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# STAAR Surgical Co. (STAA)

Q2 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Brian Moore**

*Vice President-Investor & Media Relations, STAAR Surgical Co.*

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

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## OTHER PARTICIPANTS

**Ryan Zimmerman**

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**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

**Margaret Kaczor Andrew**

*Analyst, William Blair & Co. LLC*

**David Saxon**

*Analyst, Needham & Co. LLC*

**Anthony Petrone**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the Staar Surgical Second Quarter 2024 earnings webcast. As a reminder, this event is being recorded today, Wednesday, August 7, 2024. During today's presentation, all parties will be in a listen-only mode. Following the presentation, management will be taking questions. [Operator Instructions]

I would now like to introduce your host, Brian Moore, Vice President of Investor Relations for STAAR Surgical.

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**Brian Moore**

*Vice President-Investor & Media Relations, STAAR Surgical Co.*

Thank you, moderator. Good afternoon, everyone, and thank you for joining us to discuss the company's financial results for the second quarter ended June 28, 2024. Today's speakers are Tom Frinzi, Chair of the Board, President and CEO; and Patrick Williams, Chief Financial Officer. The press release of our second quarter results was issued just after 4:00 PM Eastern time. We have posted copies of today's earnings release and earnings presentation to the investor relations section of STAAR's website at [investors.staar.com](https://investors.staar.com). Before we begin, let me quickly remind you that the company's comments during this call will include forward-looking statements. We caution you that any statement that is not a statement of historical fact is a forward-looking statement. This includes remarks about the company's projections, expectations, plans, beliefs, and prospects.

These statements are based on judgment analysis as of the date of this conference call, and are subject to numerous important risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. The risk and uncertainties associated with these forward-looking statements are described in the Safe Harbor statement in today's press release, as well as

STAAR's public periodic filings with the SEC. Except as required by law, STAAR assumes no obligation to update these forward-looking statements to reflect future events or actual outcomes and does not intend to do so.

In addition, on this call and in the press release, we discuss certain non-GAAP financial measures, including adjusted EBITDA and adjusted EBITDA per share. We also provide sales data and constant currency. Definitions and reconciliations to GAAP are included in today's press release. For brevity, unless otherwise specified, all comparisons on today's call will be on a year-over-year basis versus the relevant period. Following our prepared remarks, we will open the webcast to questions from publishing analysts. Publishing analysts, please ask your two initial questions when your line is unmuted, then raise your hand again for any follow-ups.

Finally, we intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosure will be included on our website in the Investor Relations section. Accordingly, investors should monitor our investor website in addition to following our press releases, SEC filings and public conference calls and webcast.

And with that, I would now like to turn the presentation over to Tom Frinzi. Tom?

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### Thomas G. Frinzi

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Thank you, Brian. Good afternoon, everyone. STAAR reported record net sales of \$99 million and on a constant currency basis, we delivered our first ever \$100 million quarter. We exceeded our sales outlook for the second quarter of 2024, demonstrating continued global adoption of our proprietary EVO ICL lens-based technology. I am proud of our organization. My thanks to our global STAAR teams for a record-breaking quarter and a strong first half. Our company is growing and we're winning market share throughout the business cycle. For the quarter, we generated year-over-year in sequential sales growth in the US and China, the two largest markets in the world for refractive procedures. We are executing well against our strategy, driving increased commercial momentum and benefiting from the inherent leverage in STAAR's business model. As a result, we are raising our fiscal 2024 outlook for both net sales and adjusted EBITDA.

For fiscal 2024, we now expect net sales of approximately \$340 million to \$345 million and adjusted EBITDA of approximately \$42 million. I attribute our commercial momentum to the investments we have made to accelerate uptake of our EVO ICL lenses. This includes three main areas of focus. First, making it easier for surgeons to choose EVO. Increasing surgeon confidence in measurement of the eye and lens size selection, by surrounding our surgeon customers with education activities including peer review publications, practice development, and robust training. Second, broadening the EVO market opportunity. We are moving down the diopter curve and as a result, are beginning to realize our near-term goal of becoming the choice for surgeons and their patients minus six diopters of myopia and above. Via sales execution, including landing strategic agreements, supporting healthcare professional-level marketing campaigns, and amplifying compelling proof points, which demonstrate the patient and practice benefits of selecting the EVO procedure. And third, driving innovation in key technical and product areas of our business, which I will discuss later in more detail.

Turning to our performance by region. In our Americas region, we generated sales growth of 14%, including US sales growth of 25% year-over-year and 10% sequentially. Our focus on the US business, with an emphasis on key accounts through our Highway 93 initiative is bearing fruit. We are effectively seeding the market by establishing meaningful relationships with some of the most influential and high volume surgeons in the United States. The progress is evident in our US sales results for the second quarter and first half of 2024. Growth in US Highway 93 accounts for the second quarter was 29% 10 percentage points above the 19% growth of non-Highway 93 accounts.

In EMEA, we generated 10% sales growth exceeding our outlook. Growth was driven by the Middle East, European distributor markets and Spain. These are markets where we have invested in STAAR personnel and new initiatives, and we are encouraged by our results given the macroeconomic backdrop and conflicts in the region.

In APAC, we generated sales growth of 6% year-over-year and 37% sequentially. By country, in China, we entered the high season for EVO ICL implants in early June, when many young people elect to have a refractive procedure. In the second quarter, our sequential sales growth in China was consistent with our expectations and similar to historical trends since 2018. Today, we are halfway through the high season and we remain encouraged by EVO end market activity. Our positive sales growth in China illustrates the advantages of EVO ICL in a market where the predominant legacy refractive procedure laser vision correction is down about 10% for the first half of 2024. For fiscal 2024, we remain on track to achieve annual sales growth of approximately 10% in China, which would represent China sales over \$200 million, another significant milestone for STAAR and our China team.

Turning to Japan, where our EVO ICL commands the largest market share as the standard of care for refractive vision correction. We continue to grow very nicely in this market. Despite currency headwinds from a weak yen, sales in the second quarter for Japan were up 14%, with units significantly higher. The Japan market, where we sell direct through an organization of approximately 50 STAAR professionals, continues to benefit from the enthusiastic key opinion leaders with a high level of confidence in the EVO procedure.

Turning to South Korea. We generated 20% sales growth in the second quarter. The first ICL only clinic in South Korea opened earlier this year and is off to a good start. We anticipate the clinic could be the first of many ICL-only clinics in South Korea following the path of successful ICL only clinics that already exist and thrive in China and Japan.

Globally, our EVO ICL lens technology continues to outpace the growth of laser vision correction procedures, including Lasik, PRK and Smile. The commercial momentum I just outlined indicates that our lens technology is firing on all cylinders. We're successfully moving down the diopter curve to lower levels of vision correction. We're expanding the overall growth opportunity for our proprietary lenses, winning over both surgeons and patients and we are taking market share in the process. The average diopter of EVO ICL sold in the first half of 2024 globally was minus 8.2 diopters, 0.5 diopter lower than fiscal 2023.

Finally, our mix of lenses sold minus 8 diopters and below increased 3 points to 35% in the first half of 2024. This progress increases our total addressable market and is contributing to our continuing market share gains globally.

We are not letting up on the initiatives and strategic priorities that we've been telling you about, as they are effectively strengthening our results and market position near and long-term. You see that reflected in the first half and Q2 results we reported today. Following Patrick's detailed review of our financial results, I will update you on some additional initiatives that illustrate our company's immense growth opportunity. Patrick?

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## Patrick F. Williams

*Chief Financial Officer, STAAR Surgical Co.*

Thank you, Tom, and good afternoon, everyone. Total net sales for Q2 2024 our seasonally strongest quarter were \$99 million as compared to net sales of \$92.3 million in the prior year quarter. The \$6.7 million increase in Q2 2024 net sales is attributable to a 7% or a \$6.3 million increase in ICL sales and a \$0.4 million increase in other products. Constant currency net sales for Q2 2024 were \$100.4 million, up 9% as compared to the prior

year period, which adjust for FX headwinds due to the strong US dollar in our second largest sales market today Japan.

For Q2 2024, gross profit was \$78.4 million or 79.2% of net sales as compared to gross profit of \$70.7 million or 76.6% of net sales for the prior year quarter and \$61 million or 78.9% of net sales for Q1 2024. The year-over-year increase in gross margin is primarily due to changes in reserves related to cataract IOLs in the prior year quarter. As a reminder, the company exited its cataract IOL business in fiscal 2023. For 2024, we continue to expect gross margin will be approximately 80% for each remaining quarter.

Moving down the income statement. Total operating expenses for Q2 2024 were \$66.5 million as compared to \$62.1 million in the prior year quarter and \$63.3 million in Q1 2024. The increase in operating expenses reflects our decision to lean into investments to build the market for EVO ICL as we lay a foundation for future growth and margin expansion, including surgeon education, tools to improve surgeon experience and investments in sales teams to drive long-term growth.

Taking a closer look at the components of operating expenses. G&A expense for Q2 2024 was \$23.6 million compared to \$18.1 million in the prior year quarter and \$23.2 million in Q1 2024. The year-over-year increase in G&A is primarily due to increased compensation related expenses, facilities costs and outside services. For 2024, we continue to expect G&A expense to be approximately \$24 million per quarter.

Selling and marketing expense was \$28.8 million for Q2 2024, compared to \$32.3 million in the prior year quarter and \$26.7 million in Q1 2024. The decrease in selling and marketing expenses from the prior year was due to lower marketing, promotion and advertising activities as the company shifted brand awareness dollars to marketing activities at the practice level. The sequential increase in selling and marketing expenses related to the variable marketing and promotion activities associated with our higher sales in the second quarter. For 2024, we continue to expect selling and marketing expense will be approximately \$30 million per quarter.

Research and development expense was \$14.1 million for Q2 2024, compared to \$11.8 million in the prior year quarter and \$13.4 million for Q1 2024. The year-over-year increase in R&D is due to compensation related expenses, partially offset by lower clinical trial costs. For the second half of 2024, we now expect R&D expense to be slightly up at approximately \$15 million per quarter, reflecting focused investments in AI-related technology innovations, independent investigator studies and global education and training to accelerate adoption of EVO ICL.

For Q2 2024, GAAP net income was \$7.4 million or \$0.15 earnings per diluted share compared to net income of \$6.1 million or \$0.12 earnings per diluted share in the prior year quarter. Adjusted EBITDA of \$22.5 million or \$0.45 per diluted share for Q2 2024 compared to adjusted EBITDA of \$18.3 million or \$0.37 per diluted share in the prior year quarter.

As Tom said, we are raising our fiscal 2024 sales outlook \$5 million to a range of \$340 million to \$345 million, which contemplates industry leading growth in all key markets. For the third quarter of 2024, we anticipate net sales of approximately \$87 million. We also anticipate the US sales of approximately \$5 million to \$5.5 million in the third quarter, reflecting summer seasonality, followed by a reacceleration of US sales in the fourth quarter above our Q2 results of \$5.5 million. Based on our higher sales outlook, we are raising our full year adjusted EBITDA by approximately \$3 million and now anticipate adjusted EBITDA to be approximately \$42 million for fiscal 2024.

Using approximately 52 million shares outstanding, our outlook for adjusted EBITDA per diluted share is now approximately \$0.80 per share, up from approximately \$0.75 previously. A reconciliation of non-GAAP financial measures is shown in today's earnings press release and earnings presentation. For modeling purposes, please refer to slide 21 and 22 of this earnings presentation for additional detail and specific line item updates.

By region, you can see the increase to our outlook in the Americas, up 15%, driven by US growth outlook of 25% versus 10% previously, and EMEA, where we now expect 6% growth versus flat growth in our prior outlook. We continue to expect 7% growth in our APAC region, which would be the fastest growth for the refractive industry in this key region. For fiscal 2024, our new increased outlook for the US represents about half of the \$5 million increase and our new outlook for global net sales.

Turning now to our balance sheet. Our cash, cash equivalents and investments available for sale were \$235.5 million at the end of Q2, 2024, as compared to \$232.4 million for fiscal year end 2023. As a reminder, our DSO is about 90 days. We will collect cash for our Q2 record sales quarter in the third quarter. We look forward to meeting with many of you in the days and weeks ahead at investor conferences and meetings in the US, Europe and Asia.

A list of conferences is shown here on slide 15 and includes the Canaccord Growth Conference in Boston, the Piper Sandler West Coast Field Trip, the William Blair West Coast Field trip, the Goldman Sachs European MedTech and Healthcare Services Conference in London and the Sidoti Small-Cap Virtual Conference.

Finally, we are adding an Asia based STAAR investor relations professional as a resource for the investment community. In addition to our normal course of investor conferences, we will also add in-person investor meetings in Hong Kong and mainland China for Q3. We do expect to report Q3 results in early November. And now back to Tom.

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## Thomas G. Frinzi

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Thank you, Patrick. We met or exceeded our targets in the first half of 2024, and our commercial momentum has accelerated. Our deep engagement with our surgeon customers is guiding the way. We conducted two global customer surveys in 2023, which significantly broadened our understanding of the needs of our customers and allowed us to design programs to reduce friction and speed EVO ICL adoption. We are building upon this customer focus with a study we recently commissioned in the US with the American-European Congress of Ophthalmic Surgery. AECOS, an organization I've mentioned in the past represents leading edge, cataract and refractive surgeons.

The study we commissioned in June analyzed approximately 1,900 refractive procedures in the US across laser and lens-based vision correction procedures. The data shows that EVO ICL commands a 13% procedure mix among these US AECOS surgeons, significantly above our approximate 3% share of the overall US refractive market today. Surveyed AECOS surgeons have also moved down the diopter curve more quickly than the US market overall. The AECOS surgeon average diopter implant is minus 8.5 diopters versus nearly minus 10 diopters for all US EVO ICL surgeons certified. The ACO data illustrates our larger opportunity in the United States, but our total addressable market is even bigger.

As you can see on slide 17, moving from 3% share in the US today to the 13% share currently with AECOS surgeons represents 70,000 US procedures and an additional \$70 million in annual sales. Assuming we reach 20% share in the United States as we have in other large markets, this equates to \$140 million in US annual sales. However, none of these growth vectors contemplate us growing the market, which we have done in other



geographies, and intend to do that in the United States. With 52 million US eyes in our approved range and based on the AECOS data, I now believe the US business can be even bigger than what I originally envisioned. We are listening and learning, which are the most important levers to accelerate growth and realize our tremendous market opportunity.

First, we're innovating in surgeon experience and education. Our new Stella ordering system, which delivers a more streamlined workflow and cuts time needed to order by over 25%. STAAR University website launched just a few months ago in the United States is our new medical affairs and surgeon education site, which is receiving praise and positive feedback from our surgeon customers and their staff. Both Stella and STAAR University are already being expanded globally.

Next week, we will open our brand new state-of-the-art EVO ICL Experience Center at STAAR's Lake Forest, California headquarters. The center is significantly larger than our previous center and will serve as a hub of live surgeon and ophthalmic practice education with a full slate of events already planned throughout the end of the year.

Secondly, we are innovating to drive clinical confidence. We're in the final stages of developing a new US based head-to-head study versus laser vision correction procedures. We are confident that the results will further demonstrate EVO's advantages, including high patient satisfaction and quality of vision across the approved diopter range. We are working with surgeons to advance AI based protocols and investing in technology to guide measurement and size selection. And finally, we're working to expand our market potential through the harmonization of our label indications globally.

The investment case for STAAR Surgical is compelling. Number one, our product. We have a proprietary and differentiated product, EVO ICL, that is disrupting the refractive market, where patients and surgeons are looking for a broader set of solutions which give them more options in the future. Secondly, our market by 2050 5 billion people will have myopia, including 1 billion with high myopia. So the total addressable market opportunity globally, including emerging markets such as India and Brazil, is immense and growing just as the interest and penetration of the legacy predominant procedure laser vision correction continues to decline. Third, our people and our process. We have the team to execute and we'll continue to bolster and strengthen our teams as needed. We introduced a high performance management process based on facts, data and continuous improvement around our vital few strategic priorities. And in January of this year, we cascaded the process to all 1,200 plus STAAR employees.

Fourth, our financial model. We have a strong business model with high gross margins and a demonstrated ability to generate cash to sustain and prudently invest in our business and all of that leads to building momentum. At STAAR, we are driving focus on the customer identifying and investing in accelerators and watching the market change right before our eyes. EVO ICL is proving to be a competitive differentiator with every surgeon that implements EVO in their practice. The initiatives I've covered today are starting to translate into better growth, laying the foundation for future sales acceleration into 2025 and towards our \$500 million plus Vision 2026 sales target. Clearly an evolution is happening.

Thank you for your attention. And operator, we'll now take any questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question will be from Ryan Zimmerman with BTIG.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Okay. Hopefully I unmuted and I did that right. Can you guys hear me okay?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Yeah, we hear you, Ryan.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Wonderful. Okay. My biggest -- my biggest fear right there. All right. So I want to ask about China. Just, it's obviously very topical. There's been kind of mixed messages about China in terms of some of your peers in the refractive market. You guys did about 5.7% growth in the first half of China guiding for just 10%. So talk to us about what informs your kind of mid-teens growth profile in the second half of 2024 and what your prevailing views are around, recovery and health of the consumer in China, potentially in longer term?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Yeah. Hey, Ryan, good to hear from you and thanks for the question. Again, look as we sit here today, we feel good about where we are in China. If you think about the headline in the areas that people seem to have a lot of questions around, whether it's competition, whether it's anticorruption, whether it's VPP or whether it's the economy. I would say three out of those four really have minimal, if any, impact for our business. Economy clearly, we read the same things you see. We know there's some headwinds out there. But as we look at our business, certainly through the first half and halfway through the high season, we're very pleased with where we are, in a declining market we continue to grow. We're taking market share and we feel good about our business not only today but for tomorrow.

**Operator:** Thank you. Our next question will come from Tom Stephen at Stifel.

**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Okay. Can you guys hear me okay?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Yeah, we can. Tom, how are you?

**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*



Perfect. Good, thanks. Maybe if I can start ask both upfront. I want to ask about 2025, if that's all right. I think you grew 6% in 1H, guidance implies 6% growth again in 2H. Patrick or Tom, what are your early thoughts about growth accelerating in 2025? I think Street modeled revenue growth of 15% coming into this afternoon. Are you comfortable with that type of re-acceleration next year, maybe as we sit here today? And then hopefully a quicker follow up just on M&A, I mean, as it relates to the headlines that were put out there, why would now be the right time for STAAR from an M&A perspective? I understand it's obviously part of your fiduciary responsibilities, but the stock is now back at pre-COVID levels, refractive end markets are arguably at a low point and the US is still so early. So maybe if you can elaborate a bit on I guess kind of the company's motivation and your long-term vision for STAAR? Thank.

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**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

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I'll take the first one, Tom. Look, we're not giving out 2025 or even beyond guidance at this point. But to be fair, we did give our Vision 2026 guidance out there, which was a 15% to 20% three-year CAGR. And so, as Tom said in his prepared remarks, we feel good about where we are six, seven months into a 36-month plan. I think the initial question was we have a re-acceleration in the second half of 2024, which is very apparent. We're going to see double-digit to maybe mid-teen growth on revenue across the board. And so, let's judge us as we move throughout this year. But we believe all the things that we're putting in place, we got to give them some time to really take effect. There's a lot of really good stuff that Tom outlined in his closing statements that we believe will result in a much quicker adoption of moving down the diopter curve in all geographies around the world. And that gives us more conviction about hitting that Vision 2026 ultimately.

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

And I think, Tom, from your question around M&A activity, look, as I've said many a time, our heads down, we're focused on execution, continuing to grow our business around the globe and quite frankly rumors are what they are but we're focused on our business and that's what matters to us.

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**Operator:** Thank you. Our next question will be from Margaret Kaczor Andrew with William Blair.

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Hey, Margaret.

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**Margaret Kaczor Andrew**

*Analyst, William Blair & Co. LLC*

Q

Hey, good afternoon. I'm going to do what everyone else asked and so can you hear me now?

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

We can.

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**Margaret Kaczor Andrew**

*Analyst, William Blair & Co. LLC*

Q

All right. Appreciate it. So I was hoping to talk a little bit about the US. You guys are seeing now some nice sequential traction, two quarters in a row, up 10% sequentially in Q2. And I get some of the comments around

seasonality as we go into Q3 and Q4. But all things being equal on average seems pretty, pretty similar or flat sequentially from what we saw in Q2 in dollars. And so, I guess, is that not conservative in your view, especially assuming the sequential increases we're seeing in new Highway 93 accounts maybe continued traction you're seeing in those Highway 93 accounts? And I guess net-net with all of that is when will you guys feel comfortable enough to start seeing that that more significant sequential increase in guidance and traction in the US? Thank you.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, sure. Listen, thanks for the question, Margaret. I think, as we've said in our prepared remarks, and you've probably heard from Patrick and I, anecdotally, we feel good about where the US is. And if I were to use an analogy, I think for the US business, we crawled, we're starting to walk, we might start to jog by the end of the year and we'll be running in 2025. So, I mean, I feel really good about what we're doing. All the initiatives we rolled out are being well received. And I think we're setting ourselves up for the right kind of cadence of growth that's really both near-term and long-term sustainable. So the initiatives we have, the contracts we've signed, the contracts that are pending, everything is clicking on all cylinders. So I think just we're trying to be balanced, we're trying to be prudent. We don't want to get out ahead of ourselves. But again, I would just say we feel very good not only about our US business, but where our business heads globally.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Thank you, moderator. Moderator, let's take Ryan Zimmerman's second question, please.

**Operator:** Perfect. We'll do. Ryan, go ahead and ask your question.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

Thanks for taking pity on me for the follow up. I just want to ask a second question. And it was similar to my first. But Tom, you laid out this slide about kind of growth in the refractive market, particularly in the US. And, [indiscernible] (00:37:21)

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Ryan, you're breaking up, Ryan.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

[indiscernible] (00:37:28)

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Ryan, let's pause. And have you repeat the question. Thank you.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Back to you, Ryan.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Try getting to a stronger cell service area Ryan.

A

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

Moderator, let's go to next question. We'll come back to you Ryan.

A

**Operator:** Thank you. Our next question will be from David Saxon at Needham.

**David Saxon**

*Analyst, Needham & Co. LLC*

Great.

Q

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Hi, David.

A

**David Saxon**

*Analyst, Needham & Co. LLC*

Yeah, hi. Can you hear me okay?

Q

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Yeah, we can.

A

**David Saxon**

*Analyst, Needham & Co. LLC*

Okay, great. Well, thanks for taking the questions. Maybe I'll start in China with Aier. I know that's a key account for you guys. I think there were some reports there that Aier lowered their pricing for LASIK. So it's about half of ICL procedure pricing. Just given the consumer over there have you seen any impact from that, that pricing move from them? And then secondarily, as it relates to Aier, I mean, they we all know their strategy involves M&A. And I think they just acquired 34 more hospitals in the last week or so. So, as we think about that strategy, how does that factor into your China volumes? Are you in those hospitals that they tend to acquire? If not, I guess, what does that do for your volumes? And on the flip side, if you are in those hospitals, how should we think about that pricing headwind as they maybe convert those volumes into their preferred pricing? And I'll just have one quick follow up. Thanks.

Q

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

Yeah, thanks for the question, David. I think just to clarify, what we're aware of is SMILE has lowered their price, not so much LASIK has lowered pricing within Aier to be maybe a little bit more competitive with LASIK. But listen, our relationship with Aier is very strong. They continue to be a solid customer. We're continuing to grow EVO within the Aier hospital systems and we feel good about our growth strategy with Aier, not only through the first half of this year, but certainly continuing on through the back half and into 2025 and 2026 and beyond. So, I hope

A

that gives you some color as to how we're doing there. Again, I think some of the noise out there is more laser vision correction competing with each other. And from our perspective, though, we continue to grow, we continue to take share. As I said earlier in my comments, we feel very good about where our business is in China broadly, but certainly within our relationship with Aier hospitals.

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**David Saxon**

*Analyst, Needham & Co. LLC*

Q

Okay, great. And then I guess maybe if you could comment on just kind of how their M&A strategy factors into your volumes and pricing there. And then my follow up or second question is just on guidance. So the third quarter guidance implies growth accelerates on a two-year stack basis at least into the fourth quarter. So is that conservatism around third quarter or what are you seeing that gives you confidence in that two year stacked accelerations into the fourth quarter? Thanks so much.

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**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Sure David, it's Patrick. Now I think on the Aier recent M&A that they did, it's a little early for us to speculate. We're still kind of vetting through, if you want to call it, existing accounts, et cetera, but we don't think there's a lot of crossover there. In terms of our guidance, look, I think Tom hit the nail on the head. We're trying to be very balanced. We did plus \$87 million approximately for Q3. We all can do the math of what that is on a year-over-year basis compared to last year. It is a re-acceleration of revenue growth going into Q3 and we know that that implies, a number for Q4 that's probably closer to \$80-ish million if you pick the midpoint of our guidance, which is also pretty strong growth. And clearly, this is now I think the third quarter where we've been able to beat and raise and certainly coming into 2024, it's the second quarter of us doing a good beat on the top line and we've given some of that in our full year guidance. So a lot of momentum, setting ourselves up for what I believe to be a very strong second half. And, we look forward to reporting in the next 90 days.

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**Operator:** Thank you. Our next question will be from Anthony Petrone with Mizuho.

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Hey Anthony.

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**Anthony Petrone**

*Analyst, Mizuho Securities USA LLC*

Q

Hey, Tom. Can you hear me? Just I'll stay in line.

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yes, we can.

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**Anthony Petrone**

*Analyst, Mizuho Securities USA LLC*

Q

Excellent. Excellent. Thank you very much. Congrats on a good quarter here. Maybe start with China I'll have one on the US as well. When we look at China, maybe a few questions in there. One would be, how much contribution came from the second distributor. I know it's maybe six months or so now into having two distributors there. So what factor to that play in the market in 2Q for STAAR specifically? And was there any price tailwind in China in

the quarter? And then the last quick one on China, just anything your team is on the ground talking about as it relates to stimulus, just timing of when stimulus could be enacted and what that may mean for business there. And I'll just have one on US after that.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, I think the second part of your question first, I think, again, too early to tell, but it's encouraging that the Chinese government continues almost on a daily basis to put out some reports around stimulus. And, I think our local intelligence feels it will have an impact in the back half of this year and beyond. Relative to the first part of your question.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Yeah, HTDK, and just their contribution.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, I think look we've been very pleased with how that integration has gone with both Langshiang and HTDK. And I think the impact they're having is certainly our outreach in our ability to get inventory closer to the customer, certainly is having a very positive impact. In terms of just outright top line revenue I think it's a push, if you will, both are working well and we're pleased with how smooth, quite frankly, the integration has gone and how customers are getting taken care of it.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

And I think that the word you said which is we're about six months into this is key Anthony need for both distributors but you know with HTDK coming on board they're getting their feet wet they're six months into it. So certainly as we close out this year, going to 2025 and beyond. We do expect the reason why we chose them and to partner with them to see even more efficiency, productivity, whatever words you want to use from them and their expanded salesforce that we're able to use. In terms of tailwinds with pricing, nothing different than Q1. We baked that in. We've been pretty consistently saying that, there's maybe 300 bps or so of pricing economics that we were able to get when resigned the new deal with Langshiang and then of course with HTDK, the new deal. But you know that's already factored into everything as we go forward as well.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Anthony on a much lighter note, thank you for at least congratulating us on a strong quarter. You're the first to do so.

**Anthony Petrone**

*Analyst, Mizuho Securities USA LLC*

Q

Absolutely. Absolutely. It's been a tough quarter in medtech all around. So good to see beat and raise here. And then just on US that number raising the guidance for US contribution, you've announced a number of wins the last few quarters, SharpeVision for one, for example. And obviously, digging into that Highway 93 initiative. So is this increase linked to those wins that you spoke about over the past two quarters or is this more just new account openings within Highway 93? Thanks.

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, I think look Highway 93 was the right focused program and initiative we undertook. We're seeing a disproportionate amount of growth in our Highway 93 accounts versus our accounts at large. So I think it's certainly the high profile accounts and strategic agreements we've signed are having their impact, but we're seeing it across the entire Highway 93 initiative. As I said, we're growing significantly more within those accounts than we are accounts in general. Specifically, I think it's somewhere around 29% growth within Highway 93 accounts versus 19% growth in our accounts that aren't part of Highway 93. So it's across the board. And I think it just proves the appeal that EVO ICLs are having.

**Operator:** Thank you.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

Next question, moderator.

**Operator:** Yes. Next question will be from George Sellers with Stephens.

**George Sellers**

*Analyst, Stephens, Inc.*

Q

You all hear me all right?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, we can, George. How are you?

**George Sellers**

*Analyst, Stephens, Inc.*

Q

Great. Well, thanks for taking the question and congrats on a great quarter. Maybe to stick with the US. I just wanted to dig in a little bit on the Highway 93 commentary, obviously an important piece of the growth both sequentially and year-over-year. Could you give us any additional color on maybe what's driving that growth within those accounts? Is there more buy in from those accounts in terms of spending on marketing dollars maybe, any change in affordability of EVO with those accounts that have their own surgical suite? Any acceleration down the diopter curve in those accounts, anything would be helpful there?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, I think it's a combination of all of that, George, to be honest, as we said, we kind of made a pivot relative to how we were spending our marketing dollars and driving it more down to the practice level versus, consumer awareness. I think that's having an impact. Clearly, as surgeon confidence increases within the Highway 93 accounts. But I would say with any account we're working with, we do see EVO adoption go up. We've had certainly certain practices demonstrate that as they brought their pricing more in line, still a premium to laser vision correction, but maybe not a doubling of laser vision correction, but something a little closer to what the prevailing laser vision correction pricing is that has had an impact. So I think all of it in coming down the diopter curve again when -- as we said in our prepared remarks, we were very encouraged by what we saw within the



group of AECOS surgeons where we did the study and showed that not only did we have a higher rate of adoption 13% of their total procedural volume, but also the fact that they had come down the diopter curve a lot sooner than any market around the world has. And we were encouraged by, again, surgeon confidence equates to growth, equates to coming down the diopter curve. It all feeds into one another. And, again, I think the US is really starting to click on all cylinders.

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**George Sellers**

*Analyst, Stephens, Inc.*

Q

Okay, great. That's really helpful. And then outside the US Highway 93 group, still really strong growth there. Could you just speak to maybe any impact combining some of the clinical data with your marketing team? How that's going if that's part of what's driving this growth and where you're seeing doctors really latch on from that perspective?

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, no, well look at, as I said, our growth outside of Highway 93 is 19%. Put that in context, the US refractive market in Q2 was down significantly, I think somewhere in the area of around 15% to 17%. So, I mean, that's a remarkable growth factor when you keep that in context. And again, EVO's producing happy patients and happy patients make a happy practice and a happy practice makes EVO grow.

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**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

And I think, I tried to hit it a little bit in the question that was about our ability to accelerate revenue as we leave 2024. And I think the question you just asked is a great one, George, because such things as that, whether it's clinical data that we want to put in the hands of the sales team, not just in the US but globally, we're really just at the beginning stages of that. There's a lot of different initiatives we're working on to help deploy it and to make sure that we do get it in the hands of everyone in a compliant manner, as well as what Tom talked about, which is a lot of the stuff on labeling and other such things we're working on. So we're really excited about a lot of these initiatives and the sales force is also getting pumped up globally about things that are going to be coming down the pipe here.

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**Operator:** Thank you. We will now take our final question from John Young at Canaccord.

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**John Young**

*Analyst, Canaccord Genuity LLC*

Q

Great. Thanks for fitting me in here and congrats on a nice quarter here. I have more...

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**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

[indiscernible] (43:00)

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**John Young**

*Analyst, Canaccord Genuity LLC*

Q

Hey, thanks. Thanks again. I just want to start on the US first. Last quarter you talked about the six fast lane accounts. Have you identified more of those that fit that fast lane criteria? How many, if so, and plans for signing more strategic alliances in the second half this year? Any way to quantify that?

**Thomas G. Frinzi**

*Chairman, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah, John, we've signed nine new agreements total so far this year in the US against a target list of about 15. So there's still a few more pending. But again, I think last time we spoke, we were at six, we're now to nine, against that 15 targeted list.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A

And we're actually starting to hear accounts approach us now. And we call that the halo effect. And so on one of the large DMA we have, we've got other accounts now saying, how do I get in on it. So that was always part of the plan, whether you call it FOMO, or whatever you want to call it and things again are starting to click very nicely for us.

**Operator:** Thank you for your participation. That now concludes the call for today. You may now disconnect.

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