Atricure Inc(Q2 2024 Earnings)

July 30, 2024

Corporate Speakers:

- Marissa Bych; Gilmartin Group; Principal
- Michael Carrel; Atricure Inc; President and Chief Executive Officer
- Angela Wirick; Atricure Inc; Chief Financial Officer

Participants:

- Lilia-Celine Lozada; JPMorgan; Analyst
- John Young; Canaccord; Analyst
- John McAulay; Stifel; Analyst
- Sam Eiber; BTIG; Analyst
- Danielle Antalffy; UBS; Analyst
- Joseph Conway; Needham & Company; Analyst
- Daniel Stauder; Citizens JMP; Analyst
- Suraj Kalia; Oppenheimer & Co; Analyst

PRESENTATION

Operator^ Good afternoon, And welcome to AtriCure's Second Quarter 2024 Earnings Conference Call. This call is being recorded for replay purposes.(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^ Great. Thank you, Operator. 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 e-mailed 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 statements.

Additionally, we refer to non-GAAP financial measures, specifically revenue reported on a constant currency basis, 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 Chief Executive Officer of AtriCure.

Michael Carrel^ Great. Good afternoon, everyone. And thank you for joining us. I am pleased to highlight another strong quarter at AtriCure, driven by our unwavering commitment to treatment of patients with atrial fibrillation and postoperative pain.

We achieved total revenue of $116 million, reflecting over 15% growth, driven by increasing demand across our portfolio of technologies. Our results were underscored by accelerated growth in several areas of business including U.S. pain management, U.S. open appendage management and across our international franchises.

We also continue our path towards sustained profitability, generating nearly $8 million in positive adjusted EBITDA for the quarter.

Additionally, we reached an exciting milestone with positive cash flow generation of over $8 million this quarter, and we plan to generate positive cash flow for the remainder of the year.

Now turning to updates on our business and highlights in the quarter. Starting with pain management franchise, which grew 25% in the second quarter of 2024.

We drove remarkable acceleration in cryoSPHERE sales with strength in international markets, bolstered by the U.S., where we successfully launched the cryoSPHERE+ Probe. Physicians and patients are realizing the benefits of this enhanced technology with a 25% reduction in freeze time, which is generating more momentum in Cryo Nerve Block therapy.

We're also excited with the cryoSPHERE MAX probe launching later this year. The cryoSPHERE MAX builds upon the features of the cryoSPHERE+ with a larger ball tip, bringing more efficiency to procedures with even greater reduction in ablation and procedure time.

In parallel, we are exploring additional applications of Cryo Nerve Block therapy to expand our addressable markets and look forward to sharing those updates as we progress.

Now on to our franchises centered on the treatment of atrial fibrillation. Our open ablation franchise grew 15% worldwide, reflecting strength in our EnCompass Clamp in the United States along with rising treatment rates in key international markets.

Our EnCompass Clamp utilizes our synergy ablation system for a simpler and faster surgical treatment of atrial fibrillation, and we see steady interest in treatment with EnCompass as we introduce this innovative technology across our customer base.

While the EnCompass Clamp is currently only available in the United States, we anticipate EU MDR approval and European launch in the back half of 2024. Next, our appendage management franchise achieved worldwide revenue growth of 15%, with open chest devices outpacing our MIS devices.

In the United States, our open appendage management devices saw an acceleration in revenue growth to nearly 17% for the quarter despite competitive device activity.

We continue to believe competition validates this tremendous market opportunity in front of us. More importantly, we are focused on leading the field with innovation and clinical evidence. And to that end, I am excited to share that we have just received FDA clearance of our newest generation AtriClip device, the AtriClip FLEX-Mini.

Our AtriClip platform is widely recognized in the physician community for its ease of use, unparalleled safety and outstanding closure results and this latest innovation introduces a much smaller implant profile, while maintaining the performance of our legacy platforms. Put simply, the AtriClip FLEX-Mini is a great new and differentiated device which we expect to achieve rapid adoption once fully launched later on this year.

In addition, we are enrolling in our groundbreaking market-expanding LeAAPS stroke reduction trial at a robust pace with over 2,900 patients enrolled as of today.

We expect to complete enrollment of the 6,500 patients in the middle of 2025. This landmark and global clinical trial is expected to show a clear benefit to 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 annually.

And finally, we are continuing to drive adoption of our Hybrid AF therapy globally.

In the second quarter, we saw growth in procedure volumes and new accounts, although in certain hospitals in the United States, case volumes were impacted as EP shifted their time to new PFA catheter devices.

We understand and appreciate the benefits of these technologies. And our experience with the introduction of the PFA catheters in Europe several years ago tells us this diversion will eventually diminish. To that point, we have seen rapidly expanding interest and growth of our Hybrid AF therapies in Europe over the last two years, leading to increasing treatment with our EPi-Sense technology.

We expect this to hold true in the U.S. for our U.S. hybrid therapy franchise, particularly as physician experience shows the limitations of these devices in treating long-standing persistent AFib patients.

In the meantime, we are bringing awareness to the differentiated benefits of Hybrid AF. The wealth of data from our CONVERGE, CEASE AF, and DEEP trials as well as

numerous other studies repeatedly demonstrates better outcomes for advanced AFib patients using a hybrid approach, and this influenced guidelines to the positive worldwide.

We believe the focus on more efficient endocardial ablation can serve as a tailwind for everyone in the market. And in the long run, AtriCure will benefit from the growing funnel of patients.

Considering the ongoing robust growth in our portfolio, but offset by relative softness in our MIS ablation and MIS appendage management sales, we're revising our full year guidance to $456 million to $461 million, reflecting growth of approximately 15% over full year 2023.

We also continue to manage our spending with the discussion and are reaffirming our guidance and our plans to deliver an adjusted EBITDA of $26 million to $29 million. In closing, we are pleased with our first half performance. showing the breadth of our growth platforms.

We also remain confident in our strategies to invest in growth and market expansion opportunities, leading to durable growth, expanding profitability and cash flow generation. And with that, I will turn it over to our CFO, Angie Wirick.

Angela Wirick^ Thanks, Mike. Our second quarter 2024 worldwide revenue of $116.3 million, increased 15.2% on a reported basis and 15.4% on a constant currency basis when compared to the second quarter of 2023.

On a sequential basis, worldwide revenue grew 6.8% from the first to the second quarter of 2024. Second quarter 2024 U.S. revenue was $95.5 million, a 12.5% increase from the second quarter of 2023.

Open ablation product sales were $30.8 million, up 13.9% over 2023 with the continued strength of the EnCompass Clamp adoption. U.S. sales of appendage management products were $37.9 million, up 11.8% over the second quarter of 2023.

Notably, despite competitive activity, our appendage management products used in open chest procedures accelerated to 17% growth in the second quarter, propelled by our AtriClip FLEX V device.

These positive results were partially offset by a slight decline in our minimally invasive appendage management products, reflecting slower growth in minimally invasive ablation sales which ended the quarter at $11.8 million, up 4% over the second quarter of 2023.

As Mike mentioned in his remarks, interest in PFA catheters within certain hospital systems led to pressure in our hybrid therapy results for the quarter.

And finally, rounding out our U.S. business is pain management, where sales reached $15 million in the second quarter of 2024, reflecting 19.2% growth over the second quarter of 2023.

We delivered exceptional performance across our international franchises, driving total international revenue of $20.7 million, up 29.4% on a reported basis and 30.4% on a constant currency basis as compared to the second quarter of 2023.

European sales accounted for $12.6 million, up 33.6% and Asia Pacific and other international markets accounted for $8.1 million, up 23.5%. Consistent with the first quarter, our international growth was seen across all franchises and in most major markets.

We expect momentum throughout our international business to continue for the remainder of 2024. Turning to another key metric for the second quarter of 2024. Gross margin was 74.7%, which represents an approximately 170 basis point decrease in comparison to the second quarter of 2023. This decrease was primarily driven by less favorable geographic and product mix.

Now moving to details of our operating expenses for the quarter. Total operating expenses increased $12.8 million or 15.7% from $81.2 million in the second quarter of 2023 to $94 million in the second quarter of 2024.

We continue to grow investments in research and development activities, which saw a 17% increase from the second quarter of 2023, driven by strong enrollment in our LeAAPS clinical trial and resources focused on both clinical trials and new product development initiatives.

SG&A expenses increased 15%, primarily from the measured expansion of our team globally as well as from physician training programs. Adjusted EBITDA for the quarter was $7.8 million compared to $8 million for the second quarter of 2023.

Our loss per share was $0.17 in the second quarter of 2024 compared to a loss per share of $0.11 in the second quarter 2023, while the adjusted loss per share each period was $0.17 and $0.12, respectively.

We ended the second quarter with $114 million in cash and investments, having generated $8.1 million in cash flow during the second quarter.

We continue to expect positive cash generation for the remainder of the year and are on solid footing to fund current and future operating needs of the business with our strong balance sheet.

Now turning to our outlook for 2024. We are determined to advance adoption of each of our therapies throughout our markets globally.

We are experiencing healthy growth across most of our business with a lower contribution from our U.S. MIS ablation and MIS appendage management products. We believe the impact to our U.S. hybrid therapy business will ultimately be temporary.

And with these dynamics in mind, we are refining our full year 2024 revenue guidance to be between $456 million to $461 million, reflecting growth of approximately 15% at the midpoint over 2023.

Consistent with our normal quarterly cadence we anticipate summer seasonality to result in a low single-digit sequential decline in revenue from the second to the third quarter, followed by a rebound in the fourth quarter.

From a margin perspective, we are carefully managing investments in our business to prioritize opportunities for future growth and market expansion as we realize efficiency and leverage from our operations.

We believe this approach solidifies the staying power of our business well into the future.

We are maintaining our expectation that 2024 gross margin will be comparable to 2023, with potential for varying impacts from cost savings initiatives, offset by product and geographic mix.

On the bottom line, we remain committed to improving profitability and are maintaining our outlook of positive adjusted EBITDA of approximately $26 million to $29 million for the full year 2024, corresponding to adjusted loss per share of approximately $0.74 to $0.82.

Based on revenue cadence and key areas of spending in the coming quarters, we expect a modest improvement in adjusted EBITDA in the third quarter 2024 over the third quarter 2023, and a more robust increase in adjusted EBITDA in the fourth quarter of 2024. In closing, our second quarter results demonstrate solid performance throughout our markets.

I would like to thank our team for their commitment to our mission, what you do each day matters. And together, we remain confident we are well-positioned to improve the lives of millions of patients worldwide with our therapies, driving growth well into the future. At this point, I'll turn the call back to Mike for closing comments.

Michael Carrel^ Thank you, Angie. And everyone, we are excited about the first half of 2024, with continued strong double-digit growth across our platforms, advancing key clinical and innovation initiatives geared towards market penetration and expansion, while improving our cash flow generation.

Our team is dedicated to delivering the best-in-class results for patients affected by AFib and pain after surgery, and I remain confident in our products, the abilities of our team and the strength of our R&D initiatives and look forward to an exceptional back half of

2024 and all that it has in store for AtriCure and all of us. With that, I'll turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Robbie Marcus with JPMorgan.

Lilia-Celine Lozada^ This is actually Lilly on for Robbie. Can you just give us your refreshed thoughts on sort of the long-term impact of PFA on the business? Clearly, the launch is having at least a near-term impact.

So is your thinking still that PFA can be complementary to your technologies? And what gives you the confidence in those case volumes coming back on the MIS side eventually when PFA is having such great traction?

Michael Carrel^ Yes. It's a great and fair question. As we look at PFA, we do still think that it has a really positive impact. As more and more patients enter into the funnel, there are going to be more and more failures.

So if you think about the areas that PFA is incredibly successful, it's made it a lot faster for people to do this procedure. I think there's still a lot of questions about, is it going to be more effective, and is it going to be safer on that front.

But we are definitely seeing it being faster. So they're filling that funnel and you're seeing a lot of growth in the catheter-based companies, in particular, for treating a lot of the patients.

What that means is that if you're failing at the same rate, you're going to have more patients that need to be treated once they fail. And we believe the hybrid therapy is a great complement to that to -- once you've failed that and you've tried that, you pretty much tried that last kind of shot to go after that patient and help them out with the catheter. Hybrid really helps out quite dramatically there. We started to see it over in Europe.

So what tells us that we think this is going to happen is that when you look at the data that's come out of Europe from the various different registries and also with our own experience at sites is we're starting to see the sites that got a little distracted by PFA, they got excited about it, they're still using PFA quite a bit. They're actually seeing some failures come 6, 9, 12 months later.

And then they're saying, "Wait, we really got to get back on track on our hybrid therapy and start to use that." And so we think that we're starting to see that in Europe.

We're starting to see really robust growth in this area in Europe, and we see that continuing right now. We anticipate the same happening in the U.S. I can't give a definitive date when that's all going to turn.

Because right now a lot of the sites are distracted by making that changeover from whatever device they were using before to using this device. That takes a lot of time and energy away from the staff on that side.

But they're still doing procedures. And once they have the failures, they're still coming back to hybrid. And we think that long term, the funnel is going to be so large that it's actually going to increase the overall number of patients that get treated quite a bit.

On top of that, I guess I would add one more thing, which is that we're also still seeing new sites come on board.

So we're seeing a lot of sites that they are implementing PFA, but they're also saying, "Wait. We also want to implement hybrid." They come into our courses. In June, we had a record number of people come to our hybrid course.

We had almost 100 people from across the country come into the course. And these were a mix of 50% surgeons, 50% EPs coming as teams to talk about the future of hybrid therapy and what was happening on that front.

So we get a lot of good data from that as well and a lot of survey data when we talk to them about kind of what's happening in the field and the changeovers they're going through.

Lilia-Celine Lozada^ Got it. Okay. And then just as a follow-up on the open side of the appendage management business. It's been a few quarters now with competition on the market.

So can you talk a bit about how those dynamics evolve this quarter? How sticky has that trialing that you called out then? And how should we be thinking about that business growing the rest of the year?

Michael Carrel^ Yes. I think you saw in the numbers that the market's growing. We talked about the fact that when competition enters into a market, it's great flattery to us that we've actually got a really big and robust large market that's in front of us and that over time, we thought that the market would overall grow.

And what you saw this quarter was an acceleration to 17% growth on the open side of our business. Medtronic is obviously getting some business themselves as well. They've got people that are actually using their product for sure.

But by having two of us in the market, you're really creating more demand, more interest, really sound pricing that is out there on that front.

So from our standpoint, having that entrant, I think, is already starting to have a positive impact on the overall market dynamics. And I think that's only going to increase over time here.

That being said, on top of that, we also just came out with and literally just got the FDA clearance just before this call for our new FLEX-Mini device. That is the smallest profile, best product in the market.

It is an exceptional product. I can't be more excited about a product we've had in a long, long time. When we rolled out EnCompass, we changed the way people thought about the market on that front.

I think the same thing is going to happen with the FLEX-Mini device just because of the sheer size and profile of the device. It's so much smaller. It's really a great platform for us to build on. We're really excited to launch that in the back half of this year.

Operator^ Our next question comes from Bill Plovanic with Canaccord.

John Young^ It's John on for Bill tonight. Congrats on the quarter. Maybe just circle back here to AtriClip 2. On FLEX being mini, can you describe maybe the pricing strategy that you guys will take upon launch here? Do you think you'll raise price reflecting the benefits of the device?

Angela Wirick^ Yes, John.

So I think you know with each new innovation that we bring to market, one of our goals is to improve overall ASP. And I'd say that's still our strategy with the FLEX-Mini.

John Young^ Okay. Great. And I don't know if you guys talked about it on the call. I didn't hear it, but you guys recently did a price [release out], clearance in China, a [queue] of AtriClip. So how are you thinking about that market in terms of opportunity size? And what commercial approach you think you'll take there?

Michael Carrel^ Appreciate that. And yes, we did get clearance for the AtriClip device in China. We've been working on that for quite some time and feel really good about the fact that we're going to be able to access an enormous market that does over 200,000 cardiac surgery a year. So we already have a great market share on the ablation side of our business there today.

So we're kind of building on that foundation. But the only products we've had in China had been on the ablation side. And so this AtriClip obviously adds tremendously to bringing that great product into the market.

We don't anticipate much impact on revenue this year, but we would anticipate that as we look at '25, '26 and going forward, that having that product on the market, it's something

that they've been asking for. They want it in the market. And this is obviously a great product. So we anticipate that it will have some impact on this in the outgoing years.

Operator^ And our next question comes from Rick Wise with Stifel.

John McAulay^ Mike, Angie, this is John on for Rick today. I just wanted to go back to guidance. You brought it down by a few million, talking about pressures on the CONVERGE side of the business. and on the AtriClip side of the business.

I just wanted to better understand what you're seeing today in both those businesses. Have these pressures bottomed out in your view? Or are they still getting worse? Just, where do we stand now?

Angela Wirick^ John, I'd say at this point, we think that the pressure kind of started, I'd say, late in the first quarter, very late in the first quarter. And really, we just didn't exit the second quarter in a way which we would have expected.

I think we were hearing an increasingly loud drumbeat from our field team that PFA, the number of accounts that we're getting access to PFA technology and the distraction that they were seeing relative to their programs that, that was something that, in the second quarter, became pretty pronounced and would persist through the rest of this year at a minimum.

So that's really the driver in our view.

I think for recovery, from a guidance perspective, I think our philosophy has always been to be very prudent.

When we think about our guidance, we want to put numbers out there, we feel very comfortable that we can meet and as well as the pathway to see upside for investors as well. And so as we're looking at this, we anticipate it's -- beyond 2024, when this kind of recovers, so to speak. And the impact is dual fold.

I just want to make sure it's both our MIS ablation business, but then the MIS AtriClips that are used in those hybrid procedures, which is a component of our overall appendage management revenue.

John McAulay^ That's clear. And then I think, also sort of sticking to guidance, in the prior guidance, I'm just curious, how much of a FLEX-Mini impact was -- or positive launch impact was incorporated? And how much, if any, FLEX-Mini sort of impact and price increases incorporated now?

Angela Wirick^ Going into 2024, we felt pretty confident that we would have clearance from the FDA for this product, middle of the year. And I'd say the timing looks no different from how it's evolved and ultimately our clearance.

We still expect for this product to be launched in the second half of the year, which was baked into our guidance going into the year.

Michael Carrel^ And if you look at the overall guidance, and our open appendage management has got robust growth built within. It's the MIS one that you're not -- and obviously FLEX-Mini is a part of that.

Operator^ Our next question comes from Marie Thibault with BTIG.

Sam Eiber^ This is Sam on for Marie tonight. Maybe I can shift over to the open ablation side of things. I guess I'm just wondering how you're thinking about maybe the mid- to long-term outlook on the business. Can this still be, call it, a mid-double digit grower? And then on the quarter, how much more room is there to run in terms of penetration for the EnCompass Clamp?

Angela Wirick^ Good question, Sam. I'd say we felt good. It was a solid quarter for our open ablation franchise, and we really continue to be bullish and believe that the EnCompass Clamp will help sustain growth in this area of our business.

We're seeing really good activity across accounts that are using EnCompass. And our team is really focused at this point, going deeper into accounts that have adopted the technology, so making sure that it's more than one surgeon who is using the EnCompass Clamp as well as broadening adoption to a broader set of accounts.

Relative to penetration, continue to estimate that the U.S. market is only being, we call it, 30% to 40% penetrated at this point in time.

So continue to focus on the fact that this is a vastly underpenetrated market. We've got superior technology that's made this procedure incredibly easy for a surgeon to do and the focus will be to continue to grow adoption.

Sam Eiber^ Really helpful, Angie. And then maybe if I can come back to CONVERGE for just a second. I guess the accounts that are still using it maybe aren't as distracted from some of the PFA launches. Are they using PFA in their --the endovascular side of the procedure? Just wondering if the complementary nature, even at some accounts, is starting to work its way through.

Michael Carrel^ Yes. We definitely are starting to see some accounts. We see that over in Europe where you see it already -- that's kind of where our experience has been. It's so new in the U.S. We're not seeing a ton of it. But we've got several sites that are beginning to use both PFA and CONVERGE into their procedures.

But we're really seeing more, and what I anticipate is that if they do PFA and then when that PFA fails, we'll come back in and do kind of the second stage as the CONVERGE procedure at that point in time.

And that's what we anticipate is going to be what's going to lead us into 2025 and beyond relative to that complementary aspect of it. Just because if you look at the data that's come out, you're seeing that the failure rates are basically the same as they were with RF and cryo. And so you still have those patients.

What do you do after that. And then the after that is the hybrid procedure, which includes CONVERGE, and that's where it becomes complementary at that point.

Operator^ Our next question comes from Danielle Antalffy with UBS.

Danielle Antalffy^ Mike, just a follow-up on AtriClip and what you're seeing from a competitive perspective there. I mean can you talk a little bit about what you're seeing from a site perspective? Have you seen sites drop the competitive product and trial -- are we through the trialing period? Are you still seeing trialing? And then just one quick follow-up after that.

Michael Carrel^ Yes. We're just seeing great strength at the AtriClip product and the AtriClip product works all the time. We haven't lost any accounts as a result of it. Like, we're not seeing anybody flip over and not continue to use AtriClip on a majority of their cases. So overall, we feel like we're having some great success.

We do have some sites, as you mentioned, that may have done some trialing and have basically come back to AtriClip kind of full time, for lack of a better word, relative to that. So we've definitely seen some of that for sure.

But I mean overall, as you can just see with our overall growth rate, we're still seeing really robust growth on a very large number. It's one of our biggest franchises. So we feel like we're in a really good spot from that standpoint.

Danielle Antalffy^ Okay. Got it. And then just to clarify just one point on CONVERGE and what you think you guys are seeing there with the PFA. Is it more PFA is just distracting the EP side of things? Or do you think it's more PFA is going to impact sort of the end patient market here?

Michael Carrel^ Yes. I think what you're going to -- so there are two -- you hit on two different dynamics and you're right.

So the first thing is the distraction. That's really what we're seeing mostly today, which is that you've got sites that are now having to go purchase the equipment, install it, train their teams, get their whole workflow -- their new workflow with the PFA system in-house. And they're making that switch quickly.

But as a result of making that switch, they become incredibly distracted from -- which patients they're treating. They tend to treat -- they're earlier to treat patients and really focus on the efficiency of their sites, how many cases can they be doing in a day, et

cetera. And you see that at a lot of sites throughout the country. I'd say that's the primary thing that we see.

What we also anticipate seeing a little bit more is that you're going to have -- people are going to try and say, "You know what, I'm going to go try," and this we expected, which is that, "I'm going to do that PFA just one last time. Let me go -- hey, I have tried an RF." They failed the catheter ablation. "I'm going to go do PFA," and then that's going to lead towards basically treating hybrid longer term.

I anticipate that's going to continue to happen. We see some of that. But what I'm also seeing is that if you just look at the sheer numbers, if you look at how many catheters are being sold today.

So I think most people on this call know it's like, what, 400,000 or so catheters ablations in the U.S. just for AFib last year. Anticipated this year, the growth is 15%, so 480,000 or so this year. That's 80,000 more patients that are now getting treated and the failure rates are equivalent.

So you then have that many more patients, but what do you do next. And that's where you're going to start to see more patients that are going to be in need of something beyond just a catheter regardless of what that energy source might look like. And that's why I look at '25 and '26. And I anticipate, and we're starting to see it over in Europe, those failures are going to turn into hybrid cases.

Operator^ Our next question comes from Mike Matson with Needham & Company.

Joseph Conway^ Andrew, this is Joseph on for Mike. Maybe the first question, just -- I guess just kind of wondering on the sustainability of the international sales.

Obviously that's been a strong growth driver for you guys. I think you said you expect continued momentum throughout the year. So maybe a little additional color there would be helpful.

But a little bit more specifically, like China, I guess, if you could comment on maybe the environment there, how is China revenue going? Obviously you'll be launching the AtriClip.

But we've heard some companies see some weakness in China. So if you could comment on that, that would be helpful.

Angela Wirick^ Yes. To start with the international business very broadly, I think that there's many reasons to be optimistic about sustained kind of accelerated growth levels, first off, in each market that we operate, significantly underpenetrated, so big, big opportunity in front of us.

We're seeing particular success in each of our franchises in Europe as that team is really focused on driving good accelerated adoption across each of our therapies. And Mike mentioned in his comments, the EnCompass Clamp, we expect to be on market in Europe later this year.

So continuing to invest to bring technology to our European markets, along with kind of the technology that's there, that's one area of focus. And I'd say beyond just Europe, we continue to look at each market and say, where does new and innovative technology belong in markets that -- the clip in China is one example of that.

So relative to our China business, we work with a group of distributors in China. And I'd say our business is very solid. We're not seeing the same level of disruption and think that the AtriClip will be a nice complement to our ablation technology in that market.

Joseph Conway^ Okay. Yes, great. That's very helpful. And then maybe just a quick one. We're curious maybe how sternotomy is going in the pain management franchise.

Michael Carrel^ Yes, for sternotomy, I think the feedback we've given on this call before is really that the biggest pushback we got was time. And I talked to us call about cryoSPHERE+, reducing time 25% and then cryoSPHERE MAX reducing 50%, so that you're basically taking the freeze time from two minutes down to one minute for each one of those freezes, and that's a big deal for that. And so I do anticipate that once we do a full launch on cryoSPHERE MAX, that it might have some impact on sternotomy.

We're not baking it into our numbers though. We're assuming there's not going to be much of an uptake on that as we look kind of to the guidance in the back half of this year.

As we look at next year and we get that MAX rolled out, we might incorporate it, obviously in our guidance if we start to see some upside relative to that. So I look at sternotomy as being a huge upside for us. And we've built, really, two different devices that we think are going to make a difference in that market.

Operator^ And our next question comes from Daniel Stauder with Citizens JMP.

Daniel Stauder^ Yes. Great. Just for my first question, pain management, strong quarter. And it sounds like cryoSPHERE+ had some really good, strong early days' feedback.

But can you give us any color on this dynamic in terms of growth? Is this new physician usage with new features? Or is it higher utilization with the time benefits? Just any more commentary would be great.

Angela Wirick^ Danny, it's a combination of both. So we saw a really strong account growth in the quarter. We've seen that the past two quarters to start the year.

But we're also seeing that within existing accounts, that they continue to expand their adoption across the broader set of patients. So it's a combination of both. I think the

introduction of the cryoSPHERE+ Probe, new technology. The existing device was launched in 2019.

I think it's been reinvigorating for this market and certainly for our field team as they go back to customers who maybe had hesitation with time. We've got a reduction in time with the cryoSPHERE+. And we're also excited, later this year, with the cryoSPHERE MAX.

Daniel Stauder^ Great. And then just one follow-up on appendage management. You've been asked a bit about it, but U.S. sales tempered down by the MIS piece. Is any of that from LARIAT, like we had seen in the prior quarter? Or is it just the impact you had mentioned in AtriClip MIS with the EPs time being taken up by the PFA?

Angela Wirick^ Yes. It's the latter. It was that -- this is not a dynamic that we saw in the first quarter with kind of the drop off in LARIAT. It's really the softness the MIS AtriClip side given kind of a slower MIS ablation quarter.

Operator^ And our next question comes from Suraj Kalia with Oppenheimer & Co.

Suraj Kalia^ Mike, Angie, can you hear me all right?

Angela Wirick^ We can.

Michael Carrel^ We can.

Suraj Kalia^ So Mike, many questions have been asked. And let me ask the first one on PFA and the next one on AtriClip and I'll throw both of them your way together. So PFA, Mike, look, it's not new, right? It's been around -- we've been talking about it for years now.

What is different from your expectations in terms of managing the PFA onslaught? What are you seeing differently right now that you're, like, "You know what, we didn't factor this into our calculation."

Michael Carrel^ Yes.

So on the PFA front, it's a great question, Suraj.

It's really the distraction that the site's having.

What's different was we expected, like you said, and we're aware of it.

We knew it was coming.

We saw what we saw over in Europe.

We anticipated the impact of kind of going towards that second ablation. That was all kind of built into our numbers and our thought process relative to it.

I'd say the actual workflow at the site was maybe a little bit more pronounced in terms of how fast they moved into the sites and then took that time away from them to be able to think about the workflow they were doing on hybrid because they're so focused on getting their systems up and running, getting through their [VATs] committees, figuring out what their contracting was going to go look like, how are they going to go do the referral patterns and switch out if they're going from -- whether are -- are they going to do -- what were they going to do with if their patient fail with RF versus cryo versus PFA. All that thought process, I think, maybe took over more mind share.

That's why we say that it's temporary, that it took over a little bit more mindshare as they were kind of getting those programs up and running from that standpoint. Not as much affecting the actual patients per se, in terms of the patients -- the long-standing persistent patients.

We think that the data is still out there. They still feel really good. The data from over in Europe is not compelling to treat these patients.

And I'd say that -- so for right now it's mostly that distraction.

It was a little bit more than we had expected in this quarter.

Suraj Kalia^ And Mike, maybe I'm paraphrasing here.

One of the comments you made in your prepared remarks or in your comments to one of the questions was something to that effect that over time, the long-term growth increases because PFA failures -- more patients are going to come into the funnel. Again, I think I'm paraphrasing. Mike, remind us -- and maybe I'm mistaken here, is CONVERGE only energy modality specific or, i.e., RF? Or is it irrespective of energy modality?

For some reason, I thought it is only RF. And also, Angie, if you could share, give us some color on same-store, new store sales for AtriClip in the quarter?

Michael Carrel^ I'm not sure that I completely understand the question around the modalities.

So the Epi-Sense device is an RF device, so that it, today, utilizes RF technology on that front.

In terms of what can be used on the other side, the catheter-based, the EPi-Sense can be used with anything.

I mean they can be used with PFA, RF or cryo.

So whatever they decide to use on the catheter-based side of the technology, that doesn't have any impact on what you're going to -- whether or not you can or not use the EPi-Sense device.

I'm not sure if that's exactly what you're asking, but -- Suraj?

Angela Wirick^ Yes. Maybe as we try to get Suraj back, I'll answer the second question.

Suraj, going into the year, and for many years, we are...

Suraj Kalia^ Mike, can you hear me?

Angela Wirick^ Yes. We can.

Suraj Kalia^ Sorry, apologies. Mike, that's exactly what I was asking.

If it's catheter energy-agnostic for CONVERGE, and I think -- so that's what you indicated, so...

Michael Carrel^ If that's what you're asking, I didn't have to give as long an answer. The answer to that is pretty simple, yes. Catheter agnostic.

Suraj Kalia^ Okay. And Angie, same-store, new store.

Angela Wirick^ Yes.

So we're entering the year and for a number of years now we've been pretty much 100% penetrated in kind of the number of cardiac surgery centers in the U.S. with our open AtriClip devices. So the growth that you're seeing is really within existing accounts.

Operator^ This concludes the question and answer session.

I would now like to turn it back to Mike Carrel, President and CEO, for closing remarks.

Michael Carrel^ Again, everyone, thank you for joining and your interest in AtriCure. And as I said, great first half of the year, looking forward to the second half of the year and really excited about the FLEX-Mini device that we just announced today. You'll see more on that in the coming future. Talk to you soon.

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