your P&L, because I mean, my understanding is you collect revenue for each patient, right, that gets a clip. And then you have a R&D cost associated with it. Is it a net positive? And how much incremental has the LeAAPS trial been for your business do you think?

<A – Angela L. Wirick>: Yes. The revenue component is pretty minimal. The cost of the trial well exceed any revenue collection on that. So and then you want to…

<A – Michael H. Carrel>: If you look at we're not getting enough revenue from the trial per se, especially look, it's deminimis quite frankly to the overall revenue growth or anything on

that front. Plus a lot of these people were already doing some aspect of prophylactic treatment. So some sites were doing that. It does impact the P&L for sure. That's a major investment for us as we're getting trial sites up and running. The bigger impact is just the excitement out in the field about where this is going. I mean, if you talk to cardiac surgeons, you talk to here in, we're in Boston, Mass General, Brigham and Women will be a part of it. Cleveland Clinic, every major center in the world wants to be a part of this, because people in their heart say, wait, if I take the appendage off now, I'm probably going to reduce strokes long term.

But nobody was willing to kind of put their foot down. And they're always like, and you go to these conferences and they say, well somebody has to run a randomized controlled trial before I'm going to go do that. Well, guess what? We're doing that. And if we do it, look at what's going to happen to the market. And to them they're thinking what, this actually makes sense. They believe it works based on the data that's kind of been out there today. And they all want to be a part of this seminal trial. So we're getting sites that are lining up. So the excitement being built around it is, I'd say it's palpable. It's – I mean, it's really exciting to kind of see these sites really wanting to get involved in this trial and that's why it's enrolling so fast. So that to me is the biggest.

And it also excites our team, because our team is like, what we're not – we're willing to make bets. And I believe just fundamentally from a company standpoint, that the companies that are great long-term dare to be great and they make bets and they make bets like this. Now they're not bets that are willy-nilly. And we've spent four years studying it, understanding the science behind it, making sure that we're going to win the trial on that front. But you make those bets and I think that our company and the people in the business really respect that and want to be a part of something like that. So it's also good from a retention standpoint, as strange as that may sound.

<Q>: Is it helping you win new accounts and you win new doctors over the procedure? You want to be part of this, so.

<A – Michael H. Carrel>: Yes, so it's a great question.

<Q – Bill Plovanic>: Repeat the question.

<A – Michael H. Carrel>: The question was, does LeAAPS help us win new accounts, win new doctors which are two different things. So winning new accounts, we don't have to win new accounts. Almost every site in the United States today uses our AtriClip product because it is the only proven product that is out there today to actually work as effectively as it does. And we've got hundreds and hundreds of thousands of implementations of it and we continue to innovate.

So, I wouldn't say it's opening up a new account per se, but it's opening up their minds to new patients that they want to treat. Because before it was, I've got an Afib patient and that's the patient I'm going to treat. Now they're thinking, okay, if this patient is going to go into Afib long term and I can handle this with a one minute procedure, adding it on to what I'm doing today. So you're definitely having them ask that question, is it beneficial? And so it absolutely expands the market within that. And as a result, it also expands the physicians that might use it. It's not every physician at a site might use our technology from that. And so it

definitely expands physician usage and patient selection for who they might actually wind up putting AtriClips on.

<Q>: Thank you.

<Q – Bill Plovanic>: Thanks for the question. In terms of the R&D on AtriClip, you speak about when we might see the product launched for the next gen? And then what's timing for that? And then how are we thinking about pricing on that? Will we get a ASP bump after that?

<A – Michael H. Carrel>: I'll go ahead on the timing and Wirick can handle the price. So timing of that is end of next year, we're really excited just a little bit about that product. It's a – you're always looking for ways to make things less invasive and easier to use for the surgeons. And this particular product is actually a much smaller profile product than what we've had before. And it's a really easy to deploy product so they can deploy it within a minute versus some of the older technologies that was there from before. So it's a really new sophisticated way to kind of deliver the technology. And you can barely see it on the CT scans afterwards when we've done it in animals. So it's a really low profile device that we're really excited about kind of the new IP coming out of it and the new results with that. But I'll let Angie talk about the pricing.

<A – Angela L. Wirick>: Yes. With – from a pricing standpoint, anytime we innovate, our approach has been if you're innovating, you should look for a price bump over kind of your legacy products where this one will be interesting. It's an annular clip, so it's a closed end clip. Our legacy clips are about a 1,000 to 1,100 in ASP. But the most commonly used clip in an open setting is the FlexV was innovation that we introduced to the market about five years ago, and that's about a $1,700 to $1,800 price point. So I think targeting around that level may be higher to be determined. But anytime we innovate, we are looking for some level of pricing increase over our legacy devices.

<Q – Bill Plovanic>: Okay. We're running up against time here, so I got to curate the question. So on open ablation business, it's been strong, the EnCompass Clamp, we're annualizing that launch, but it seems to be doing more than just lifting price. It seems like you're getting greater penetration because of it. Just and I think in your presentation, I think, you said you're – the percentage of cases you're penetrating, you continue to do so with the open ablation. How has this kind of changed things for you? Because it seems like it's made a pretty significant like mindset change in the physician or easy use, it's just easier for them to do or something's going on because it's been great growth. And I think the messaging we're getting is, yes, we're kind of still on the front end, even though we're annualizing, which is good things.

<A – Michael H. Carrel>: This has been one of the most fun products to ever launch. And you've got this concept in your mind, they develop before you're going to go roll it out, that you're going to be able to make something easier and then you're hoping that it's actually going to be adopted. And what we've seen is it's taken a procedure that took 40 minutes and gotten it down to 10 minutes for many people. So you've significantly reduced the time on that. Two is that you've had people that were really uncomfortable going behind the heart and now they feel very comfortable with this procedure. Once they do one or two of them, they're like, oh, this is really simple to do. And that has really changed the mindset for physicians that never treated before. That's mostly who you're going at these patients that they used to

say, ah, the Afib doesn't matter. So they've got two things going in our favor. The Afib does matter more and more data's coming out to say that you should treat it. But on top of that, now we've made it easy for you to treat it. And of course you hope that that's going to kind of take off. But the mindset change has been quite frankly, really incredible where we're talking to physicians we never talked before. And so I believe that this is going to really drive our growth for many years to come. Not just over the, you know, obviously we're lapping the one year anniversary of it. But I think this is going to hopefully get us to 60%, 70%, 80% penetration over the next decade or so.

<Q – Bill Plovanic>: So one of the questions I get we've got one minute, so I'll just is how does PFA impact both your open ablation and your MIS business? Because it seems like the setup is pretty good right now with everything you have going on. And that's the one question that kind of pops up usually first is, well, but PFA could impact?

<A – Michael H. Carrel>: I will view PFA as a positive. We don't view it as a negative at all. I mean, the only negative is that there's a lot of noise around it. But the noise is actually towards making something more efficient for the EPs to do these really easy to, like, they're basically looking at their RF and their cryo they're doing with their catheter. Can they make that simpler and faster and get the same results. But they're still not dealing with the epicardial surface very well. Even if they try to ablate the back wall, there's a lot of complexity of the tissue there. Adding the two together is still going to be beneficial.

We don't care if it's PFA or cryo or RF there. But if they're getting more efficient, we do believe that's going to allow them to kind of open up their minds to kind of combine the two and actually, because they're going to be getting enough business going on with, because this is going to increase the funnel quite dramatically. They're going to get swamped with being able to treat these patients. They're going to need to get the pull through. We actually help them on that front. In the complex cases, even if they're using PFA, we're going to be able to help them save a lot of time.

So we view it as a positive. And quite frankly, none of them are even testing the back wall yet. I mean, if you – and even the thing I'm talking about, everything that's being tested today, you're going to see new data that comes out, I think here – in August here pretty soon. It's going to be on that paroxysmal, that early stage patient. Well, catheter's worked really well on that. So it's – they're comparing against the easy to treat patients on that front. Again, that epi/endo approach we think is going to be, whether it's PFA or cryo or RF, it doesn't really matter to us.

<<Bill Plovanic, Analyst, Canaccord Genuity>>

Perfect. That's a good way to end it. Thanks so much.

<<Michael H. Carrel, President and Chief Executive Officer>>

Thank you.

<<Angela L. Wirick, Chief Financial Officer>>

Thank you.