AtriCure

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Danielle Antalffy: All right, good afternoon, everyone. Thank you for joining us. My name is Danielle Antalffy. I'm the UBS med tech analyst here, and very excited to have with us to close out day one of the UBS Healthcare Conference, AtriCure. We have CFO Angie Wirick. And Angie, thanks for coming. I've covered AtriCure for a long time, and it's been really exciting to see how the company has evolved over the last, I think I started covering it in 2012 maybe, or something like that.

Angie Wirick: Yeah.

Danielle Antalffy: Or something like that. So maybe let's start, level-set everyone. You just reported Q3 earnings. You had a strong quarter. You updated guide, narrowed towards the high end of the range. Maybe talk about some of the different key pieces of Q3 performance.

Angie Wirick: Yeah. I'd say across the board, you saw a really strong third quarter. We saw accelerated growth in many of our franchises. I think the standout might have been our cryo nerve blocker, our pain management franchise. We had a new product launch in the second quarter. You saw a nice benefit in the third quarter, an acceleration of growth again within our open AtriClip franchise, open appendage management. That's been a franchise under high scrutiny, I'd say, all year long. But nice to see that that's another one, and that's really without a big contribution of another new product launch with our Flex-Mini. Launched that towards the end of the quarter there, just building excitement and penetration for treating patients in that market. And then also really strong, robust growth in the US within our open ablation business. This is one where the Encompass Clamp is really driving the growth and continues to be a nice contributor throughout the year.

Danielle Antalffy: Yeah, okay. Got it. So as we think about that, heading into the end of the year, obviously people are already starting to think about 2025.

Angie Wirick: Are they?

Danielle Antalffy: Yes. Yes. And I appreciate you're not going to give guidance here.

Angie Wirick: Yes.

Danielle Antalffy: But you know, consensus is modeling low-teens growth. This will be a year of mid-teens growth in 2024, presumably when all is said and done. You know, I don't know what you can say to that, as to whether that's reasonable, or even just at a very high level you can talk about maybe some of the key tailwinds, headwinds, that we should be considering when thinking about '25?

Angie Wirick: Yeah. Maybe to start off, I would stay very focused on continuing to drive strong growth at AtriCure. That is our number one focus as a company. And while I'm not ready to give guidance for '25, I would say comfortable where the models are at today.

When you think about some of the key tailwinds for our business, I just rattled off a couple different product launches. You'll see full-year effect in 2025 for those. Two new devices within our pain management space, both of those coming with a time reduction benefit. One of the devices, the CryoSphere Max which just launched this quarter, comes with an ASP uplift. So even if it's the same procedures, but selecting a different device, there's a growth path with a higher ASP there.

Within our AtriClip or appendage management business, we've got the full-year effect from our FlexMini, new low, super-low profile device. This also comes with an ASP uplift. I think this one, surgeons will start to be a little selective to start off. Okay, which patients will we use this in? But again, if you're talking about the same number of procedures at the higher ASP, that gives us a nice runway within that franchise. So those are two areas. We also have talked to different points in time in Compass Clamp being cleared in Europe. I think that'll be a nice contributor over time. Our AtriClip was cleared and approved in China, so we've got a nice ablation business in that market, would expect for the clip to start to contributing in the latter half of 2025. We work through a distributor there, and that could be a nice contributor there.

Now all that being said, that's almost every franchise. You've got a lot of great shots on goal, a lot of nice tail winds there. I would expect the pressure within our MIS business, both the ablation and then our MIS Clip, to continue into 2025. I think as new PFA technology continues to hit the market, EPs are going to want to try every new device that's out there. And even if they've had that experience or failure from previous devices, I think they're going to see some benefit from the newer technology, maybe with mapping incorporated, to say, look, there's a reason for me to continue to try. So I think that's going to be one of our strongest headwinds in 2025.

Danielle Antalffy: Okay. That's fair. And I think that headwind eases a little bit in the second half, but first half you still have a pretty tough comp.

Angie Wirick: Yeah, sure. Yep.

Danielle Antalffy: Okay. Okay. Just -- to follow up on that, and maybe I'm confused about how Converge works, but can't they do PFA and still do a Converge procedure? Or is it more like you just wouldn't do that, because it's a de novo patient, and they're just prioritizing those patients?

Angie Wirick: No. It's a great question. You can use, absolutely use, PFA as the catheter technology, and then do the Converge portion of the procedure, which is the device that we sell. That can be the absolute treatment path. I think what we're finding is EPs want to own the patient. They want to control the patient. So with PFA, the idea that it's a faster approach and the belief that it's safer, with comparable efficacy to both RF and cryo, I think they're saying, "I'd like to at least try. Let me try once again." And I think again, with every new PFA catheter technology on the market, they're going to continue to try and treat those patients on their own.

Danielle Antalffy: Okay.

Angie Wirick: I mean, hopefully in one of the bright spots, I would say in terms of even though the growth rates weren't good, we do still see new accounts being added to Converge. So there is new interest in building programs. We've also seen a really nice, steady continuation of accounts. I think if we started to see number of accounts start to drop off, that may tell us something about the future of this business. I think it's saying that today, priority is on EPs trying to treat patients themselves and then selectively saying, okay, I'll refer to a Converge when I've tried a couple times and it's not working. As the funnel expands with PFA treatment, I think we're hopeful that longer-term, this could be a pathway for growth.

Danielle Antalffy: Yes, that makes sense. And I probably want to follow up on that in a little bit, here. But before we go there, I do want to ask about profitability. So you guys have been increasingly committed to improving profitability. What are the different levers, so sort of same question but on the P&L side of things, in 2025?

Angie Wirick: Yes. So as we think about, growth is our number one priority, it would say, continue a high level investment within R&D. With the LeAAPS trial finalizing enrollment, we expect to complete enrollment in 2025, and you're just doing patient follow-up. You're not starting up new sites. I think you're going to start to see the spend level off there. Reinvestment in PD from, you know, we've talked about a couple different product launches. That's been in the P&L. We talked about a PFA platform, evaluating PFA within our RF devices. That'll be an area of increased spend that offsets the previous projects that we were doing. So our intention is continue to fund R&D.

You probably won't see as significant of an increase as growth as you've seen over the past couple years. And then starting to leverage through SG&A, really focused on our commercial teams, on training programs being really, really efficient, and then the investments that we've made to help us scale in administrative areas, starting to see some benefit of that in the bottom line. And above and beyond that, I should also touch on gross margin. I think this is an area with super-high gross margins, really good quality. Probably the stiffest headwind we face is an increasing international business. The margins just look different in that business. That being said, happy with the performance, and always looking to improve partially through new product development. We want to look for ASP increases, as well as improving margin, but then also, how can we lean out manufacturing and just help ourselves scale and do better from that perspective, too.

Danielle Antalffy: I want to follow up on something you just brought up, and that is the price uplift that it seems like you get with every new product launch.

Angie Wirick: Yes.

Danielle Antalffy: How have you guys been so successful in executing on that?

Angie Wirick: Yeah. I think bringing differentiated technology when you innovate makes a difference.

Danielle Antalffy: Yes.

Angie Wirick: Showing that there's a benefit, and then asking to be paid for it, I think, has been a really successful strategy at AtriCure. If it's modest improvements to a product, I think that's where hospital systems tend to push back and say, look, not really sure that the benefit is there. But I think with each one of our levels of innovation, it brings something differentiated, new and distinguished compared to the original technology, which also helps to get a price uplift. I think it helps on the other side too, not aggressively pursuing pricing increases on existing devices. I think if you had both of those dynamics in the market at the same time, may not be as successful. But I think when we set a price, hospital systems know what it will be, and we're probably not likely to go aggressively off of price increases after that.

Danielle Antalffy: Okay, got it. Yes. Is it when you're talking about new products, so maybe we can talk about the FlexMini?

Angie Wirick: Sure.

Danielle Antalffy: And are we talking like 5% price increases, double-digit price increases, or uplift?

Angie Wirick: Double-digit. So we're talking about around $500 above the Flex-C.

Danielle Antalffy: Okay.

Angie Wirick: So, which is our higher-priced, open-atrial clip that's around a 30% price increase there. This is one, we're not talking engineering-speak, visibly very, very small profile. You look at it compared -- and we already had the smallest profile clips on the market. But incredibly small profile compared to the Flex-C, and even more so compared to our legacy clips. So -- and it also comes with the benefit of ease of deployment, which was a nice change we made when we introduced the Flex-C to the market.

Danielle Antalffy: And just on -- you mentioned, too, the FlexMini is probably going to be used more selectively at first. Why is that, if it is smaller, easier, to deploy?

Angie Wirick: Pricing. I think pricing.

Danielle Antalffy: Okay, pricing.

Angie Wirick: I think initially, surgeons will say hey, there are some use cases where this makes sense, I'm willing to pay a higher price, so I'm going to selectively think about the patients. And then over time, I think what you've seen with Flex-V is beyond our expectations in terms of the conversion and use case there. I think in the end, when a surgeon -- Flex-V is an

incredible product. FlexMini is also a really incredible product. A key differentiator, if you take price aside, is how you would actually clip the patient. With the Flex-C, you've got the ability to slide the clip onto the appendage. The FlexMini is the annular design, so you have to loop over the top of the appendage.

Danielle Antalffy: Okay.

Angie Wirick: Now with the smaller profile, that looks a little different than our legacy clips. But I think some of it will come down to technique and approach and a surgeon preference.

Danielle Antalffy: Okay, got it. So it's not necessarily like there are actual patients that should be getting the Mini versus the Flex V or --

Angie Wirick: Yeah. I think that's a good question. I think when we've heard from some surgeons, look, when you've got an appendage where there's anatomy that's adjacent to it, and they're nervous about kind of the size of the clip and rubbing up against, that could be a good use case for FlexMini.

Danielle Antalffy: Got you, okay. That makes sense. Let's stick with AtriClip. So that has been a business line that has been highly scrutinized this year.

Angie Wirick: We've talked about it quite a bit, yes. Yes.

Danielle Antalffy: So you know, it seems like the last two quarters we've seen US and worldwide growth reaccelerate. Would you say we're now past the competitive trialing period? And you know, if so, can we see a return to high-teens, even 20%-plus sales growth in that business? Not asking for guidance, just conceptually.

Angie Wirick: Yeah. I was -- maybe I'll start with the latter question. I think with new technology on the market, we just talked about FlexMini. I think there is a possibility for you to see continued high growth coming out of that franchise. Relative to the competitive aspect, it does feel like the trialing has started to die down, started to wane quite a bit. I think what we saw kind of exiting the second quarter and into the third quarter was in a lot of accounts where surgeons agree to a certain quantity of trialing, they've been through that. They've kind of concluded that and they've come to the decision in most cases, look, AtriClip is our preference. So still haven't -- to our knowledge, haven't lost any accounts. We still maintain volume, and there are accounts that will use both products. But really happy with the way that our team performed in terms of kind of defending our turf and selling to the benefits of the AtriClip.

Danielle Antalffy: Okay. And maybe talk a little bit about, we did some work on this. Like, what portion of the AtriClip business is most vulnerable to the competitive product? Because my understanding is it's actually like, only a portion of the business and not truly all of it.

Angie Wirick: Yeah. If you talked about design, the competitor's product mimics the Flex-V, so open-ended clip design. So that is -- let me take a step back. In the US, appendage management, about 75% of the appendage management revenue is in open. So this is in open, the competitor's product is in the open chest area. Of that 75% of our appendage

management revenue, 75% to 80% of the revenue today is Flex-V. So until the FlexMini, it was our most current innovation in the open atrial clip space.

So similar design, so you're not -- when you look at the overall appendage management product line, it's not all at risk. It is a portion of that. Now, competitor's product is at a higher price, higher ASP. So that is one differentiator to our particular product. And when you said the qualify -- qualification of an account, I'd say where reps, the competitor's reps, have a really good relationship with a surgeon, that's where we tend to see more anticipation of trialing. We tend to see a little bit more receptivity to trialing.

Danielle Antalffy: Okay. Got it. What about the fact that you do have so many of your clips being done in your open procedures, so presumably they're using AtriCure products to ablate?

Angie Wirick: Yes.

Danielle Antalffy: I mean, I can't imagine a lot of those surgeons are like, "Yes, but let me get a competitor clip."

Angie Wirick: Yeah. Generally, no, but that doesn't mean that there aren't surgeons who won't try. I think that's another good -- we do effectively own most of the open ablation market.

Danielle Antalffy: Right.

Angie Wirick: Today we -- 85% to 90% market share in that space. So the other component is with the competitor's ablation devices. That is an area of vulnerability. But we have seen people who use our ablation products. Surgeons will try the competitor's product.

Danielle Antalffy: Yeah. Okay. What about in Europe? So I think they're launching in Europe, as well. Tell me if I'm wrong on that. But that's a different market, where they do have a presence in open ablation much more than they do here in the US. So how is that dynamic playing out in Europe?

Angie Wirick: Yeah. I haven't seen them launching yet in Europe.

Danielle Antalffy: Okay.

Angie Wirick: So I'm not aware of that.

Danielle Antalffy: I could be wrong.

Angie Wirick: Yeah. I think that they have gotten clearance in markets in Asia. We haven't seen a whole lot of activity there, but to our knowledge, not yet in Europe. But it's a good point. In Europe, the competitor has a higher base ablation business. I think we still own the majority of the market. Just I can't talk about 85%, 90% market capture. And I think that playbook will be very similar. Look, compete on the qualities of the difference in clip. We think we've got superior technology and that's where our team really should be focused.

Danielle Antalffy: And another thing we did hear from doctors when we were doing checks -- and this was back in March, so still pretty early in the competitive launch, but -- was the fact that you know, they're launching this with no data. Not that there -- it's not like there's a ton of data on AtriClip. There's a ton of real world experience with AtriClip. I mean, how much do you think that matters, and protects your competitive moat a little bit?

Angie Wirick: I think it matters some. I think if you're a new surgeon user, you'd like to see a product that's got some data behind it. I mean, we've sold hundreds of thousands of AtriClips. The product has actually been steady. Even though it's a 510k clear product, it's been studied in over 10,000 patients, we recently got a labeling claim uplift in Europe to talk about the effects, stroke prevention in pre-op AFIB patients. A nice label expansion there. And that was because of all of the AtriClip patients that had been studied, the use of it that has been studied. So I think it makes a difference.

And eventually, the competitor will have data and this will be another shot on goal. This is why even though it feels like some of the competitive trialing and everything, it's waning. Our instruction to the team is, this is a forever competitor. They got into the market because it's an excellent market, very low penetration. This is something that they're going to want to be in, so you have to be prepared to compete long-term.

Danielle Antalffy: Okay, got it. And speaking of, you know, the competitive entrant, it seems like we don't get numbers from them. So we don't necessarily know this for sure. But it seems like perhaps the market's accelerated with the competitive entrant. Is that what you -- I mean, I know you don't necessarily see their numbers either. But what's your sense on what's happening in the market?

Angie Wirick: We are both growing.

Danielle Antalffy: Yeah.

Angie Wirick: I think it's -- we can conclude this. We are both growing. I think both -- both companies are getting nice improvement in volume. I'd say this is one where I think our growth in the third quarter probably has more to do with the activities of our team, but I can think of an example having another big name in the space, validating why you would treat an appendage has helped us. There's an account, and this is an N of 1, but there's an account we've tried many times to get them to try the Flex-V. It's a great product, but they're just like, "Look, we don't think we need a device to close an appendage. We can do this cut-and-sew on our own," and ultimately had a great relationship with the competitor's rep, so agreed to trialing their product. Our rep circles back and says, "Hey, I think this might be something you would be interested in, you should do both, try them both." Ultimately we're successful in getting that specific account to use our AtriClip device, and now they order the product, so they're an existing customer.

Danielle Antalffy: Oh, that's amazing.

Angie Wirick: Yeah.

Danielle Antalffy: Okay. All right. Let's shift gears to the MIS business. That is probably the one low light, I guess I would say. You know, you touched on this a little bit, but it decelerated

again in Q3. How do we think about the growth in the near-to-mid-term in that business? What's reasonable?

Angie Wirick: Yes. I think this is an area we're going to be under pressure in the near term, particularly when you start to lap what are more difficult comps for us. You think about 2023 as the year progressed, we started to see some nice activity coming out of the work to really stabilize programs, work on the patient and physician workflow, and really start to build programs at accounts. So you saw nice acceleration and growth to end 2023 and start 2024 before PFA really, truly hit the US market. So with the tougher comps, I think it says, look, in the near term you're probably talking very low, if any, growth in the near term.

Danielle Antalffy: Yeah.

Angie Wirick: And again, I think EPs are going to want to try every PFA product that hits the market. So I think that tells you the pressure in '25 is going to be very real.

Danielle Antalffy: Yes, okay. That's fair. I mean, it's encouraging, though, to hear you talk about adding new accounts.

Angie Wirick: Yeah.

Danielle Antalffy: So I'm curious about when you add -- when you add a new account, what is the conversation that has to happen to be successful in adding that account? Because it seems like it's hard to tell. Is it just like EPs and cardiac surgeons don't want to work together? Or like, what is -- you know.

Angie Wirick: You have to have the buy-in from both.

Danielle Antalffy: Yeah.

Angie Wirick: I think you hit on a key thing. Both sides have to buy in that they're willing to build programs, which means EPs have to be willing to refer, and surgeons have to be willing to treat, even if at the beginning it's a low volume. I think one of the pressure points we hear from surgeons is, I'm happy to do the procedure but when I'm being referred five in a year, like, that's not a program for me. Like, I want a bigger volume. So I think both sides being bought in.

And in our most successful accounts, they have very much a, you know, a heart team approach where it's agnostic to is it the EP who owns the patient, or the surgeon? So having buy-in from both disciplines, I think, matters. Having a hospital system where ease of scheduling and connecting the two disciplines, I think, is another one. What we found is a pinch point. So our team has worked with many accounts where that's not the case to say, hey, best practice might be this. But those are two areas I'd say just to touch on to really build and scale a program you really need.

Danielle Antalffy: Okay. What confuses me about -- I hear everything you're saying. But what confuses me is like, the EP is not losing that patient.

Angie Wirick: Correct.

Danielle Antalffy: So I don't -- I guess just owning the patient, though, is like just being the one that makes the decision? It just seems kind of silly to me.

Angie Wirick: Yeah. I think they want to -- if you could, to be able to treat the patient on your own, I think ideally any physician would say -- would want to try and do that.

Danielle Antalffy: Would want to do that? Okay. Yeah, okay.

Angie Wirick: So I mean, they're -- the other component is, EP inherently thinks on a very minimally invasive level, surgery is -- even though it's minimally-invasive surgery, you're not opening a patient's chest for a Converge procedure. I think just the idea that it's surgery is something where an EP just believes, look, I can do most of this on my own. Doesn't require a night's stay. You're in and out of a cath lab. I think that that's another thing to consider.

Danielle Antalffy: Okay. That makes sense. What about the data? How much does the data come into conversation, whether it's to the positive or the negative? Because I hear both sides.

Angie Wirick: Yeah. I -- it -- for some EPs it's compelling. For others, it's not. They think, even though that data tells me this in my own hands, I could be -- I could be successful. And you can't fault them for wanting to try.

Danielle Antalffy: Yeah, I get it. I guess the way I had always thought about it, and now with PFA on the market, I appreciate more the capacity constraints that EPs had. But I was looking at it as, like, this can drive a whole new type of patient to the EP. But I guess the point is, they don't have time to do the paroxysmal patient.

Angie Wirick: Correct. Correct.

Danielle Antalffy: Okay, all right. You know, the question I was going to ask, and I think we kind of touched on it but I don't know if there's anything you would add -- the Converge did, I think, safe saying this, underperform expectations. What do you think went wrong here, if that's the way to characterize it?

Angie Wirick: Yeah. I think it was unfortunate, the timing of getting the approval, you know. The -- I think we knew going into the launch, going into the PMA, that getting the two disciplines to work together would probably be the long pole in the tent, so to speak; that that would be the area where we'd really have to focus. I think it's unfortunate that coming out of COVID we had great interest initially when we got the PMA and accounts starting up. But then you think about healthcare systems at that point in time, so strapped for resources. This is a program where you need to have resources dedicated to making this work, and not just on a one-off basis. You can muscle anything through one-off, but to really build and scale a program, I think the timing was a bit unfortunate. So I think we learned a lot in how we trained accounts. Great that you could talk about the trial data, but real world experience, that was one of the really good pivots that our training team did a year or two after the launch, which is look, instead of having boutique-type trainings where you're talking about the data and the trial, and kind of the outcomes there,

it'd be better if they heard, if new accounts heard from others who had started accounts, and what their pitfalls were.

Okay, when I encountered this, this is how I reacted and this is what helped me kind of manage through. So I think reacting, one thing we've done well, I think is reacting to, okay, how can we do better in terms of homogenizing the approach for new accounts. But I'd say the backdrop of when we launched probably was the thing that went wrong and completely out of our control.

Danielle Antalffy: Okay. And you guys did -- correct me if I'm wrong -- you did hire a Converge-dedicated sales force?

Angie Wirick: Yes.

Danielle Antalffy: Yes.

Angie Wirick: Yes.

Danielle Antalffy: So is that sales force still in place?

Angie Wirick: Yes.

Danielle Antalffy: Have you had any turnover, meaningful turnover?

Angie Wirick: I mean, there's turnover within our sales team typically at the clinical level.

Danielle Antalffy: Just naturally, though?

Angie Wirick: Very natural. Nothing that's abnormal. Typically, what we see is clinicals who want to become reps, and we just don't have a rep position open for them.

Danielle Antalffy: Okay.

Angie Wirick: But very focused, and the strategy behind that was look, ultimately EP owns the patient. We've already got a sales team who has great relationships with cardiac surgeons, but that's not going to help EPs want to refer. So you needed a sales force that was completely dedicated to that EP.

Danielle Antalffy: Sure. Okay. And I don't know if you're going to like this question, but how important is Converge, even, to the long-term growth outlook here? You know, you have both the open surgical business and the clip business growing what I think is going to be fairly strong double digits. How committed are you guys to Converge?

Angie Wirick: Yeah. To be an a-fib company, you absolutely have to be committed to standalone treatment of a-fib.

Danielle Antalffy: Okay.

Angie Wirick: Not every patient is going to present for cardiac surgery. There was a reason that we started the legacy TT program many, many years ago. There's a reason why we invested in Converge, and there's a reason why we'll continue to invest in this area of the business. You've obviously seen the company overall drive really, really strong growth even when Converge has been under pressure. And I mean, this last quarter is a great example. You saw 2% growth in our US hybrid business, yet 18% growth for the company overall.

So I think for us to be dedicated to wanting to treat people's a-fib, you have to have a standalone treatment. So we're not giving up on this area of the business. I think we're trying to pivot and make sure that we understand what kind of adjustments are necessary, given the market conditions.

Danielle Antalffy: Okay. That's fair. Okay. And let's talk about now, open surgical ablation.

Angie Wirick: Okay.

Danielle Antalffy: Which is the part of the business that I get most excited about, because I think it's the most under-appreciated, least-paid-attention-to, but one of the most solid growers for AtriCure for like, the last -- like --

Angie Wirick: For a very long time.

Danielle Antalffy: Yeah. So how -- let me take a high level approach here. The total addressable market for this business, can you talk about how you think about the TAM? I think about it in mitral, aortic, cabbage, and where the growth runway is still?

Angie Wirick: Yeah. So total addressable market, so you're looking at an open heart surgery today, patients who are undergoing open heart surgery who have a pre-op a-fib diagnosis, we estimate globally that's 300,000 to 400,000 patients. Very steady market. This isn't a market that's necessarily growing, but we're also not seeing a decline in the number of patients. Of the 300,000 to 400,000, about 90,000 or so are in the US, so that's by far one of our biggest markets. And a billion-dollar TAM worldwide. So this is a great, great market, and low, low penetration at this point in time.

When you think about the different subsets of surgery, very high penetration with mitral procedures.

Danielle Antalffy: Yes.

Angie Wirick: Over two-thirds of those patients are getting their a-fib treated . I'd say we're kind of middle ground, 40% to 50% on aortic, and cabbage was really our opportunity. So we saw a field where the majority of patients with a pre-op a-fib diagnosis are having a cabbage procedure, yet they weren't getting their a-fib treated. That's ultimately why we innovated and created the Encompass clamp to make it a lot easier for the cardiac tissue ablation to happen, because you're just -- you don't have to do all the dissection work. Very natural if you're doing a mitral valve surgery. Less so if you're doing a cabbage.

Danielle Antalffy: Right. And it kind of -- correct me if I'm wrong in saying this, but I think it kind of democratizes --

Angie Wirick: That's a great word. Yes.

Danielle Antalffy: Yes, I stole that from actually Boston Scientific. So you have a lot more surgeons now using the front (inaudible) than you did pre-op?

Angie Wirick: Yes. Correct.

Danielle Antalffy: Through the Encompass? Okay. Okay, got it. So cabbage is the key area of growth, maybe some growth in the aortic still, but cabbage is really the one.

Angie Wirick: Yeah.

Danielle Antalffy: And -- and that's where the Encompass clamp did come into play? That launch has been extraordinarily successful. I think probably a major source is the upside that we've seen. And if you think I'm wrong --

Angie Wirick: Yep.

Danielle Antalffy: -- where does innovation in this business go from here to drive even further adoption and broader utilization?

Angie Wirick: Yeah. I think you'll see, how could you make the procedure even more streamlined? I think that Encompass was a major leap, but then from a technique now that you've done thousands of patients with the Encompass device, what could we do to streamline this procedure even more? I think we talked about on our most recent call, putting PFA technology into a broad variety of our RF devices starting with the Encompass clamp. You know, speeding up the procedure, is that something that could potentially help? I mean, I think Encompass itself took the legacy procedure down from 45, 50 minutes, to 10 minutes. So when you talk about speeding up your -- maybe some benefit, but not the same as what Encompass did to -- compared to the legacy clamps.

I think there's also something to be said for innovating in terms of how we help our cardiac surgery partners diagnose every patient with a-fib and then treat every patient with a-fib. So I think surrounding ourselves, look, for the past 20 years, we've really been saying you should really treat all these patients, guidelines have been lifted, there's an incredible amount of data and support for treating patients with a-fib. I think making sure that you've got -- you've kind of tackled this from every lens, which is, every surgeon should treat. You should identify every patient, and nobody should leave without that. Without having their a-fib addressed.

Danielle Antalffy: Yeah. And you're launching, as you've mentioned, you've got CE mark for Encompass so you'll be launching that in 2025.

Angie Wirick: Yes.

Danielle Antalffy: How is your -- I mean, I know the European market is just very different than the US. But as far as, you know, thinking about the runway here for Encompass.

Angie Wirick: Yeah. Even less penetrated than the US market. So very high room to grow there. I'd say you're right in identifying that the European market will look a little different from the US. The pricing uplift, you know, initially in the US we thought, is this going to be a barrier? It has proven not to be. I think in Europe, it probably says it means a slower pace of uptick compared to the US launch.

Danielle Antalffy: Yes, okay. Got it. And then last question on this piece of the business, and we'll talk cryo briefly. But another thing that I think might be misunderstood is PFA and the competitive threat there to the open ablation business. Can you talk about whether that's a real concern, or is that something that is just very much overdone?

Angie Wirick: Is the idea that PFA in cath labs treats all a-fib patients?

Danielle Antalffy: Like, yeah. I think that that's -- I think people think, you know, for whatever reason, a patient is going to get PFA before they end up on an operating table.

Angie Wirick: I think that's an amazing vision beyond our lifetime. I mean, there's so many patients that are out there. I also think we'd have to improve diagnosis of patients with a-fib. I think that's an area, you know, in this particular disease state, even though the number of diagnosed patients is very, very high, I'm sure that there are more out there. And I think everyone would agree, this is a market where diagnosis really matters. So I think beyond our lifetime, that's an issue for future me.

Danielle Antalffy: Yeah, like five CFOs from now. Who cares? All right. Let's talk about cryo then briefly here. So how does -- you mention CryoSphere Max. How does that change the pain management TAM? I believe you're talking adding sternotomy?

Angie Wirick: Yes. So, sternotomy we could do today with existing devices. I think in our trialing, what we've found was you know, open chest case. There's not a lot of dead space in the procedure for you to do the cryo nerve block. We find that sometimes with thoracic procedures. There's just a point in that procedure where you could do the cryo nerve block. You're then asking a surgeon to keep a patient's chest open for an extra 30 minutes. And there are some surgeons who say it is absolutely worth it.

I'd say broadly, the consensus was, that's a long time to keep a chest open and I'm not sure that I believe that there's pain in a sternotomy to begin with. So I think CryoSphere Max says, if there were surgeons who were kind of on the fence and said, you know, I'd maybe do it but 30 minutes is a lot, I think that that gives you an opportunity. It's a 50% reduction in freeze time. So we're hoping whether it's in sternotomy, in thoracic procedures, that this is just a nice catalyst for our business.

Danielle Antalffy: Okay. Got it. And longer-term in this business, I mean, you guys have been growing this business very -- very healthily. And you keep warning about a slowdown, but it doesn't seem to be happening yet. What -- what is the sustainable growth rate for this business? You know, I'll tell you we're modeling 20% growth. Is that too aggressive?

Angie Wirick: I mean, you think about new product launches. We're still under-penetrated in the thoracic market. There are other potential markets that we get in. Sternotomy, we've talked about. You know, the potential in extremities. I think continuing to innovate,

finding new market expansion would say you've got the right components to be able to drive nice growth long term.

Danielle Antalffy: Okay. Now I'm going to ask, we have about a minute left. You guys are now generating positive cash flow. How should we think about capital deployment priorities over the midterm, whether it's organic, inorganic investment, something else?

Angie Wirick: Yes. Investing for growth and focused on organic opportunities. So R&D, you think about that's a combination of both new products as well as clinical trials. That's been the catalyst and recipe for our success at AtriCure, the combination of those two. We'll continue to do that. I think we like to do -- look for ways and markets in which we're participating in, which we could expand and do more in those markets. LeAAPS is a great example of that, not just focused on patients who have pre-op a-fib. What could you do for patients who don't? So I'd say think about that as kind of the area and main focus for us from a capital deployment.

Danielle Antalffy: Okay. Any update on -- I mean, you mentioned, LeAAPS has almost completed enrollment, and then follow-up is?

Angie Wirick: It's a five-year required follow-up but it is an event-driven trial. So ultimately you're looking to accumulate a certain number of strokes, in which case you would then look at the data. We do expect within that five-year follow-up time frame for that to happen.

Danielle Antalffy: Okay. And that could be pretty massive. I mean, what's the downside risk, if it -- if it doesn't work? The trial?

Angie Wirick: I'm not even of that mindset. I think the data is there. I think there's a belief in managing the appendage. It's something very easy to do. I think ultimately it will show that there is a benefit to these patients.

Danielle Antalffy: Okay. And I guess it's a question of like, how much, and --

Angie Wirick: Yes.

Danielle Antalffy: -- the market development.

Angie Wirick: Yes.

Danielle Antalffy: All right. Well, listen, we're at time. Thank you so much, Angie.

Angie Wirick: Thank you.

Danielle Antalffy: This is great. Thank you, for those who stuck it out late with us. Go get drinks.

Angie Wirick: We appreciate the invitation to the conference, and great to be back in the saddle with you, Danielle.

Danielle Antalffy: Yeah, thank you.

Angie Wirick: Thank you.