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Q1 2023 AtriCure Inc Earnings Call

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**Marissa Bych**

## PRESENTATION

### Operator

Good afternoon, and welcome to AtriCure's First Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded for replay purposes.

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

### Marissa Bych

Great, and thank you for joining us. 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, 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, including the adoption of hybrid AF therapy and future product approvals clearance 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 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 CEO.

### Michael H. Carrel *AtriCure, Inc. - CEO, President & Director*

Thank you, Marissa. Good afternoon, and thank you to everyone for joining us today. I am pleased to share an exceptional start to 2023 at AtriCure. We achieved \$93 million in revenue, reflecting 25% year-over-year growth and 6% sequential growth. We are experiencing robust demand from physicians to treat patients and remain excited for the extensive opportunities in our markets. Our performance was driven by broad-based strength across all of our franchises and geographies, reflecting the depth of our product portfolio and considerable market opportunities. This momentum is a testament to our people and their drive to execute a growth strategy while doing what is right for patients globally.

Our robust top line growth also contributed to positive adjusted EBITDA of nearly \$2 million for the first quarter, which Angie will discuss further in a few minutes. As a result of our first quarter performance and ongoing momentum across the business, we now expect full year 2023 revenue of \$385 million to \$392 million, reflecting 17% to 19% growth over the prior year and full year 2023 adjusted EBITDA of approximately \$2 million with improvement into 2024 and beyond.

Now turning to the highlights in the first quarter. In our open ablation franchise, we recently celebrated the 1-year anniversary of the full market release for our EnCompass Clamp in the United States. The EnCompass Clamp leverages the proven technology of our synergy ablation system to provide a simpler and faster approach to ablation in open heart procedures. Since the launch, we've seen remarkable adoption by new surgeon users and ended the quarter with roughly 1/3 of our U.S. accounts incorporating the EnCompass Clamp in cardiac surgery procedures. Globally, our open ablation franchise saw a 27% year-over-year growth in the first quarter, primarily driven by outstanding EnCompass sales in the U.S. Even with our progress, the cardiac surgery market remains vastly underpenetrated. We are confident in our ability to achieve further penetration through our leading innovation and a differentiated market position.

Shifting to appendage management. The AtriClip family of devices, our foundational technology for left atrial appendage exclusion continues to show durable expansion. In the first quarter, appendage management revenue grew 24% worldwide over the prior year with strong activity in all of our markets. We are committed to extending our leadership in the appendage management space with a focus on the expanded benefits to patients and providers. To that end, we continue to transform our technology with an eye towards easier to use, less invasive devices. At the same time, we are investing in a landmark clinical trial to bring the benefits of AtriClip devices to more patients.

In 2022, we introduced LeAAPS, a trial of 6,500 patients, 250 sites, multiyear randomized controlled trial to examine the prophylactic use of the AtriClip devices on cardiac surgery patients without preoperative Afib diagnosis. The size of the LeAAPS clinical trial reflects the immense opportunity we expect to capture with 2/3 of the over 1 million annual cardiac surgery patients worldwide, not having a preoperative Afib diagnosis. The primary endpoint of the study is a demonstrated reduction in ischemic stroke and systemic arterial embolism, laying the groundwork for a new frontier in stroke prevention. Enrollment in LeAAPS is well underway, more robust than we expected, and we are investing in a major expansion of trial sites through the remainder of 2023. The trial will take several years to complete. However, we expect increasing awareness of appendage management in all cardiac procedures in the near term and a meaningful extension of our addressable market over the long term.

Turning next to hybrid therapy. We had a solid quarter and continue to deliver unmatched outcomes for patients with long-standing persistent atrial fibrillation. To this point on outcomes, in addition to the CONVERGE procedure in the first quarter, there were several European randomized trials, which were presented and published, consistently showing the superiority of hybrid therapy to catheter ablation alone in the advanced AF population.

As a reminder, the CONVERGE procedure combines our EPi-Sense technology with catheter ablation, showing over 100% improvement over catheter ablation alone and durable outcomes for long-standing persistent Afib patients. Similarly, the CEASE-AF clinical trial presented at EHRA this April demonstrated that hybrid epicardial and endocardial ablation using AtriCure's synergy technology is the superior option to robust endocardial catheter ablation alone. The data presented EHRA showed an 82.7% relative benefit of the hybrid approach over the endocardial ablation only or 71.6% primary effectiveness of hybrid ablation versus 39.2% endocardial ablation only. This groundbreaking randomized controlled trial, combined with the results we've seen in CONVERGE with the HARTCAP randomized trial results and non-RCT data of over 2,700 patients highlights the importance of hybrid therapy treatment options for patients with more advanced forms of atrial fibrillation.

Also in the first quarter, our professional education team assembled top U.S. providers to discuss physician experiences with hybrid approaches to treatment and how to deliver the best solutions to those who suffer with long-standing persistent Afib. It was striking to see EPs, surgeons, nurses, and care teams, engaging with patient stories, discussing early patient identification, evaluating the consequences of delaying Afib treatment and learning how to effectively implement hybrid AF therapy programs at their hospitals. We continue to focus on providing comprehensive support for the many programs we have in the early stages of adoption and expect 2023 to build the foundation for our future growth.

Now we are frequently asked about innovation in cardiac ablation and the potential for pulsed field ablation or PFA to the impact of AF therapies. So, I thought a brief statement would be worthwhile. We believe innovation is of paramount importance in the medical device field and are encouraged by the activity and progress with PFA. The awareness it brings to the treatment of Afib encourages robust conversations on this topic and the focus on more efficient endocardial ablation is a tailwind for everyone in this market. For AtriCure, these are all positives, and our hybrid approach remains complementary, much like it is shown with all the other energy sources. We are

excited for the building momentum in the broader Afib market and potential impact on the substantial unmet needs today.

Finally, our pain management franchise continues to deliver outstanding growth. Worldwide revenue increased 39% over the first quarter of 2022, with contribution from new and existing accounts in the U.S., Europe and Australia. Across engagement with physicians, there is a tangible excitement and the demand for outcomes that can be achieved with this solution for post-operative pain, giving us confidence in the trajectory of the therapy for years to come.

We are in the process of implementing enhanced training and awareness of programs for thoracic surgery. Additionally, we are making excellent progress on our evaluation of Cryo Nerve Block in sternotomy applications and are beginning a very limited rollout with our existing device. The opportunity for post-operative pain management in thoracic and sternotomy procedures is truly compelling, and we continue to drive awareness for this differentiated patient experience. To that end, I would like to invite everyone to join us for the next phase of our virtual education series on May 16, where we will sit down with Dr. Stephanie Chang, Associate Professor of the Department of Cardiothoracic Surgery at NYU Grossman School of Medicine to discuss her experience using the AtriCure cryoSPHERE probe for the management of post-operative pain. We hope the event sheds more light on the incredible outcomes patients receive and how the physician community implements this important therapy into their practice.

In closing, we are pleased with such a strong start to 2023. Our framework for expanding the business extends beyond targeting large underpenetrated market opportunities. We are thoughtful about building a complementary portfolio with diverse drivers while being intentional about our spending as we enhance profitability in our business. Our first quarter results highlight the progress we are making because of these efforts and the potential for AtriCure to drive meaningful, accelerated, and profitable growth for years to come.

I will now turn the call over to Angie Wirick, our Chief Financial Officer, for more details regarding our financial performance.

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**Angela L. Wirick AtriCure, Inc. - CFO**

Thanks, Mike. I will start with our financial results for the quarter. Our first quarter 2023 worldwide revenue of \$93.5 million increased 25.4% on a reported basis and 25.9% on a constant currency basis when compared to the first quarter of 2022. As Mike noted earlier, we saw broad-based growth across key product lines and geographies, underscoring the depth of our many growth drivers. On a sequential basis, worldwide revenue experienced growth of 6.2% from the fourth quarter of 2022 to the first quarter of 2023.

First quarter 2023 U.S. revenue grew to \$78.2 million, a 25.6% increase from the first quarter of 2022. Open ablation product sales were \$25.1 million compared to \$19 million, up 32.5% over 2022, driven by continued market penetration of the EnCompass Clamp across both existing and new accounts and favorable pricing. To that point, we estimate that open ablation product volume growth was nearly 20% in the first quarter 2023. U.S. sales of appendage management products were \$32.3 million, up 21.3% over the first quarter of 2022 and pain management sales were \$11.1 million compared to \$8 million, up 38.1% over the first quarter of 2022. Minimally invasive ablation sales were \$9.6 million, up 11.9% from 2022 and solely on the growth in sales of our EPi-Sense system. We continue to expect relatively moderate expansion of hybrid AF therapy in 2023 as we build the foundation for future growth in this franchise.

International revenue was \$15.3 million, up 24.4% on a reported basis and 27.7% on a constant currency basis as compared to the first quarter of 2022. European sales accounted for \$9.4 million, up 29.9% over the prior year on increased volume in all key product lines throughout major markets. Asia Pacific and other international markets accounted for \$5.9 million in international sales, up 16.5% over the same period and driven mainly by activity in Australia.

Gross margin for the quarter was 74.5%, which is flat in comparison to the first quarter for 2022. Although we continue to leverage higher sales volume and are seeing production efficiencies, we experienced modest cost increases throughout our supply chain, along with pressure from product mix in the quarter.

Moving on to operating expenses for the quarter. Total operating expenses increased \$5.6 million or 8.1% from \$69.7 million in the first quarter of 2022 to \$75.4 million in the first quarter of 2023. Overall, the change was a result of investments in our headcount as well as strong clinical trial enrollment. These increases were partially offset by several areas of spend efficiency, notably with our training and education programs, along with a shift in discretionary spend on product development initiatives later in 2023 as well as proceeds

received for our first quarter 2023 legal settlement and reduced legal spend.

Adjusted EBITDA for the quarter was positive \$1.9 million compared to a negative adjusted EBITDA of \$4.2 million for the first quarter of 2022. Note that our adjusted EBITDA excludes the gain recorded on legal settlement in the first quarter. Our loss per share was \$0.14 in the first quarter of 2023 compared to a loss per share of \$0.33 in the first quarter of 2022, while the adjusted loss per share each period was \$0.23 and \$0.33, respectively.

We ended the first quarter with \$161.4 million in cash and investments, a strong capital position to fund current and future business initiatives. Cash burn in the first quarter is typically higher than the remainder of the year. With that in mind, we do expect our quarterly cash burn to moderate in the coming quarters.

And finally, turning to our outlook for 2023. As Mike mentioned earlier, given the strength of our underlying business and current progress, we now anticipate full year 2023 revenues to be between \$385 million to \$392 million. Our updated guidance reflects annual revenue growth of approximately 17% to 19%. For quarterly cadence, we anticipate sequential trends to reflect more normal seasonality with a modest increase in revenue from the first to second quarter in 2023.

We continue to expect 2023 gross margin to be comparable to 2022 with the potential for varying impacts from increasing costs and mix. On the bottom line, we are balancing our commitment to profitability with the opportunity to progress key areas of our business, including accelerating clinical trial enrollment and expanding therapy awareness programs. The level of investment in research and development activities will ensure a robust pipeline and growing clinical evidence across our platform.

Additionally, our plans anticipate a disciplined expansion of our commercial teams, along with training programs to drive further adoption in our markets. We expect positive adjusted EBITDA of approximately \$2 million for full year 2023, corresponding to the adjusted loss per share of approximately \$1.10 to \$1.15. Our guidance reflects a shift in discretionary spending from the first quarter to the rest of 2023 as well as an increase in clinical trial enrollment registries and studies. Therefore, we would expect quarterly adjusted EBITDA to reflect some variability for the remainder of 2023.

As we commented at the beginning of the year, we are focused on growing a profitable business in the years ahead and we are incredibly pleased with our start to 2023 as this quarter's results demonstrate many diverse and innovative drive catalysts at AtriCure, our ability to broaden the impact on patients in each of our markets and achieve leverage in our business.

I will now turn the call back to Mike for closing comments.

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**Michael H. Carrel *AtriCure, Inc. - CEO, President & Director***

Thank you, Angie. We began 2023 with excellent momentum throughout our business. I'd like to thank the entire AtriCure team for outstanding collaboration and deep commitment to our patient-first mission. Our efforts this quarter achieved the goal of growing patient impact, progressing clinical science and innovation while improving leverage across our operations. The future at AtriCure is bright. And together, we have a unique opportunity to continue to both advance and further expand our markets as we work to heal the lives of those affected by Afib and pain after surgery.

And with that, I'll turn it over to the operator.

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**QUESTIONS AND ANSWERS**

**Operator**

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

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**Lilia-Celine Breton Lozada JPMorgan Chase & Co, Research Division - Research Analyst**

This is actually Lily on for Robbie. Congrats on a good quarter. Maybe just starting with MIS. I know guidance doesn't really assume much in terms of CONVERGE this year. But can you give us an update on how traction has progressed here? And have you seen any sort of improvements in uptake as procedure volumes and the staffing environment have normalized?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Yes, I appreciate the question. I mean as it comes to MIS, as we talked about on the call, we made continued progress. I talked a little bit about kind of a lot of the education platforms and things we're putting in place, getting a lot of good feedback and working on the workflow. We've had -- we've seen definitely great momentum. If you saw the overall number was an increase year-over-year. And so, we feel like we're in a really good spot. But as we all talk about, this is a building year for us. We're going to continue to kind of really work on getting more depth into these accounts, working at getting good workflow for the patients, and that's really going to be a focus throughout 2023, and really to look at 2023 as a building block here and not to really expect much on a quarterly basis from us on that.

**Lilia-Celine Breton Lozada JPMorgan Chase & Co, Research Division - Research Analyst**

Got it. That's helpful. And just a follow-up. It was nice to see you hit EBITDA profitability again, especially so early on in the year. And guidance with the number that you put up in the quarter implies losses over the balance of the year. So, is that just conservatism? And how should we be thinking about the progression of spend and your profitability over the balance of 2023?

**Angela L. Wirick AtriCure, Inc. - CFO**

Lily, so I think you're going to see some variability with each quarter. We're really pleased with the results in the first quarter, really driven by the top line strength across our business. As I mentioned in my comments, we are seeing some operating efficiencies throughout the business. But I think a bigger part of this was strong top line, but this shift in discretionary spend, mainly R&D activity later in the year. We also are off to a great start with our clinical trial enrollment and are expecting at this point that the overall kind of spend for the year is higher than we had anticipated, which kind of gets you to the point of for the balance of the year, I think you're going to see some variability in bottom line, but to get to the full year guide of the \$2 million positive adjusted EBITDA.

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

I want to emphasize really on that clinical trial, LeAAPS in particular, has really taken off, and we've built great momentum. We talked about it. But we're way ahead of plan in terms of patient enrollment. We've got over 20 sites already enrolling in the trial and feel like we are in a great spot to really accelerate enrollment in that trial for the rest of this year and into next year.

**Operator**

The next question comes from Matthew O'Brien with Piper Sandler.

**Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

I mean maybe, Mike, just on the guidance side of things, your you took -- you beat by about \$6 million this quarter, you've taken things up about \$5 million for the year. So, a little less than the beat. It seems like Open is doing great and clips are doing great. Why not take things up a little bit higher? Is there something specifically you're pointing people towards to maybe seeing a little bit more pressure across the business. I don't know if it's U.S. or OUS, maybe you really just keep in mind or are you just trying to make sure you'd be conservative here in Q1 with a long way to go?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

I mean you said that Q1 is a long way to go. I think we're in a great spot. We had a remarkable Q1 momentum in every aspect of the business. We feel really good about the business, Matt. But there's still 3 more quarters to go. And so obviously, when you hit the \$5 million when you have that -- we have a \$6 million beat but -- and we had a range earlier in the year, you never know on the quarter. So we're just kind of being conservative as we look out for the rest of the year. But we feel really good about the numbers overall. And I mean, I think if you look at a lot of other companies in the way that you guide as you kind of come through this, it's 1 quarter down, feel great about it, feel good about the momentum in the business and where we're going long term, and we think that we're being prudent about how we're putting guidance out there for the rest of the year.

**Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

Makes sense. And then the follow-up has 2 parts. So, forgive me, one, just a clarification. Did you say most of the growth in the quarter in MIS in the U.S. was just because of CONVERGE. So that would get me to about 16% growth. Is that number about right? And then any sense for the timing of these -- sorry, Angie these next-generation clips -- last time you guys introduced new clips, that business really accelerated. So, I'm just trying to get a sense for when those may come out, and I'm sure they're not going to be as big a leap as we saw recently, but just any color around that would be helpful.

**Angela L. Wirick AtriCure, Inc. - CFO**

Yes. So, you're close on the MIS number. All of the growth in the U.S. came from the CONVERGE procedure using EPI-Sense device, it's about 18% year-over-year in the first quarter, given what we did each quarter in that business. And relative to the launch of the next generation of our clip, 2024 is a good time frame to be thinking about. We're working through the product development and clearance activities in '23 and would expect to launch sometime next year.

**Operator**

The next question comes from Bill Plovanic with Canaccord.

**John Edward Young Canaccord Genuity Corp., Research Division - Associate**

It's John on for Bill tonight. Can you just first start on the pain management trends in quarter? It came in a little bit lighter than you were expecting. But what were you seeing in the quarter? Was this just seasonality? And how should we think about the growth throughout the rest of the year?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

I think overall, we still feel really good about it. We had really strong growth. If you look at it on a year-over-year basis for that business. When you think about it as we kind of grow -- the numbers are just getting larger overall. The sternotomy opportunity really hasn't kicked in yet, that's not going to kick in likely until 2024. We still anticipate robust above corporate average type growth for that business for the remainder of the year and are in a good position to deliver that. Angie, I don't know if you'd add anything?

**Angela L. Wirick AtriCure, Inc. - CFO**

No.

**John Edward Young Canaccord Genuity Corp., Research Division - Associate**

Great. And then just on EPI-Sense. I mean what has changed in terms of education efforts or just other mindset by the company as you try to make the most out of this year to build a good foundation for the business?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Yes. We found -- it's a great question. I mean, twofold. One is, I mentioned in my comments a lot about education and training. And what I mean by that is we've really kind of pivoted and gotten feedback around. We've brought people in to really have best practices conversations, talking about how are they managing the workflow at their sites, how are they managing patient from the time they actually meet them to putting them into the hands of the surgeon to then bringing them back to the EP, what does that look like? And so, we're spending a lot of time on that, there's a lot of conversation. And the programs we've run so far, we've had great -- the number of people that have been there have been well beyond our expectations, and we expect both an EP and a surgeon to be there, so they're both learning from each other on it. And those 2 have gone -- the first to have gone really, really well on that front, and we're going to keep doing those throughout the year. I'd say that's number one.

The next big area of focus is then to take that and then go really deep into those accounts and make sure there's good follow-up and follow through. We need to make sure that within the accounts that we're in, where they've already been trained, that they're actually getting -- they're moving those patients through and they're establishing programs. And so our teams are spending a lot of time, more time than maybe they were at the beginning when we were getting a lot of new accounts set up and trained that way, really making sure they've got the workflow really well worked out so that they don't kind of get -- have any hiccups in those hospitals. That's why I look at it, 2023 is going to be a nice building year for us and while we've got confidence that growth will continue in a more robust fashion in 2024.

**Operator**

The next question comes from Marie Thibault with BTIG.

**Marie Yoko Thibault BTIG, LLC, Research Division - MD and Medical Technology and Digital Health Analyst**

Mike and Angie, congrats on a strong start to the year. I want to ask a question here on the open ablation strength. Certainly, it sounds like you're seeing nice volume growth in addition to the pricing benefit that you've enjoyed with the new clamp. But it does sound like you'll be anniversaring the launch a year ago fairly soon. So how should we think about the sustainability of that segment and that strength that you've been demonstrating? It does sound like you maybe have some more accounts to go into with the new clamp. Just help us understand how the rest of the year might go in that business.

**Angela L. Wirick AtriCure, Inc. - CFO**

Yes. It's a fair question, Marie. As we think about this, you will start to see beginning in the second quarter kind of a declining contribution from just the pure effect of pricing I'd say what's been really encouraging 2 data points. The last 2 quarters, in particular, kind of the volume growth or the activity in our cardiac surgery business has been exceptional. It's been above kind of our historic rates. So, we're not quite ready to say start thinking about this as an above-average grower, but we're seeing really, really strong activity. And the other point was the number of accounts that have adopted kind of in a short time frame, about 1/3 of our U.S. cardiac accounts are using the EnCompass and their procedures. There's still plenty of room to grow, but the stickiness that we're seeing kind of early on and just lapping a year's launch that tells us we've got good confidence that this continues to be a strong growth driver for us for the rest of the year.

**Marie Yoko Thibault BTIG, LLC, Research Division - MD and Medical Technology and Digital Health Analyst**

Okay, very good. And you made some comments about increased awareness of AtriClip near term related to the trials. And is this -- just to sort of orient myself, is this a material to revenue? Is this sustainable at this awareness? Is it translating materially to revenue, do you think?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

It's tough to pinpoint any one activity to what the overall revenue is because we're not in -- especially for the AtriClip, we're not in every one of the single cases to know exactly how many are used just concomitant and how many concomitant with an Afib or sometimes obviously on the prophylactic side. So, it's tough for me to kind of pinpoint that exactly. But we do think that just the general conversations and awareness around better data, doing the innovative clinical work that we need to do, combined with what's happening even on the endocardial side. It all contributes towards really good awareness in this area that manage the appendage when you're undergoing cardiac surgery makes sense and it's better for the patient.

**Operator**

The next question comes from Rick Wise with Stifel.

**John Glenn McAulay Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst**

This is John on for Rick today. I guess to start off, congrats on a really strong kind of exceptional sequentially accelerating quarter here. I wanted to get a sense, did you feel like from the fourth quarter, there was any kind of backlog build up or just in the health care system, in general, if there's a backlog of patients built up and you're seeing a benefit from that as you trend into the first quarter and kind of go throughout the rest of '23?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Yes. We did not anticipate or see much of a backlog. I think what we're seeing more than the else is just efficiency gains at the hospitals. They spend a lot of time in COVID dealing with staffing issues. Those issues still remain, but they're much better at managing them so that they can manage both the OR time and the ICU time, et cetera. And so, no backlogs per se. It's really just robust volumes throughout the quarter, and we're going into new markets, too. So, for us, there's so much penetration gain to have. We're not going to necessarily see backlog the way that you're talking about from that standpoint.



**John Glenn McAulay Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst**

That's helpful. And just as a second question here. Can you kind of frame the international business set up for me for 2023? It seems like the clip had a really strong quarter OUS. And I'm just wondering how you're thinking about it as we look ahead.

**Angela L. Wirick AtriCure, Inc. - CFO**

Yes. We were really pleased, John, with the results in our international business. I think across the franchises, you saw really good growth and good activity. It's probably the most stable. We've seen the operating environment broadly outside of the U.S., which I think was another contribution to be able to achieve the numbers that they did. I think the penetration numbers are so significantly low in our international markets, it gives us a lot of encouragement that with consistency. And I think Mike talked on a previous call, maybe last quarter about new leadership that we've put in place there and just the discipline in their approach as they're entering new markets and as they continue to expand and really drive activities, I think, is a nice tailwind for us for our international business.

**Operator**

The next question comes from Mike Matson with Needham.

**Joseph Conway Needham & Co. - Equity Research Associate**

This is Joseph on for Mike. Could you maybe talk a little bit about free cash flow usage? I guess, what was it in the quarter and how close to is -- are you guys to becoming free cash flow positive?

**Angela L. Wirick AtriCure, Inc. - CFO**

Yes. So, we burned a little over \$11 million (technical difficulty) while the first quarter is typically our highest in terms of an overall cash burn. A lot of that has to do with seasonality of paying out variable comp and then stock vesting. Those are kind of the 2 big drivers typically that you see in the first quarter. Given the gain or the settlement that we had from the legal activity that was a bit of an inflow of \$4 million in terms of magnitude, that's a bit of an offset to the overall burn. And relative to your question about kind of the timing when we're free cash flow positive, we're not ready to give that kind of guidance quite yet. We're focused on delivering a profitable year and profitable quarters sustainably and would expect that in the nearer term to be able to update on that.

**Joseph Conway Needham & Co. - Equity Research Associate**

Okay. And then maybe, I guess, on cryoSPHERE, looking into the future, is there maybe a possibility to kind of iterate or, I guess, innovate on design to kind of launch a cryoSPHERE 2.0 similar to what you guys have done with the clip. And I guess, obviously, the second question of that would be, is there a higher price involved with that, if that were to be the case?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Yes. I mean right now, we are anticipating a release of a new cryo probe that will have some advancements in it for sure based on the feedback we've gotten from our customers. It might -- we're not sure yet about the kind of the price increase. It probably won't have the same kind of -- it won't have the same kind of price increase that we have historically seen with the clip technology from that standpoint. But it is some new innovations in it to make it just easier to use for the surgeons when they're applying it. And we do anticipate that that will have obviously a positive impact overall. But really, the biggest impact is going to be as we move -- we're still so underpenetrated as we move into sternotomy and other areas, that's probably going to -- you're going to see the bigger impact in jump is going to be more market expansion, which we anticipate in 2024 coming from sternotomy area.

**Joseph Conway Needham & Co. - Equity Research Associate**

Yes. Absolutely. Okay, that makes sense. And then if I could just squeeze in another quick one. The DEEP AF procedure and minimally invasive, is that still seeing large declines? I believe you guys had talked about that in the past there. Has that stabilized?

**Angela L. Wirick AtriCure, Inc. - CFO**

It has. We've been kind of guiding investors to think about this as a run rate in the U.S. of around \$2.5 million a quarter, and that's roughly what contributed in the first quarter within the U.S. MIS revenue.

**Operator**

The last question comes from Suraj Kalia with Oppenheimer.

**Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst**

So Mike, a lot of questions have been asked. First, let me ask on LeAAPS, Mike. Will the study split out ischemic stroke versus arterial embolism, Mike? And the reason I ask is the incident rate of events is at least literature says is quite low and a large contributor to the strokes is carotid stenosis. Please correct me if I'm wrong. The primary and secondary efficacy endpoint is time to first ischemic or embolic event. So, I'm curious if you'll be going to give that split or is it going to be lumped together in the trial?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Well, we're obviously going to be tracking it in terms of both separately. How we're going to actually disclose it externally and things like that, I think probably is to be determined depending on what the data comes back and shows. But the combination is what the overall piece is going to look like and we feel very good about being able to meet those endpoints in the trial over the period of time.

**Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst**

Fair enough. Mike, cryoSPHERE obviously, has been a strong line item for you guys. Do you envision any potential competition because this comes up in client discussions, and I'm curious to get your perspective. Pacira Biosciences' iovera is being talked up. And I'm curious to get your perspective if that potentially could be competition? And if so, how do you deal with it especially on pricing?

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Yes, it's a great question. I mean, any one of our businesses, we anticipate that people are going to wind up coming in and competing against us, whether it's the cryoSPHERE, the clip, the ablation side of our business. We are at the tip of the spear, and as I've mentioned in this call before, we're #1 in the markets that we serve today. As a result of that, we're building out those markets. As we build those markets, we expect competition to come in at some point in time. So, we're always preparing for what that competition could look like. And so, we are definitely prepared and cryoSPHERE is no different than that that. We would anticipate that at some point when we establish the strength in the market, continue to show great growth, you're going to have somebody else come in. And I think what we've seen in other markets, and I think many of you know, whatever medical device market you're going to look at, when you do have others come into the market, everybody benefits, literally everybody benefits. The market does grow and both parties will continue to obviously expand at that point. The market will expand. There will be more awareness that is out there. And so yes, I do anticipate that somebody will come into this area.

As it relates very specifically to iovera from Pacira, it's a technology that today is being used for knee replacements. And in that area, it's a device that is really done with similar gas but really different delivery type mechanism that would be difficult to do in the areas that we're doing today, and it's really targeted at that knee replacement area as far as I understand. But again, we anticipate that somebody is going to come into the market at some point and are ready for that overall.

**Operator**

I show no further questions at this time. I would now like to turn the call back to Mike Carrel for closing remarks.

**Michael H. Carrel AtriCure, Inc. - CEO, President & Director**

Great. Again, thank you, everybody, for joining us today after a great quarter here at AtriCure, and we look forward to seeing you after the Q2 call. Have a wonderful evening. Bye now.

**Operator**

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

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