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Q3 2023 AtriCure Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to AtriCure's Third 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, the Gilmartin Group, for a few introductory comments.

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, 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 the company's SEC filings. These statements include, but are not limited to, financial expectations and guidance, expectations regarding the potential market opportunity for AtriCure's franchises and growth initiatives, future product approvals, clearances, 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.

With that, I would like to turn the call over to Mike Carrel, President and CEO.

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

Good afternoon, and thank you for joining us. I am delighted to announce another strong quarter for AtriCure, once again demonstrating the broad-based activity in our business and global revenue drivers.

In the third quarter, we achieved total revenue of \$98 million, representing 18% year-over-year growth. Our team continues to promote awareness and adoption of our therapies for the treatment of atrial fibrillation, LAA management and postoperative pain management. As we increase our patient impact in these markets, we are also driving sustainable profitability. In the third quarter, we achieved positive adjusted EBITDA of approximately \$5 million, driven by our growth on the top line, strong gross margins and disciplined approach to investing in the future.

In light of our quarterly results and our confidence in the remainder of the year, we now forecast full year 2023 revenues of \$394 million to \$396 million, reflecting a year-over-year increase of 19% to 20%. In addition, we now anticipate full year 2023 adjusted EBITDA to be approximately \$18 million to \$20 million. As we reflect on our progress this year, there is still significant untapped opportunity in the large populations that we serve. We remain confident in our ability to continue to accelerate growth over the rates achieved in the preceding decade while expanding profitability.

Now turning to a more detailed review of the business, starting with our open ablation franchise. Growth from the EnCompass Clamp remains incredibly strong. Our EnCompass Clamp leverages the proven technology of our Synergy Ablation System to provide simpler and faster ablations in open heart procedures. Physician feedback is exceptional, with many underscoring the efficiency and ease of use of the device. For the second quarter in a row, EnCompass sales exceeded \$10 million, and along with our legacy platforms, drove 20% worldwide growth in our open ablation franchise. So much opportunity remains to treat Afib in combination with cardiac -- with open cardiac surgery, and we are optimistic about the future of this franchise with our proven technology and the abundance of clinical data on our products.

Shifting to appendage management. Our products for both open heart and minimally invasive procedures continue to be critical growth catalysts for AtriCure, representing 40% of overall revenue in the quarter. Worldwide revenue for the franchise grew 18% over the prior year, reflecting robust adoption across geographies. Our growth was driven primarily by sales of our AtriClip FLEX V device, which represents the latest innovation in our 20-year history of technology development expertise in LAA management.

To complement our commercial progress, we are actively pursuing the expansion of our addressable markets with the LeAAPS clinical trial to elevate patient care in cardiac surgery. 2/3 of the more than 1 million cardiac surgery patients worldwide do not have preoperative Afib diagnosis, yet it is well understood that these patients have an increased risk of stroke and Afib following surgery. The LeAAPS trial represents a meaningful opportunity to expand the benefits of AtriCure's technology for these patients. The primary endpoint of the study is a demonstrated reduction in ischemic stroke and systemic arterial embolism defining a new market in stroke prevention.

Excitement for the trial is compounding, and we are continuing to expand site initiation worldwide. We're also enrolling well ahead of plan. At the same time, we're developing even less invasive and easier to use technologies to ensure that our AtriClip product line remains at the forefront of this rapidly expanding market.

Turning now to hybrid AF therapy, where we saw 8% growth in this franchise globally year-over-year and a slight decline on a sequential basis, largely due to seasonality. Recently, we have hosted several standing room only hybrid courses all around the globe and continue to hear from physicians and see clinical evidence that supports our belief that combining epicardial and endocardial ablation will unlock

enormous benefits for millions of patients suffering from long-standing, persistent atrial fibrillation.

AtriCure holds a unique position in the broader Afib market with the only devices FDA approved for the treatment of long-standing, persistent atrial ablation. We are frequently asked about the potential for pulsed field ablation, or PFA, to impact Afib therapies. We believe innovation is of paramount importance in the medical device field, and we are encouraged by the activity and progress of PFA. The awareness it brings to the treatment of Afib encourages robust conversations on this topic, and the focus on more efficient endocardial ablation is a tailwind for everyone in the market.

For AtriCure, these are all positives, and our hybrid approach remains complementary, much like it has shown with other energy sources used in endocardial procedures. Therefore, as we work to support this massive market opportunity, we are partnering with early adopters of our Hybrid AF therapy to monitor their program development efforts while strengthen referral channels with the ultimate goal of building efficient and scalable workflows for a broader base of customers. We are making headway and remain optimistic that our activities are establishing at the foundation for strong and durable growth of Hybrid AF in the future.

Finally, moving to our pain management franchise, where our cryoSPHERE probe is driving robust growth around the world. In the third quarter, worldwide revenue grew 24%, a record number of accounts adopting the therapy. We continue to see opportunities to drive penetration in thoracic procedures. We also began a limited rollout of Cryo Nerve Block in sternotomy. While uptake in sternotomy procedures remains very modest, we are learning more about the points of differentiation in this new application and believe there is potential growth from here.

We are also pleased to announce that our next generation cryoSPHERE probe, which includes meaningful enhancements to our platform, was recently cleared by the FDA. We expect the track record of exceptional ease of use and outstanding patient outcomes from our first generation cryoSPHERE technology to showcase even more prominently in this new device and look forward to launching in the United States in 2024.

Now I would like to shift my comments to an area that is top of mind for many investors in the broader stock market, which is GLP-1. We are excited about the potential patient benefits and yet there is more to learn about the long-term clinical and market impacts of this class of therapies. What we do know is that our core market of atrial fibrillation is a global epidemic today. In fact, there are over 37 million patients worldwide, and this population is growing rapidly. Anyone can develop Afib. It is a complex disease with many risk factors and triggers. Afib is also a progressive disease, becoming harder to treat and a more serious health risk as the disease progresses. Because the likelihood of Afib increases with age, and people are living longer today, many researchers predict the number of Afib cases will rise dramatically in the coming years, and we agree.

Another reason we feel confident in the durability of our end user markets is our focus on the hardest to treat AF patients. These patients typically have multiple risk factors and comorbidities, making it more likely that their Afib will progress, regardless of other interventions or advancements in medicines. We have unique solutions for treatment of concomitant to cardiac surgery procedures as well as standalone therapies for long-standing, persistent Afib. With millions of patients untreated, both markets remain substantially underpenetrated, and we envision a future where many hundreds of thousands of patients are treated each year.

In addition to our specialization in Afib, there are many avenues of growth at AtriCure, including our Cryo Nerve Block solution for managing postoperative pain, which was virtually nonexistent less than 5 years ago. We see a steady increase in underlying procedures in this market, with the majority arising from cancer and trauma cases. Penetration in thoracic and cardiothoracic procedure continues and remains low. Therefore, in each of our markets, we have a substantial potential for expansive growth. We are thoughtful about building a complementary portfolio with diversified drivers, which is evident through our clinical trial investments such as LeAAPS and HEAL-IST and emerging therapy research in pain management outside of thoracic applications.

In closing, we maintain strong conviction in our business, in the sustainability of our end user markets and in our unwavering commitment to profitable growth. Additionally, we see several exciting opportunities ahead for AtriCure as our research and development efforts set the foundation for meaningful, long-term profitable growth for all of our shareholders.

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

Angela L. Wirick AtriCure, Inc. - CFO

Thank you, Mike. Our third quarter 2023 worldwide revenue of \$98.3 million increased 18.1% on a reported basis and 17.3% on a constant currency basis when compared to the third quarter of 2022, reflecting continued strong performance of our business globally and contribution across our broad portfolio of products. On a sequential basis, we experienced a 2.6% decline in worldwide revenue from the second quarter, attributed to normal seasonal variation in underlying procedures during summer months.

In the third quarter of 2023, U.S. revenue was \$81.7 million, a 17.1% increase from the third quarter of 2022. Open ablation product sales were \$25.8 million, up 19.8% over 2022 and propelled by steady adoption of the EnCompass Clamp across an expanding customer base. We continue to be pleased with the uplift in volume-driven growth in this market and estimate open concomitant procedure growth was roughly 13% for the quarter. Procedures with the EnCompass Clamp are at a higher per case ASP, a trend that will continue with increasing adoption.

Pain Management sales were \$12.6 million, up 19.8% over the third quarter of 2022. We saw growth from the addition of new accounts as well as deepening penetration within existing accounts. U.S. minimally invasive ablation sales were \$10.9 million, up 8.1% from 2022. And finally, sales of appendage management products in the U.S. were \$32.4 million, up 17.2% over the third quarter of 2022.

International revenue was \$16.6 million, up 23.2% on a reported basis and 18.7% on a constant currency basis as compared to the third quarter of 2022. European sales contributed \$9.2 million in the quarter, while Asia Pacific and other international markets accounted for \$7.4 million in revenue. International revenue growth was fueled by expanding adoption of our therapies in our major markets as well as favorable currency exchange rates.

Our gross margin this quarter was 75.2%, an increase of 110 basis points from the third quarter of 2022. We realized benefits from

favorable production efficiencies, partially offset by unfavorable geographic and product mix.

Now turning to operating expenses for the quarter, which totaled \$82 million, an increase of \$9.5 million or 13.1% from the third quarter of 2022. Similar to the second quarter this year, a significant driver of the change in operating expenses was the expansion of personnel across our teams to support our growth.

The increase in research and development expenses was 34% year-over-year, well outpacing the 8% increase in selling, general and administrative costs. Research and development expenses reflect expanding activity and faster than expected enrollment in our LeAAPS clinical trial as well as progress in several new product development projects.

Adjusted EBITDA for the quarter was positive \$4.7 million compared to a negative adjusted EBITDA of \$700,000 for the third quarter of 2022. Our basic and diluted net loss per share as well as the adjusted loss per share was \$0.20 in the third quarter of 2023 as compared to \$0.27 in the third quarter of 2022.

Our balance sheet remains strong, and we ended the third quarter with \$133 million in cash and investments. This quarter's modest cash burn reflects capital investment associated with the expansion of our manufacturing operations as well as an increase in inventory.

Now closing with our outlook for 2023. Considering our third quarter results and the ongoing momentum across our business, we expect to achieve approximately \$394 million to \$396 million in annual revenue for 2023, reflecting full year growth of approximately 19% to 20% over 2022. Our guidance implies sequential growth over the third quarter, and we anticipate similar franchise drivers leading fourth quarter performance. We remain confident in the breadth of our global portfolio delivering continuation of accelerated growth rates over AtriCure's long history of mid-teens achievement prior to COVID. We now anticipate full year 2023 gross margin to be slightly above 75% with the potential for varying impacts from increasing costs and geographic mix as well as investments to support revenue growth.

And finally, throughout 2023, we have shared our commitment to both achieving and expanding profitability while leaning into investments that we expect to be growth drivers in the future. To that end, we are maintaining an elevated level of investment in research and development as we focus on progressing our innovation and clinical evidence agenda and get ready for the launch of many new products to drive future growth.

Key areas of spending in the fourth quarter include site expansion and enrollment in the LeAAPS clinical trial and product development activities for the next generation of AtriClip devices, new product development for IST therapy and research across our platforms. Additionally, our plans include thoughtful growth in our global commercial teams and targeted market development initiatives across franchises. Therefore, we expect full year 2023 adjusted EBITDA to be approximately \$18 million to \$20 million, corresponding to an adjusted loss per share for the full year 2023 of approximately \$0.74 to \$0.76.

We are extremely proud of the progress we have made in advancing our mission while gaining meaningful leverage in our business. As we close out this year, we thank the entire AtriCure team for a truly exceptional collaboration and dedication. Your efforts have powered our success in 2023 and a continued belief and a strong outlook for our business in 2024 and beyond.

Now, I will turn the call back to Mike.

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

Thank you, Angie. We are making a profound impact on the lives of patients as we work to transform the treatment of Afib, pain management and stroke prevention and establish standards of care globally. We remain committed to delivering profitable growth and are confident in the vast potential of our existing markets and our ability to further expand addressable markets in the future across every one of our franchises. Thank you for being a part of our journey. We couldn't be more excited about the future of AtriCure.

With that, we'll turn it over to questions.

QUESTIONS AND ANSWERS

Operator

Great. Thanks so much. (Operator Instructions) First question comes from Robbie Marcus at J.P. Morgan.

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

Congrats on a good quarter. Two for me. Maybe to start, you've had really good momentum through the year. Guidance, 19% to 20%. Profitability is coming in nicely. Any preliminary thoughts as we head into 2024 and the EnCompass Clamp starts to annualize the launch here? Just any early thoughts on some high-level trends?

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

Yes. Thanks for the question, Robbie. And yes, we feel great about the quarter so far and the momentum we've built. And we feel like we can continue really strong momentum into 2024 across pretty much every one of our franchises.

On the EnCompass Clamp, let's hit on that first because you kind of mentioned that. That has been a great product launch. We've definitely seen volumes increase in that area. I think we're already pretty much on that lapping end that you're talking about on the price side of things as we enter into next year. It's pretty much a volume game, and we just see more and more penetration into those markets, and they're big markets for us to go after. So we think it's going to be a really strong and good solid year in 2024 without getting into too many specifics on it.

We also believe the same in the other areas of our business. On the hybrid side, we're really starting to see traction in terms of number of accounts quarter-over-quarter. When you look sequentially, obviously seasonality affected it to some degree. We had a strong Q3 last year. But we feel like we're really getting some stickiness in those accounts, building on that and see -- we believe we'll build on that in Q4 and heading into next year as well. And the same thing on Cryo Nerve Block as well.

So across the board, I think we feel like we're going to be in a good place. As Angie mentioned in her comments, our commitment is that we're going to grow at a faster pace than what we did kind of prior to COVID when we were going in that 14% to 15%. We believe that we're going to grow at a faster pace than that in 2024. We're not ready to give a specific number for what that looks like or guidance, but we do believe that we'll grow at a faster pace in 2024 on an overall basis.

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

Great. Very helpful. Second for me, I want to spend a minute on profitability because it's the second quarter. It's beaten pretty nicely. Clearly on a positive trend. At first, it was can you generate positive adjusted EBITDA, then when. Now I guess we're moving to how much. So as we think about improving gross margin, SG&A leverage, still elevated R&D spend, is that the right way to think about it as we move forward? And any one-time items in the quarter that would impact it moving forward?

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

I think we like to hear each one of those questions, Robbie, and I think you've got the calculus correct. I think we continue to expect good strength in gross margins this year coming in a little over 75% and believe that we can continue kind of operating at that level, if not enhancing over the future. We do prioritize R&D investments and would expect kind of an elevated level of spend. And then the leverage that you're seeing in the business with -- in the SG&A category specifically, would expect for that to continue to next year and the years beyond that. So I think you've got the calculus correct.

Operator

The next question comes from Bill Plovanic with Canaccord Genuity.

Unidentified Analyst

It's [Zackary] on for Bill. Looking at the full year and Q4, are there any specific products or geographies that will be a larger or smaller grower than usual? Any kind of seasonality that you might not be expecting in that regard?

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

No. Zack, as I said in the prepared comments, we kind of expect the same areas of the business that have been leading the growth for this year to be the contributors to kind of the growth rate in the fourth quarter. So nothing to call out or nothing unusual, I'd say, that we would expect in the fourth quarter from that regard.

Unidentified Analyst

Got it. Thank you for clarifying. And my second question is, can you, I guess, provide more color or contextualize the Epi-Sense physician workflow improvement, how that might impact the P&L, anything like that?

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

Yes. The workflow that we're seeing with Epi-Sense, it's not really the Epi-Sense workflow, but the workflow of -- at the hospital, how to treat these patients that have long-standing, persistent, and kind of getting them from the EP, passing them over to the surgeon and then back to the EP. And we've worked really with every one of the facilities that we're doing business with today to really kind of make sure those handoffs are really strong, that the clinical work that's being done is consistent across every site across the country so that they're getting consistent and good results as they move that forward, and that they understand how to best kind of maneuver the logistics with it. Obviously, each hospital is a little bit of a different piece to it.

That being said, what that enables us is obviously more efficiencies, which should drive long-term more revenue growth for us. It also provides efficiencies in the EP lab, because when they do do this procedure, we've definitely seen a dramatic decrease in the time they need to spend on these patients. In the trial, we saw close to an hour savings. In reality, we're seeing much more than that on these really difficult to treat patients, which gives them time to treat more patients. And so you're seeing with a lot of these companies that they're having an increased workflow, and you see it with the catheter companies how much more business they're getting for a lot of these patients. And we're going to help contribute to that by reducing some of the time by taking out the back wall and doing a lot of that work.

Angela L. Wirick AtriCure, Inc. - CFO

Yes, maybe just to add. I think Mike addressed top line. Zack, when you think about the investments that are in the P&L today, they're pretty modest in comparison, I'd say, to the number of accounts. And the focus that we've got in the field really is improving workflows in existing accounts and would expect for that investment to stay in the P&L as we start to think in the future years about opening up new centers and continuing to expand the customer base.

Operator

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

Unidentified Analyst

This is Samantha on for Matt. I guess first off, I was wondering if we could get a few more details on your new cryoSPHERE product and maybe how you can expect that to continue the momentum that the pain management business has seen.

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

Yes. So the new cryoSPHERE product is a much more efficient use of the energy source. So it should allow for kind of the ball at the end of the tip of it to really freeze much more quickly and actually have very focused energy to get to the end, because it's got a sheath that's protecting it kind of early on so that some of that freezing does not escape through the shaft. That is an incredibly important innovation and expansion for us, and we think that it's going to become the new standard of care as we roll that out. We think what that'll do is it'll just allow for a much better application of cryo and possibly might be able to reduce some of the time they actually have to spend. We do have to study some of that to see if we can kind of see some sort of time reduction necessary per nerve that they basically go after on that side.

In addition to that, it's actually got a better protective sheath on it, which allows them to be much more flexible in their approach. And the ease of use for the surgeon that's going to be doing it is a lot better from that standpoint. So again, we think that they're going to move towards this pretty quickly over the course of the first 6 to 12 months of next year.

Unidentified Analyst

Perfect. And then our second question is just on the LeAAPS trial and maybe when do you think we could see any outcomes from that? And any impact to the business in terms of revenue and maybe when that could come in?

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

Yes. I mean, so as we briefly mentioned, we're having great results on the enrollment. We're enrolling a lot faster than we ever expected at this point in time. So we definitely think that we might be able to get enrollment in faster than expected. That, we feel really, really confident and feel really good about the team is doing a great job on that front. It's still a long trial, though. Even with that, we still have 5 years of follow-up once we complete the enrollment on it. So the impact on revenue is really the back half of the decade versus really in any kind of short-term 3-year time frame from that standpoint. That being said, the excitement in the market around this trial is palpable. We see it with sites. We're at over 50 sites that are enrolling at this point. We should have our first patient enrolled in Europe by the end of the year. And we feel like next year is just going to be -- we're going to rock and roll really on the overall basis of enrolling in this trial.

Operator

The next question comes from Rick Wise at Stifel.

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

I was hoping -- again, this is not a bid for 2024 guidance, but more I hope you could talk about 2024 from two aspects. You've had -- obviously, 2022, 2023 you're showing terrific growth, broad-based growth, launching new products. At a high level, and you've touched

on it a little bit, but maybe help us think through the incremental drivers. Is it just -- is the biggest driver that might get you towards that 20% in 2024 the opening of new accounts? Is it -- you're not talking about obviously all the new products that you might launch. Is it that? And to what degree could price play a role that might get you above that historic pre-pandemic 15% that you referenced?

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

Yes. Thanks for the question, Rick. And as we look at next year across each of the franchises, I think you hit upon a couple of them, and maybe I'll maybe put a finer point on it. If you look at our open franchise, we continue to see penetration in the volume base that we're getting off of that base. EnCompass has really been -- it's such an easy product to use. It reduces the time significantly of the ablations that are being done. And people are really kind of leveraging that technology. The ablations are incredible -- I mean, they're incredible how well it does the ablation on that front. So we feel like we're making great progress on that, and that could be a good driver of our growth above what we had historically seen on the open side of our franchise. So that, first and foremost, I'd say is kind of really driving a lot of our growth today, and we anticipate that continuing some strong growth into next year.

As you look at our AtriClip franchise, we're seeing more and more attachment on that as well. We think that that's going to be strong both on the open side, but also we continue to see attachment on the hybrid side. And then leading us to the hybrid side, we've made all these improvements relative to workflow at the hospitals and having stickiness in those sites, and we anticipate the growth rate in our hybrid business next year to make a step up from that standpoint. So that's -- how big of a step, we're not ready to kind of put something down on that yet. But we do feel like we're going to make some progress next year and then continue that progress for years on out as well. So those are some of the key drivers on that front.

On the Cryo Nerve Block, we're really underpenetrated. I mean it's still less than 15% penetration overall in Cryo Nerve Block. We believe that all these patients that are going in can benefit from having Cryo Nerve Block for their analgesia and their pain management while they're there. And so we do anticipate that we'll continue strong growth in that area as well.

You refer to new products. 2024 isn't going to benefit from new products as much, but the excitement for it, and that's going to build to help us with 2025 and 2026. So when you look at new products, you can see in our clip franchise, we've got a new product coming out at the end of next year which reflects many product. That is going to be one that we think is another one that is even -- it's a more flexible tool. It's smaller. We think it's another leapfrog innovation even from our FLEX V that we've got out there today. And we think there's going to be a lot of excitement in the market for that on the open basis. And then there's going to be a fast follow on that on our PRO, which is the kind of the minimally invasive device. And from that standpoint, we also anticipate that to impact us kind of in the back half of the decade for sure. So those are kind of 2 product lines that are coming out here.

In addition to that, on our hybrid side, we've got HEAL-IST, which is the trial, but we actually have a new clamp that's going to come out simultaneous to that at the end of next year. That will then hopefully be driving growth in the 2026, 2027 time frame. So not much next year, but you see our product pipeline is really building for future growth as well in addition to all the clinical trials that we've talked about. Hopefully, that gives you some context there, Rick.

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

Yes. That's great context and great color. I appreciate it. And sort of a pendant question, if you will, Mike or Angie or both, is just thinking about the operating leverage. I mean, it sounds like the opportunities are there. You're demonstrating it. But when I think about 2022, 2023 so far and what seems like the setup for the year, top line growing 20%-ish, SG&A growing 8% or 10%. If I take those inputs and continue it into 2024, I don't know, in the roughest of rough terms, EBITDA doubles to like \$40 million as a midpoint of some range. But

how do I think about your need to invest back to sustain the growth, to drive the growth, to create the penetration that you're talking about, roll out all these excellent new products. Maybe just talk about your investment and the operating leverage that you hope to get.

Angela L. Wirick AtriCure, Inc. - CFO

Yes. Specifically focused on the operating expenses, I would say think about continued sustained pretty high investment in research and development. This is continuing the work that we've started so far on different product development projects, but then also starting in kind of to the next generation of work that you'll see the benefit from a growth perspective, as Mike mentioned, towards the end of the decade. And that's both in product development as well as the different clinical trials and studies that we run.

So part of the calculus should be R&D as a percentage of revenue staying in that kind of high teens or 20% range. That's what we've kind of been operating at throughout this year and would expect for that to continue. And then on the SG&A side, I think we've made some meaningful improvements relative to team efficiency, training those 2 areas in particular kind of stick out, and I think that those continue into next year. But as we're thinking about penetrating vastly underpenetrated markets, I think part of the level of investment that we'll be looking at on the SG&A side is continuing to enhance and expand our teams to be able to support the growth. So I'm not ready to give comments on what that means from a bottom line perspective. But from a priority standpoint, R&D, thinking about kind of the next generation of technology, trials and science that will fuel our growth in the future, and then supporting the continued market opportunity that we've got, I'd say those are the 2 areas that stick out.

Operator

The next question comes from Danielle Antalffy from UBS.

Danielle Joy Antalffy UBS Investment Bank, Research Division - Analyst

Happy to be back covering the AtriCure story here. So Mike, I was just -- I have 2 questions here. First of all, on the EnCompass Clamp, that's been a very strong growth driver while I've been gone here. And so just curious. I appreciate the comments you made on the pricing side of things. But from a volume perspective, I mean, this seems to be a product that's opening up the CABG market opportunity in a real meaningful way. So I'm just curious if you can comment on where we are with CABG penetration as best you can tell and how much runway in that regard you have with EnCompass? And then just one quick follow-up.

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

Yes, it's a great question. And you're absolutely correct that it is -- first of all, it's great to have you back as well, Danielle. So, appreciate the initiation on the report, and we're glad to have you back and glad to have you on these calls.

Yes, CABG is the area where most people are utilizing this technology just because of its ease of use for that population. And so -- but we're still really underpenetrated. That's where there's so much growth opportunity. Prior to launching EnCompass, it was between 5% and 8% of patients that were undergoing CABGs were actually getting treated appropriately, from our perspective. That number has definitely grown. Unfortunately, I can't give you some specified numbers, but it's definitely growing. We think that pretty much almost all the growth we're seeing in volume is coming from CABG patients and maybe some AVRs, but mostly coming from the CABG patients. So that should give some perspective, but I don't have like raw numbers that I can get from the STS database, et cetera, or something along those lines that are kind of verified. But needless to say, again, it is coming from the population you're referring to.

Danielle Joy Antalffy UBS Investment Bank, Research Division - Analyst

Okay. That's helpful. And then topic du jour in the AF world obviously is PFA. Just wondering how you think PFA changes the potential adoption trajectory, whether positive or negative, for the EPI-Sense CONVERGE procedure. And potentially getting more throughput actually on the EP side of things, do you think that could actually drive an uplift in CONVERGE?

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

Yes. So I think your -- the end of your comments, I do think long term, it does provide an uplift because we can reduce time on our end and then obviously improve efficiency for what they're doing relative to what they're using with that catheter. Whether they're using it for PFA or they're using cryo or they're using RF, it doesn't really matter on our front relative to that. I do think, though, that some of the noise that's out there definitely creates distraction in the short term where you've got conversations that are out there. That being said, that's not what's holding us up at this point in time in any way, shape or form. It was all about the workflow. We feel like we are going to see a step up in growth as we look at next year. And we don't see PFA having any kind of negative impact on us from that standpoint.

In a lot of ways, what it does is it allows us to have conversations. We talked about it at every one of our courses. It's brought up. The PFA information is discussed. It's discussed in relation to what we do. And to a person that we speak with that we have at those courses, they're confident that there are so many patients that are out there on the long-standing persistent side, and there is no indication on that or no trials undergoing on the PFA side that they believe that there really is a complementary component to doing the epi and the endo together. And we feel like we're going to be in a really good spot for that long term, like you mentioned.

Operator

The next question comes from Daniel Stauder with JMP Securities. Seem to be having some difficulties with Daniel's line, so we can move to the next question. Please stand by. The next question comes from Mike Matson at Needham & Company.

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

So I wanted to ask about just the pain management business. It's obviously seeing really strong growth, but it has slowed down quite a bit over the last few quarters. And you did mention earlier in the Q&A that you think the penetration is still below 15%. So I guess, is there some kind of issue here from going from the early adopters into the more mainstream surgeons or something like that?

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

There's no concern on our front. Like anything, I think you actually hit on it well. You tend to get those early adopters, and then you've got to, as they say, cross the chasm with that kind of next bolus where you're getting after, in this case, a lot of the cancer patients. So we're making a lot of progress on that front, but a lot of the big cancer centers are not on board yet. They require a little bit more from a clinical evidence standpoint or trials that they want to undergo to kind of demonstrate some of the benefits that they're getting from it. So they're more dabblers at this point in time. So some of the major cancer institutes like that just take a little bit longer to kind of penetrate and get ourselves into, as an example. But overall, we still feel that we're not losing customers. We have a tremendous number of people ordering from us. We're well over 600 customers that have ordered from us this year. We both see expansion in both of that and then getting into some of these really big centers over the course of the next 12 to 18 months.

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

Okay. Got it. And then the new cryo probe that you mentioned, it sounds like there's some significant enhancements there. Is this something that you can get a price premium for? I mean, you've done a good job with that with things like the EnCompass Clamp and the subsequent clip products that you've launched. And then just the timing. When will this thing be fully launched? I think you said you got a 510(k). Is it ready to go? Or is it you're going to have to do some kind of limited release to get some initial feedback on it before you go to a full launch?

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

Yes. So we received the 510(k) clearance recently and would expect to do some work around a limited release early in 2024 and then move pretty quickly after that into a full launch. Relative to pricing of the probe, I think the strategy at this point is to keep kind of consistent with the device that's on the market. And I say that, though, there's a benefit to us on the back end, which is the cost of the device. I think some of the engineering and the work done in as part of product development was able to lean out some of the costs. But the initial thought is maybe this is go-to-market with kind of the equivalent pricing in part because we acknowledge that this is an area that there's not separate reimbursement for. It has to be covered by the procedure and those -- that's kind of the preliminary strategy.

Operator

The next question comes from Marie Thibault at BTIG.

Sam Shimon Eiber *BTIG, LLC, Research Division - Analyst*

This is Sam Eiber on for Marie. Maybe I can start on the sternotomy market. It's been a couple of months now since you've been in that early rollout. I guess any early feedback hearing from customers? Any differences between the thoracotomy market? And should we still think about 2024 as really when this market might start to kick in?

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

Yes. So great question. Feedback we're getting is the product works incredibly well. They're seeing -- they're definitely seeing some benefits from it. What we do realize, and we knew this kind of going in, it does take time. So the biggest question is how can we reduce that time? We're hopeful that maybe with the rollout of the newer product that we just talked about with a more efficient energy source, I'm kind of hitting it, that could possibly reduce some of the time. In addition to that, we've got to work on some procedural items so that they can do it while they're doing other tasks during the procedure. So the benefits are there. It's easy to use, but we do have to figure out ways to reduce some of the time so that they're comfortable doing it in their cardiac surgery cases. We knew that going in, to some degree. That should have some impact on next year, but not a tremendous amount of uplift on that side. But we still think we've got a lot of growth and a lot of opportunity because there are so many darn cases that are out there. But the initial feedback has been very positive overall.

Sam Shimon Eiber *BTIG, LLC, Research Division - Analyst*

Okay. Well understood. And then maybe I can use my follow-up here on EPI-Sense and CONVERGE. Another strong quarter here on a tough comp. It sounds like the commentary is getting better in terms of what we're seeing from maybe some of the best sites out there. So any indication in terms of how replicable that workflow is at some of those accounts? And as we think about next year, could we see this category maybe get closer to that corporate average?

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

I think you actually said it incredibly well. We definitely anticipate that the work we've done, we're getting a lot more consistency across every one of our sites. It's very replicable, and we've got a team of people that are actually around the country kind of helping out on all those fronts, and that's where a lot of our efforts have been. So we feel really good about that side of it. And we do anticipate that, as I mentioned, we should see an uplift in the growth rate over this year into next year. Not sure if we'll get to the corporate average quite yet, but we'll definitely see an uplift over where we are today. And we'll give more specifics early on in the year when we give full guidance.

Operator

The next question comes from Suraj Kalia at Oppenheimer & Co.

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*

Yes, we can. Nice to hear you.

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

Perfect. Likewise. Congrats on the quarter. So Mike, a lot of questions have been answered. And maybe let me pose this to Angie. Angie, what was the contribution from price in the quarter?

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

Pretty modest pricing contributions, Suraj. It's really the differential in U.S. open ablation between kind of the volume-based growth that we saw that was about 13% and the 19.2% growth that the category reported overall. So pretty modest contribution. Most of the growth that you're seeing in the quarter came from volume.

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

Got it. And Mike, following up on my second question from your comments earlier. Mike, when you say epicardial would be complementary to PFA, similar to like RF, I'm just paraphrasing here, what are the implicit assumptions being made in epicardial being complementary to PFA?

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

Sure. The reason that epicardial is going to be complementary is because the catheters today are primarily endocardial catheters that are being used primarily to go after the pulmonary veins and much like what you see with the cryoballoon or possibly with some RF. And that's really what we need to complete the kind of full lesion that we do relative to CONVERGE. So that's why it's very complementary. If you look at a lot of CONVERGE sites, many of them are cryo users. So many of them are really going after just the pulmonary veins and maybe some sort of little wide area kind of around that. That's really where you're incredibly complementary to the work that we do on the back wall epicardial that they don't have as much success with because there's like a disassociation between the epi and the endo portion of that in the heart.

So from that standpoint, that's kind of why we think that it's complementary. But there's a lot to be learned. To your point, Suraj, I think that as it rolls out, as we've seen it roll out in Europe, as we see it roll out in the U.S., I think we're going to learn a lot more about what that impact might look like and where there may be some benefits as well.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Mike Carrel, President and CEO.

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

Well, everyone, we really truly appreciate your interest in AtriCure and you joining us today. Some great questions from the analysts that hopefully kind of clarified and gave you even more information about our exciting future. We're just really excited about both this fourth quarter and coming into next year and what's ahead. So thank you again for your interest, and we look forward to talking to you over the coming quarter. Bye now.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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