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Q2 2023 AtriCure Inc Earnings Call

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CORPORATE PARTICIPANTS

Angela L. Wirick *AtriCure, Inc. - CFO*
Michael H. Carrel *AtriCure, Inc. - CEO, President & Director*

CONFERENCE CALL PARTICIPANTS

Frederick Allen Wise *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*
Marie Yoko Thibault *BTIG, LLC, Research Division - MD and Medical Technology and Digital Health Analyst*
Matthew Oliver O'Brien *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*
Michael Stephen Matson *Needham & Company, LLC, Research Division - Senior Analyst*
Robert Justin Marcus *JPMorgan Chase & Co, Research Division - Analyst*
Suraj Kalia *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*
William John Plovanic *Canaccord Genuity Corp., Research Division - Analyst*
Marissa Elizabeth Bych *Gilmartin Group LLC - Principal*

PRESENTATION

Operator

Good afternoon, and welcome to AtriCure Second 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. Go ahead, Marissa.

Marissa Elizabeth Bych *Gilmartin Group LLC - Principal*

Great. Thank you. By now, you should have received a copy of the earnings press release. If you have not received a copy, please call (513) 644-4484 to have one 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, including the adoption of hybrid AF therapy, future product approvals, clearances, 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 will turn the call over to Mike Carrel, President and CEO.

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

Great. Good afternoon, and thank you for joining us today. I am very proud to report another outstanding quarter at AtriCure as our team continues to expand patient care and awareness for the treatment of AFib, left atrial appendage management and postoperative pain management. We achieved quarterly revenue of \$101 million, reflecting 19% year-over-year growth. Second quarter growth was broad-based across all franchises and geographies, reflecting the depth of AtriCure's product portfolio and the impact our therapies are making. We are thrilled to surpass the \$100 million mark this quarter and remain excited about the trajectory of our business.

We are also driving meaningful leverage in our business as we work towards sustainable profitability. To that end, we achieved positive adjusted EBITDA of \$8 million in the quarter, driven by our robust top line performance and improving operating leverage throughout the entire business. Given our progress to date and the confidence in activities throughout the business, we now expect the full year revenue of \$392 million to \$395 million, reflecting approximately 19% to 20% growth over last year.

We also expect full year adjusted EBITDA to be approximately \$12 million, largely driven by our strong second quarter. While we are

pleased that our recent results showcase the leverage that we can generate across the business, we continue to see immense opportunity to support growth across the markets, and we are excited to ramp investments in the back half of the year in several new and ongoing research and development initiatives as we build our pipeline and continue to expand our markets.

Turning to highlights for the quarter. I will start with our open ablation franchise, where our focus is on driving awareness and expanding adoption of our EnCompass clamp. The EnCompass clamp leverages the proven technology of our synergy ablation system to provide simpler and faster ablations in open heart procedures. Quarterly sales of the EnCompass clamp exceeded \$10 million in the quarter, reflecting rapid adoption since the full market release in April 2022 in the U.S. The EnCompass clamp and persistence of our team has deepened penetration of cardiac surgery markets resulting in 23% worldwide growth of our open ablation franchise in the second quarter.

We are continuing efforts to make the [concomitant] treatment, the standard of care for all patients around the world and see significant opportunity ahead with our proven technology and leading market position.

Shifting to appendage management and our AtriClip devices, which represent approximately 40% of our global revenue. In the second quarter of 2023, worldwide revenue grew 17% over the prior year, reflecting healthy activity across all geographies. The AtriClip product line embodies almost 20 years of innovation at AtriCure and is a key growth driver of our business. To that end, I'm delighted to announce the strategic acquisition of key foundational patents and intellectual property during the second quarter related to the AtriClip line. This acquisition enables AtriCure to fully control patents in this critical space while also eliminating any future royalty obligations.

We have several activities in the appendage management franchise ramping in the second half of 2023. First, we are continuing to iterate on the AtriClip product line to enhance functionality, improve the ergonomics and decrease the profile. In addition, we are studying the prophylactic use of the AtriClip devices through the groundbreaking LeAAPS clinical trial. With 2/3 of the well over 1 million annual cardiac surgery patients worldwide, not having any preoperative AFib diagnosis, LeAAPS has the potential to greatly expand the market for this franchise while making a positive impact on patient lives.

As we discussed on previous calls, 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. We are experiencing significant interest in LeAAPS among cardiothoracic surgeons from around the world. As a result, momentum has been building at an extraordinary rate. With 492 patients as of today, already enrolled in just the first 6 months at only 3 dozen sites, simply amazing at the progress that we've made to date, and we are investing in a major expansion of trial sites in North America and Europe through the remainder of 2023 and expect robust enrollment and acceleration.

Reflecting on the progress that we've made in 15 months since the FDA approval of this landmark trial, I am truly grateful for the cross-functional team at AtriCure leading this work and the thoughtful collaboration with many key opinion leaders to elevate patient care.

Now turning to our pain management franchise, which continues to deliver impressive growth. In the second quarter, worldwide revenue grew 26% with a life-to-date sales of cryoSPHERE Probe surpassing \$100 million. The rapid pace of adoption for AtriCure's Cryo Nerve Block therapy in thoracotomy procedures reflects its exceptional ease of use and outstanding patient outcomes. Our team is driving awareness for Cryo Nerve Block through new and enhanced training programs and we are seeing a continual expansion of sites.

Earlier this year, we began a limited rollout of Cryo Nerve Block for sternotomy procedures. While the initial results have been positive, it is still early and we are taking a very measured approach as we do with most of our launches. The milestone of \$100 million life-to-date revenue from cryoSPHERE probe is exciting. However, penetration in our markets is low. There is still tremendous opportunity for growth in postoperative pain management for patients in thoracic and sternotomy procedures. Finally, we continue to make progress with adoption of our hybrid therapy.

The second quarter saw a strong revenue performance of Epi-Sense technology with an overall increase in accounts ordering and productivity within accounts as well. We are focused on providing comprehensive support for the many programs we have in various

stages of adoption, collaborating with care teams to build scalable patient workflows, in-depth reviews of clinical protocols between surgery and the EP lab as well as cultivating new referral pathways.

Our activities are establishing the foundation for strong and durable growth of hybrid AF therapy in the future. We continue to hear the patient outcomes are exceptional and the growing body of clinical evidence repeatedly demonstrates that combining AtriCure's EPI-Sense technology with catheter ablation results in over 100% improvement versus catheter ablation alone. Our dedication to the treatment of long-standing persistent Afib patients is unrivaled with no competing technology or clinical studies addressing the millions of patients suffering from this disease.

In closing, we are incredibly pleased with our strong first half performance and activities across our diverse portfolio. I will reiterate my comments from our first quarter call. We are building a complementary portfolio with diversified drivers while being intentional about our spending as we progress to sustained profitability. Our results this year have shown the potential for AtriCure to drive meaningful, accelerating and profitable growth for years to come, and we are excited to elevate patient impact throughout all of our markets.

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

Angela L. Wirick AtriCure, Inc. - CFO

Thank you, Mike. Second quarter 2023 worldwide revenue of \$100.9 million increased 19.4% on a reported basis and 19.3% on a constant currency basis when compared to the second quarter of 2022 as a result of strong performance across our franchises globally. On a sequential basis, worldwide revenue grew 7.9% over the first quarter 2023. In the second quarter 2023, U.S. revenue grew to \$84.9 million, a 19.1% increase from the second quarter of 2022. Open ablation product sales were \$27 million compared to \$22.1 million, up 22.3% over 2022, driven by adoption of the EnCompass clamp in both existing and new accounts.

As Mike mentioned, this quarter marks the 1-year anniversary of the full commercial launch of the EnCompass clamp. We are seeing this technology push open ablation volume growth above our historical results and the uplift from the pricing benefit has gradually declined. Pain management sales were \$12.6 million compared to \$10.2 million, up 23.3% over the second quarter of 2022. While we are making progress with our evaluation of pain management for sternotomy procedures in the U.S., there was minimal revenue contribution during the quarter. Minimally invasive ablation sales were \$11.4 million, up 12% from 2022 and solely on the growth of sales of our EPI-Sense system. Although we are pleased with the activity seen in hybrid therapy this quarter, we continue to expect very modest growth in 2023 as we focus on fundamentals for long-term accelerated growth in this franchise.

And finally, U.S. sales of appendage management products were \$33.9 million, up 17.7% over the second quarter of 2022. International revenue was \$16 million, up 20.7% on a reported basis and 19.9% on a constant currency basis as compared to the second quarter of 2022 driven by strong procedure volumes and increasing adoption.

European sales accounted for \$9.5 million, up 21.5% over the prior year, and Asia Pacific and other international markets accounted for \$6.6 million in sales, up 19.7% over the same period in the prior year. We are seeing excellent growth across franchises in our key markets outside the U.S. and expect strength from our international business for the remainder of 2023.

Now turning to another key metric for the second quarter of 2023. Gross margin was 76.4%, up 130 basis points from the second quarter of 2022. Strong manufacturing efficiencies in the quarter drove improvements to gross margin, partially offset by pressure from product and geographic mix.

Moving to details of our operating expenses for the quarter. Total operating expenses increased \$4 million or 5.2% from \$77.2 million in the second quarter of 2022 to \$81.2 million in the second quarter of 2023. A significant driver of this change was the purposeful expansion in personnel across our teams to support incremental growth.

Additionally, LeAAPS trial expenses also contributed to the approximately 18% growth in research and development costs over the prior year. Conversely, we saw a very modest increase in SG&A expense in the second quarter as we improve leverage of our commercial team and realize efficiencies and savings notably within the physician training programs. Adjusted EBITDA for the quarter was positive \$8

million compared to a negative adjusted EBITDA of \$3.2 million for the second quarter of 2022. Our loss per share was \$0.11 in the second quarter 2023, compared to a loss per share of \$0.32 in the second quarter 2022, while the adjusted loss per share each period was \$0.12 and \$0.32, respectively.

Our balance sheet remains strong, and we ended the second quarter with approximately \$135 million in cash and investments. Earlier, Mike noted the strategic acquisition of patents and intellectual property related to our AtriClip product line, which drove the increased cash usage for the quarter. It is important to note when you remove the effects of one-time items from the quarter, we generated approximately \$3 million in cash. Overall, we remain confident in our capital position as we continue our current and future business initiatives.

And finally, turning to our outlook for 2023, given ongoing strength from the combination of our many growth catalysts and our second quarter results, we now expect to achieve \$392 million to \$395 million in revenue for the year reflecting growth of approximately 19% to 20% over 2022. For quarterly cadence, we anticipate a slight decline in third quarter revenue from normal summer seasonality, followed by a rebound in the fourth quarter. The momentum across franchises globally is strong, and we expect to enter the next year in a position to deliver accelerated growth.

We are maintaining our forecast for 2023 gross margin to be comparable to full year 2022 with strong manufacturing activity, partially offset by increasing investments in the second half of 2023, and the potential for varying effects from product and geographic mix. Our production, operations and quality teams continue to support strong top line growth while also making meaningful improvements to scale manufacturing. And note that amortization expense for the intellectual property acquired in the second quarter is charged to cost of revenue. However, with the elimination of corresponding royalty costs previously included in cost of revenue, we do not anticipate the net effect of these changes to have a significant impact on our gross profit.

Moving to the bottom line, we are balancing investments in our business with our commitment to sustaining profitability. We are leaning into areas that we anticipate will fuel growth at AtriCure over the coming years. For that reason, in the second half of 2023, we expect a significant increase in operating expenses largely to fund new and ongoing research and development programs. We are experiencing very strong activity within the LeAAPS clinical trial, and we'll see a substantial increase in expense for the remainder of 2023 as we accelerate site initiation and patient enrollment.

Within product development, we are progressing the next generations of the cryoSPHERE probe and AtriClip device, ensuring our technology stays on the front line of innovation. We are also making a strategic investment in the HEAL-IST clinical trial in a dedicated IST clamp to expand into adjacent markets. Additionally, R&D expenses for the remainder of 2023 include continuing efforts for the approval of our products under EU MDR as well as clinical research across our platforms, with growing investments in registries and investigator-sponsored research studies.

Finally, our plans anticipate thoughtful development of our commercial teams, along with training and awareness programs to boost market and development activities.

In summary, with our outlook on gross margin and increasing investments in R&D for the balance of the year, we now expect positive adjusted EBITDA of approximately \$12 million for the full year 2023 corresponding to an adjusted loss per share for 2023 of approximately \$0.92 to \$0.94. We are truly pleased with our performance over the first half of 2023 and the collaboration of our AtriCure team across so many exciting and impactful initiatives to advance our mission. As we execute the remainder of this year, we are confident in the prospects of our business in 2023 and beyond.

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

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

Thank you, Angie. I would like to close by thanking our team for their dedication and thoughtful approach to innovation and therapy expansion. The determination of AtriCure employees over the many years has positioned our company to celebrate a number of milestones within our business this quarter, including the achievement of \$100 million in quarterly revenue and record profitability. Our

future is bright, and we look forward to many more years of durable growth and progress ahead. And with that, I'll turn it over to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) I have the first question that is coming from Robert Marcus of JPMorgan.

Robert Justin Marcus *JPMorgan Chase & Co, Research Division - Analyst*

Great. Congrats on a really nice quarter. Maybe to start, I'll just ask both my questions upfront because they're sort of related to each other, both on guidance. First, on the top line, nice, a little over \$3 million beat, you raised guidance by \$3 million to \$7 million at the high and low end of the range. Maybe just walk through where you're seeing the incremental upside. And I think the one we're seeing nice base business with EnCompass and minimally invasive, had \$1 million beat. Are those the 2 areas you expect to see the revised higher guidance for the year-end sales? And then -- maybe if you could spend a minute down the P&L, especially on the EBITDA and the components. You touched on it a lot, but it feels like gross margin going back to flat year-over-year, seems like a really conservative starting point given what you put up in second quarter here and some of the higher margin products are what's contributing outsized benefit. So would just love to hear the thoughts on guidance?

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

Sure. Thanks, Robert. I'll take the revenue and Angie will take the operating expense and leverage side of that. On the revenue side, I think you hit it right. We obviously are seeing great momentum, first and foremost, on the open ablation side of our business. EnCompass has been a great product, as we've been talking about for the past year. The number of sites has continued to accelerate. Our team has done a really nice job once we went to full launch of bringing it out and getting more and more patients treated, we're seeing that just the sheer volume of people that are treating now, it's an easier product to use, and that ease of use has made a really big difference and we track it every single quarter in terms of what's the percent penetration.

And I think for years, we've been talking about being below 30% and we believe that we've cracked that 30% at this point, really primarily due to that EnCompass clamp. So we do think that that's going to continue. The growth will continue in a strong way, maybe not at the same level from a percentage standpoint as -- obviously, we had some EnCompass in the back half of last year, but we do anticipate strength in our open business on the EnCompass. I think CLIP continues at a really nice solid pace for the business. As you've seen, Cryo Nerve Block, we believe will continue at a very nice solid pace you saw. It was over the corporate average overall this quarter and feel like that's in a good spot for our business.

And hybrid, as we talked about. That's the one area that I would say we had a really nice quarter. I feel good about it, but we're cautious as we're kind of building it out as the year goes for the rest of the year. And so we remain kind of cautious as we kind of look at the back half of the year on the hybrid side of our business.

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

Yes. And I'd say further down the P&L, when you think first and foremost about gross margin, our operations team has done some really fantastic work to maintain the stability of our manufacturing ensuring the timely delivery of products to customers, and we remain committed to this as we execute the rest of 2023. Part of that is in the coming months are expecting some pressure to gross margin from capacity improvement projects that have been planned for this year and will ultimately benefit our operations long term and in the future. And there's always varying potential impact from product and geographic mix, which is kind of the balance incorporated into our guidance for '23 in the gross margin perspective.

Further down the P&L, when you think about OpEx, really pleased with the results this year. I think the quarter highlights what we're capable of doing from a leverage perspective notably with the progress that we're making on our SG&A spend. Between the ramping investments, I went through a lot of detail on the call in that area as well as the incremental cost for manufacturing capacity improvement projects, which have a short-term impact to gross margin. Those are the 2 factors that are really the major drivers behind the incremental costs in the second half of '23.

We are being very deliberate about our spend. But beyond that, I think we've been prudent with our guidance, both top and bottom line. It's an incredible start to the year, but want to make sure that we continue to execute and do the right things over the next 6 months that will build for a bright future.

Robert Justin Marcus *JPMorgan Chase & Co, Research Division - Analyst*

Great. And I know I said I had both. But if I could squeeze 1 more in. Just I heard you talk about accelerating growth next year. And I just wanted to make sure I heard that right, and that's accelerating sales growth off of your 2023 into 2024?

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

Yes. That was not meant to say that we're accelerating and giving exact guidance for 2024 yet. I think it's just -- you've seen that we've had a nice acceleration overall in this business. Our historical average growth was really sitting in that kind of 14% to 15%, you've seen in the last 3 years, 31%, 21%, this year 19% to 20% is the guidance for the year. So we're really making and anticipate to see really strong growth, but not necessarily giving the specific guidance for next year or the year beyond that.

Operator

And our next question will be coming from William Plovanic of Canaccord.

William John Plovanic *Canaccord Genuity Corp., Research Division - Analyst*

Great. Congrats on the good quarter. Just a couple of questions here, if I may. First is just -- in the past, on the EnCompass, you've given us an idea of how you've rolled it out and kind of what percentage of accounts you've gotten it into kind of where are you at the rollout at this point with EnCompass. And then as we think of Epi-Sense, I mean, that was a really solid quarter. I mean it looks like you're starting to get momentum there. Any other color you'd have on that? And then my follow-up question is on gross margins and EBITDA. If you had a 76% and change gross margin, I didn't do the math, but you're easily at a 75.5% and you're saying you're going to do 74.5% for the year, that's what last year was, you're going to be down significantly in the second half, help me understand that.

And then on EBITDA, you're basically guiding to \$2 million of EBITDA for the back half of the year because you've already posted \$10 million, you're saying \$12 million. So just help me understand that a little more.

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

Yes, I'll start with the first 2 and kind of come down from there. On the EnCompass, as I mentioned, I think we're starting to see some really good progress in penetration. I think we've crested over that 30%. It was historically sitting in that kind of 25% to 30% or below for the last several years, and we're now into the low 30% in terms of what we believe people are actually treating at the time of surgery. So we've made great progress on that front. It's tough to say like true penetration the way you're describing it because we're in probably about 40-plus percent of the sites at this point in time that are actually using the product on a consistent basis.

And we anticipate that over the years, we'll get back to 100%. We're not there yet. Obviously, we're at the earlier stages of it. But even within the sites that we're in, we don't leave a site just to be very clear, until we know they understand exactly how to use the technology that we spend a lot of extra time training. We're not running off to the next new site that quickly. That's why we see this kind of growth happening for many years to come relative to that. And then within that site, we tend to start with one surgeon and then move on. So we've actually got growth even within those sites for many years to come also.

On the Epi-Sense side, you're right. I mean, I think we had an outstanding quarter. We had a record number of sites that actually purchased from us within the quarter. So we feel like progress is definitely being made coming off of -- I know last year where there was a lot of questions about was their progress and what was that momentum going to build?

We definitely are feeling that coming together. And as I mentioned in some of my script, working on workflow, working with the surgeons and EPs in terms of how they're actually getting that patient through, making sure that it's sticky and long-term focused for these sites, that's really a big focus for us.

So as I look at the next 6 months, we don't want to get ahead of ourselves. We don't want to be too aggressive and say it's going to continue at that momentum right away. The momentum is going to continue in the sense that we know these sites are good sites. Now it's we want to make sure these sites continue every month, every quarter to really be treating patients and then kind of build off of that foundation, so that we can really kind of come out in '24 and '25 and have really strong years coming out in those years. And I think we're headed towards that. We just don't want to get too far ahead of ourselves on the guidance for the back half of the year.

Angela L. Wirick AtriCure, Inc. - CFO

Yes, Bill, and I'll touch on both gross margin and OpEx again. I think the margin guide, I think that as directional there are onetime costs that we are expecting to incur in the back half of the year as we continue to focus on capacity improvement and expansion there. And those are onetime costs that just weren't baked into the first part of the year. I think other headwinds when you think about the rest of the year would be strength of the EnCompass clamp continuing, driving performance for the back half of the year as well as continued strength within our international markets. Those 2 are both headwinds to margin. So I think maybe a cautious guide, but the expectations relative to some of the work that we need to do to set us up to continue to support capacity longer term.

On the OpEx side, again, I think the big story here is the expansion within R&D costs. And I went through a lot of those on the call. I'd say the biggest kind of individual component of that would be the LeAAPS trial. We're rapidly approaching 500 patients in enrollment and the back half of the year is really focused on a pretty massive expansion of sites both in North America and Europe, setting us up to be in a great position for enrollment in 2024 and beyond.

William John Plovanic Canaccord Genuity Corp., Research Division - Analyst

Angie, were there any one-time gains in the front half of the year that could have skewed the adjusted EBITDA higher?

Angela L. Wirick AtriCure, Inc. - CFO

Yes. the gains that you saw, I think we talked about in the first quarter call again on a legal activity that's an add back, so it wouldn't impact to our adjusted EBITDA. I think that the -- what you're seeing relative to the front half nice savings within the area of professional education and our training programs, good leverage within the sales team. We expect that to continue in the back half of the year and just we'll see an uptick in R&D costs pretty sizably in the second half of the year.

William John Plovanic Canaccord Genuity Corp., Research Division - Analyst

Okay. Great. Again, congrats on the quarter.

Operator

And our next question will be coming from Matthew O'Brien of Piper Sandler.

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

Mike, maybe just talk a little bit about pain management. It's still doing real well, but maybe a little bit lighter than maybe I would think in you're 10% penetrated thoracotomy. Sternotomy has got a big opportunity, but I know you've got some more work to do there and then resection and some other growth drivers for that business. So what do you need to see there to keep growth plugging along at 25%, 30% over the next several quarters and years?

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

Without giving a specific number, we grew at 23% this quarter. And I think you're right, Matt. I know everybody had us a little bit higher than that overall. But we're kind of -- we got a lot of that kind of early stage. We got a lot of sites up and running, but now we're actually getting -- we're growing within those sites. We're getting more sites on top of it. But we still think that you kind of -- like any new market that you're developing, you kind of get that initial push you have this amazing growth. We're still experiencing, I don't know, 23% growth for our business, we still think is remarkable. It's a law of larger numbers to some degree that you've got a lot more -- I mean, just revenue to kind of build off of at this point in time.

Obviously, as sternotomy or below the knee as you're kind of, I think, referring to, those are more future-oriented and market expansion. So they allow us opportunity to have continued very strong growth next year in '25 and '26 as well. So I think the growth is going to be

there for a really long period of time without pinpointing a specific percentage. And again, I'm really happy with where it was. Like you said, it was a really good quarter, but I do think the law of large numbers kind of gets to you when you get to some of these -- when you get to this area.

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

Got it. Makes sense. And you had a tough comp, too. So the other question I had was the number on LeAAPS, and I know this is a longer-term thing, but it was eye-popping, at almost 500, having done your first patient, I think in Q1. You set up to 6,500 patients. I mean you got 536 sites in 6 months. I mean you're trending to get, I would say, enrollment done, I would -- I don't know, maybe sometime in mid '25 or early '25. So I think the follow-up is 5 years, but could we start to get interim looks of that data in '26, '27 or even to the point where if you're doing really well versus the control arm, this thing stops early, and all of a sudden, you've got this indication. I think you've said 29 most recently when you think you could hear something there. But could we get something here in '26 or '27 potentially, if everything really kind of went well for you?

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

I love the enthusiasm because we're incredibly enthusiastic about the progress that we've made way ahead of expectations at this point. The team has just done an amazing job. And I really want to give kudos to our team. When this trial got up and running and going, our team was ready to go and to get sites up and running and to get them through that pipeline, which is how we got up to almost 40 sites by the end of the quarter and feel like -- and that number is growing and growing very fast as we kind of get through this. So first and foremost, just getting those sites up and running.

Secondly, I mentioned it, our KOLs and the sites that we've got, they're passionate about this, and we have a lineup of people. They believe that putting the AtriClip on in these patients is going to actually help health care and going to help these patients out and going to reduce stroke. And so they're very excited to get this data and to run this trial. So they've come in it enthusiastically. They've then set that tone at their sites enthusiastically. So it's exceeded our expectations. As you said, it's a little bit eye-popping. But once they get up and running, they're all super committed to it. So we do anticipate probably a faster enrollment to your point.

I don't want to get -- I don't want to think that far to figure out when am I going to get my earlier looks and indications. It would be great. I do think we'll obviously enroll a lot faster than we initially anticipated without giving too many specific dates on it, but I do believe that it's too early to kind of predict what the actual data is that we'll get some sort of indication. I say, why don't we just keep going. We'll give you updates on kind of how enrollment continues on that front.

We will have some early looks based on event rates, but that's obviously not for many years ahead. So again, we're as excited as you are. Just too early to kind of make any of those really long-term predictions.

Operator

And our next question will be coming from Marie Thibault.

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

Hello, this is Marie. Operator? Sorry, I just went blank. I didn't hear my name. Congrats on a very nice quarter. I wanted to ask just a few follow-ups to some questions that have been asked already. Maybe I'll jump on the back of the question Matt just asked on the LeAAPS trial. Curious about awareness and what that could mean for the commercial business as people become more aware of AtriClip and potential benefits. How are you thinking about that potential impact to revenue in the out years?

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

We're really not basing on that. We're really focused on this trial from a clinical standpoint. We believe -- we're thinking about it very long term. And so we're focused on this more than anything else, just to get the good clinical data out there and then long term, have this massive market opportunity. But nothing -- we're not planning or building anything in the short term relative to that awareness per se into our models as we think about it.

We're really building it on -- this is more the next stage of growth for the business when you look out later on in the decade and into the

next decade from that standpoint. So very focused on -- we want to get this trial right. We want it to be clinically relevant. That's why we're running such a big trial. Obviously, we're excited about how fast the pace has been on the enrollment and we're excited about the data that we're actually getting from the trial. And we're already getting data. I mean I'll give you a great example is we're getting data on what are the post-op afib rates for patients that have AtriClip, as an example. So we get little pieces of data like that come out all the time that we can use. That clinical evidence and data is really helpful for other trials that we do and other things that we focus on.

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

Okay. Great. Understood. And then on the open ablation business, curious to hear a little bit about the underlying procedure volume trends in cardiac surgery and sort of the sustainability of these trends, what you've seen in the first half and how you're thinking about it second half, certainly heard about the strength from the CLAMP, but just curious about sort of the underlying cardiac surgery market.

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

I think what you're seeing in the underlying cardiac surgery and if you listen to other companies' calls as well that sell valves in that space, you're definitely seeing you're back at a more normalized pace and actually seeing a little bit of growth in the overall underlying area there. I think, in all aspects of it, both in the mitral AVRs and CABGs. I think that's indicative of what we've talked about for many years, which is that you have an aging population that is living longer and therefore, they're very likely to have more complicated cardiac disease, and therefore, they are in need of cardiac surgery for 1 of those areas, both in the U.S. and globally.

So we do see it kind of more normalizing and growing slightly and anticipate that, that's going to happen. It's not going to grow dramatically from year to year, but I think you're going to continue to see kind of small movements in growth in the overall market from that side.

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

Okay. Very good. And last quick one. I may be imagining it. I know it's small numbers, but it looks like international pain management seems to be gaining traction. Any color on what's going on over there with that launch?

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

Yes. We built -- we started to build out that team. You're correct. We definitely saw some movement. It's still a small number, really small numbers, as you described. But the team is several people now on the team, obviously pales in comparison to what we have in the U.S., but we're making progress in certain areas of Europe and Australia. And we are definitely getting really good feedback on that front. So we are making some progress on that. It's still really early. I mean there's just -- in particular in Europe, there's a reimbursement aspect that we've got to work through. It's going to take more years.

We don't want to get ahead of ourselves on the growth side there. But -- the feedback has been the same feedback as in the U.S., is that once they start using the product, it really works, then they've got to figure out how do they get it into their system, and each country is a little bit different from that standpoint. But you're correct to see that there has been some nice movement there, and we're adding headcount as a result.

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

All right. And congrats again.

Operator

And our next question will be coming from Rick Wise of Stifel.

Frederick Allen Wise Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

Mike, Angie, maybe you could dig a little bit more into the MIS ablation business. It turned in -- of course, everything turned in better numbers than we look for. But I was impressed by the performance there? And how is CONVERGE doing how is DEEP doing? What's happening there? And what's the setup there for the second half?

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

Yes, I think it's a really fair and good question, Rick. We're -- what we see in that is that's all being driven by the hybrid the conversion side of it, the Epi-Sense side of our business, so DEEP has been relatively flat. As we talked about in the last call over in Europe, we had the CEASE results that came out that showed dramatic improvement in the DEEP style approach with the data randomized trial, and that was actually recently published in Lancet -- and so we feel -- I mean, obviously, that data is incredibly impactful. It's really having more of an impact, I'd say, in Europe on that front.

But in general, it's been relatively flat overall for our business as all the growth is really coming from the Epi-Sense side of our business and adding new CONVERGE sites and growing that area of it has really been right now. What's happened is that we've gotten really intimate with our customers, understanding the workflow at the hospitals, we spent a lot of time understanding how do they get the patients in, how do they make sure they have good handoffs between cardiac surgery and the electrophysiologist, how do they have good follow-up between the 2 and good communication and the logistics and that workflow there.

We're spending a lot of our time and using both of our sales teams, both our hybrid sales team and our cardiac surgery sales team to really leverage the relationships that we have being incredibly intentional about how we're doing it, that progress like we're seeing, it's been great. On top of that, our education team has done a really wonderful job of doing best practices meetings with top people from around the country. In fact, I'm going to one after this call in the next couple of days, where we're bringing together people to really talk about the experiences they've had on everything that I just talked about. How are they making workflow work? How are they making this work in their hospital. And because people believe in the data. I mean the data is incredibly compelling. That's not where we have it. It's about really making sure that it's sticky in the long term there.

So what do I think? I think as we look long term, this is going to be a really big franchise for us. It's going to grow incredibly well. As I look at the back half of the year, I'm just cautious about it. I want to make sure that we're not doing anything wrong or moving too fast. We want to make sure that we set ourselves up right so that we've got decades worth of growth as opposed to just looking over the next 6 months. So we're really making sure that each and every 1 of these sites has durable long-term plans in place, that they're looking at this is not just that kind of flash in the pan. I'm going to kind of start it, but not come back to it. We want to make sure it's sticky. And that's really the focus of our business, which is why the back half of the year, we've kind of set the tone that, hey, we want to be still moderate in the back half of the year. And then hopefully, beginning part of next year, we can begin to talk about accelerating off of that.

Frederick Allen Wise Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

Got you. That's very clear and helpful. Turning to sort of from 2 aspects, your solid cash position. It seems like cash and cash burn is pretty stable. I think you're \$127 million this quarter. And I'm curious from 2 angles. One, I was hoping you'd talk a little more about the acquisition of the key foundational patents. Obviously, that's a use of cash. Why it's so important? And gosh, I didn't know I needed to worry about you not having them. So why is it good to have it now?

And second, talk about cash? Are you more open maybe than you've been as cash stabilizes and maybe grows to tuck-in products? Or how are you thinking about.

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

Another really good question on the -- first, on the patent side of things. I think it's -- as many of you know, we've had a long-standing relationship with the Cleveland Clinic, who we initially developed the technology with. It's been a great partnership, 1 that we obviously worked at many, many years ago, well before I was a part of the company to really kind of develop and work very closely together. As we continue to innovate, and as you've seen, we've continued to innovate on the CLIP. Angie and I both talked about how we have more iterations and more technology that's going to be coming out in the coming years. We really felt like -- I mean, the patents at the time were owned by Cleveland Clinic and another entity.

And we felt like it was really kind of impactful to be able to kind of really own that to we can kind of own how do you kind of think through those patents over the longevity of them over the coming decades. And that really is important because so we really wanted that level of control. And obviously, we felt like we had -- and we were paying a royalty payment. So what we decided to do is to basically pay kind of

an upfront payment for that and obviously get rid of the royalty payments. It also impacts the P&L so that it improves the EBITDA. While it doesn't affect the margins, it will improve EBITDA because the royalty payments will no longer be in there starting at the end of last quarter. So there's a bunch of benefits.

One is really owning that technology and being able to kind of move that forward. Two is we believe that when you look at the P&L, it's a cleaner P&L from that standpoint about kind of where the -- where we are today and kind of looking forward and allows us to kind of innovate as we move into the next decade or so. Those are the primary things, and I'll turn it over to Angie to really talk more about other cash issues.

Angela L. Wirick AtriCure, Inc. - CFO

Yes. Rick, in the quarter, you saw about a \$27 million burn, \$30 million is kind of onetime burn or usage of cash, which means we generated \$3 million from just the activities of the quarter, we feel really good, ended the quarter, \$135 million in cash and investments, continue to feel really good about our capital position and the ability to fund the business and operations. Now that being said, there's a limitation to that, which is we are able to fund our operations, anything, I think that's strategic would be outside of kind of that window and something that we would evaluate with a lot of care and thoughts.

Operator

And our next question will be coming from Mike Matson of Needham.

Michael Stephen Matson Needham & Company, LLC, Research Division - Senior Analyst

So just a couple more on EnCompass. So can you maybe talk about whether or not you're selling at OUS and kind of the degree of penetration OUS versus in the U.S.? And then -- is this -- are you seeing EnCompass -- I know it's mainly for CABG, but is this thing getting used in the valve procedures as well?

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

So I'll start with the OUS. We are not selling it OUS at this time. We are definitely working on that. I'd say that our European colleagues would love to have it in market. And as they see kind of the success that they started to see it in the U.S. market, we are working on getting that approved and cleared in Europe first, and then we'll obviously work on other countries around the globe. After that, I'd say probably Australia would be the next logical place from that standpoint. But it is not being sold outside of the United States at this point.

In terms of it being used outside of CABG, it's being used in all procedures. I mean it's really meant for people that are uncomfortable getting behind the veins or opening up the heart and really want to just do kind of a really fulsome ablation, and that's really what it provides. It also is a lot quicker, but some people are using it in their valve procedures as well. So while it was originally targeted for that CABG surgeon, we definitely see it in some valvular surgery as well. Still predominantly CABG, but we do see it in valvular surgery as well, partially because the ablation lines are so incredibly thick transmural and like it's amazing at how well this product works. And that's partly why people are using it and switching to it.

Michael Stephen Matson Needham & Company, LLC, Research Division - Senior Analyst

Okay. Got it. And then just on the pain management side. I know it's early for sternotomy, but can you maybe just comment on what the feedback you're getting? I mean, does it -- I know it's all anecdotal, but does it sound like you're seeing similar types of pain reductions as we've seen with thoracotomy or?

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

It's a little bit -- as we've talked about, the sternotomy is an interesting market because I'd say some people -- some surgeons do it and they're crazy about it. They're saying to themselves, "Oh my goodness, I've got to have this. I've got to use under one of my patients. I'm seeing them recover more quickly, get out of their chair, move around, and so we see some people react that way. Others are saying, "Oh, I'm not seeing much of a difference." And so whereas on thoracotomy, everybody that touched it actually saw that difference. So it's a little bit more hit or miss. I'd say it's definitely the majority see tremendous benefit. Then the question becomes, is it worth the time and are there ways for us to optimize the time spent because it does take well over 30 minutes to do the full ablation on it. And so as a result, we're working on ways that can you do it simultaneously with other parts of cardiac surgery, so that they can reduce that time. That's the

biggest complaint that we get and they're asking themselves, is it worth that time.

So some of that is what we're working on. That's why we always want to set expectations low at first is we wanted to learn some of these tricks, figure out how can we reduce that time, how can we help them out and see some of the benefits as well. But I'd say it's not as much of a benefit as you see from thoracotomy, but we knew that going in, but we are seeing it in more than 50% of the locations that we're in right now.

Operator

Our next question is going to come from Suraj Kalia of Oppenheimer.

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

Mike, Angie, can you hear me all right?

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

We can, Suraj.

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

Perfect. So Mike, a bunch of questions. I'll throw a couple of your way and 1 specifically for Angie. So Mike, on open surgery, appreciate your comments. Obviously, the last 2 quarters have seen a nice step up. Mike, can you walk us through EnCompass impact on utilization rates, and you just -- in your prepared remarks -- or in your remarks a few minutes ago, you mentioned about transmural lesions. Is this something different? And how is transmural being ascertained with EnCompass, I'd love to get your perspective on that.

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

Yes. So I'll start with the latter part. So before we ever did the EnCompass launch, we did a tremendous amount of work and to look at transmural and to look at kind of how this product works. And what we saw was it actually created even thicker lesions than we've seen in any 1 of our -- we already -- our clamps already are incredibly transmural and working incredibly well. This was actually making them even thicker -- and actually, just the way the clamp works and the size of it and the way that it encompasses the heart, really creates a really nice lesion that people have been very comfortable with.

On top of that, what we always start with, with all of our sites that we go after, we require them to do testing. We want to make sure that they're not getting any activity between the lines. So they -- they do that testing in every one of their cases. Our team is in there with them for all their beginning cases. And so we're ensuring that they're getting really good lesions and really good block when they're doing that. So that's obviously a critical piece of the protocol when they're actually using the EnCompass clamp.

There are -- there have been actually several sites that have done EP mapping afterwards, and we anticipate things to be published over the next maybe 6 months to a year where you'll start to see people that have actually looked at it and actually seen how well it's worked when they've gone back in and done EP mapping 45 days, 60 days, 90 days later.

There are some independent sites that have done their own work on that, that we're aware of, and we're hopeful that those will get published at some point in time. And hopefully, that encourages others to do similar types of studies because we're very confident in what EnCompass can entail from that standpoint. I know you asked the second part of the question, so remind me if you could.

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

Just on utilization, how it's influencing utilization in your existing...

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

Yes, we definitely see surgeons that, otherwise, we're not doing an ablation, starting to do ablations now. That's why I said that we're starting to see that number come up quite a bit. So we definitely -- in particular, it's in CABG, but you see it in the other side as well. Just it's an easier technology to use it is incredibly fast to get a very good and fulsome ablation in and so they can reduce some of their time. So we're definitely seeing the utilization increase and volumes tick up for sure.

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

Got it. Mike on LeAAPS obviously, the enthusiasm is palpable. I'm curious, Mike, what's the clinical significance of time to first ischemic stroke systemic embolism and more specifically, are these patients who are baseline scanned for -- do they have MRI scans going in already?

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

They do not have MRI scans in advance. They're not looking for -- I mean we're not doing a pre-scan on that front. What they are being looked at, they're looking at all their charts and doing testing whether or not they have Afib. So they're looking at do they have Afib in advance. If they don't have Afib, that's obviously how they qualify for the LeAAPS trial, and then they're getting randomized after that point.

In terms of the strokes, I mean you're looking at stroke rates, talking about first the stroke or it's like a -- do you have a stroke, and it's randomized. So half the patients will get a clip, half of AtriClip, half patients will not and they -- we're going to look at event rates in that -- within those patient populations. And that's obviously going to be -- I mean so as you saw in the LAAOS study, the LAAOS 3 trial, what you saw there was you saw a 33% reduction in strokes up to basically to hit their endpoint at 3.8 years. We anticipate ours to be 5 years, as I've mentioned, to get to that point, we're statistically significant to basically benefit the patients to say, what's the clinical benefit a reduction in stroke. I mean it's that simple. Are you reducing stroke rates for these patients over the long term of the life? Think about it for a moment.

Most of these patients, when you undergo a CABG and cardiac surgery, you're not -- you don't want to just live 2 years. Most of these patients today are now living 15, 20 years. So if you can take out the appendage right then and there, the goal here is to show we can reduce that stroke rate quite significantly enough that these patients will benefit from having their appendage gone because we likely many of those patients are going to go into Afib or into what they call cardiomyopathies they're going to go into heart failure or some other issue that may cause strokes as well.

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

Got it. Mike, finally, on hybrid. Are we still at the 80%, 90% are roughly staged -- or is there any underlying shift in terms of same days.

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

Yes. There's no underlying shift on the same day. I'd say 80 and 90 is a little aggressive. I'd say it's probably closer to 70% to 80% would be on that -- so most of the new sites do wind up staging for logistical reasons. And so just because in order to kind of coordinate the care between everybody, that's actually something that a lot of the sites have elected to do that in order to take care of the patients, they feel like it's actually better patient care from that standpoint. So many of the new sites as you kind of -- we're talking about actually due stage.

Operator

Thank you. There are no more questions in the queue at this time, this concludes the Q&A session. I would like to turn the call back over to Mike Carrel for closing remarks. Please go ahead.

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

Great. Thank you, everybody, for your interest and for joining tonight and for all the great questions. As you can tell, we're excited about the first half of the year, even more excited about the second half of the year and the years to come. So again, I appreciate your interest in AtriCure and look forward to talking to you all soon. Have a great one.

Operator

This concludes today's conference. Thank you all for joining. Everyone may disconnect now, and enjoy the rest of your evening.

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