

11-Feb-2025

STAAR Surgical Co. (STAA)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the STAAR Surgical Fourth Quarter and Fiscal 2024 Earnings Webcast. As a reminder, this event is being recorded today, Tuesday, February 11, 2025. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the call will be open for questions. [Operator Instructions]

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

Brian Moore

Vice President-Investor & Corporate Development, STAAR Surgical Co.

Thank you, moderator. Good afternoon, everyone, and thank you for joining us to discuss the company's financial results for the fourth quarter and fiscal year ended December 27, 2024. Today's speakers are Tom Frinzi, Chair of the Board and CEO; and Patrick Williams, Chief Financial Officer.

The press release of our fourth quarter and fiscal year 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.

Before we begin, let me quickly remind you that the company 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 and 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 risks 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 in constant currency. Definitions of 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 initial two questions when your line is unmuted, then re-queue with 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 disclosures 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?

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

Thank you, Brian, and good afternoon, everyone. Before I get started, I wanted to thank everyone for joining today's webcast on short notice. We originally scheduled our fourth quarter and fiscal 2024 results for February 19, but as we worked through the quarter and year-end close process and we learn more about the impact of the China economic slowdown on our results for 2024 and outlook for 2025, we felt it was important to communicate our findings with investors sooner rather than later. We are still working to complete the year-end audit and expect to file our Form 10-K on or before February 25, but we did not want to wait to share our results, outlook and perspectives with you all.

I'll begin with an overview of our performance and progress against our growth initiatives before turning the call to Patrick to discuss our financial performance and provide additional outlook details. I will then make some brief final comments before we open the line to your questions.

For fiscal 2024, we reported net sales of approximately \$314 million, which were negatively impacted by weak China macroeconomic conditions that were particularly acute in the fourth quarter. Our continued market share gains in 2024 are overshadowed by our heavy exposure to China, where consumer sentiment and spending remain at unprecedented low levels.

Despite these headwinds, STAAR generated \$152 million of ICL sales outside of China, which is growth of 17% and 13% in the fourth quarter and fiscal 2024, respectively. STAAR's double-digit growth outside of China reflects solid returns on our investments and execution against the vital few strategic priorities and growth levers within our control. This growth would not have been possible without the continued contributions from our global team. And I want to thank all of our STAAR colleagues for their tireless work to drive EVO ICL sales position as the choice for refractive vision correction at minus 6 diopters and above.

It's been a well-documented and difficult macroeconomic environment for companies who do business in China, including for STAAR. We saw significant decline in our sales in China for the fourth quarter and full year fiscal 2024. In the fourth quarter, ICL sales in China were \$7.5 million, and for the full year, \$161 million, down 13% year-over-year.

As stated in today's press release, this was driven by a \$27.5 million order that we shipped into China in December for which we ended up extending payment terms and, as a result, did not recognize that revenue. This was one order with one distributor. However, it had a significant impact on our results in fiscal 2024, and we expect to recognize this revenue in 2025. Patrick will be providing additional accounting details in his remarks.

It is clear that weak consumer confidence in China is negatively impacting demand for our ICLs. As a reminder, our products are a cash-paid, discretionary and premium purchase, so consumer confidence is an important data point for us. As shown on slide 7, China consumer confidence remains weak and retail sales data have been very mixed. Retail sales in the major cities of Beijing and Shanghai were down over the summer, but then there was an uptick in October, presumably driven by Golden Week and government stimulus.

It is because of this that on our October 30 Q3 2024 earnings call, we shared our belief that refractive procedures in China had indeed hit a trough and were rebounding. While we and our distributors were encouraged by the rebound, this sales uptick was not sustained, as retail sales in major cities turned negative in November and December.

Given our distributor model in China, we sell into our distributors in bulk shipments in advance of anticipated procedural demand. Our distributors, in turn, sell through to their hospital customers based on scheduled surgeries. As a proxy for procedural volumes, we track sell-through data, which is estimated based on the movement of product between the distributor and the end user hospital.

To provide some context for the significant variability in our sell-through in 2024, it is helpful to understand how volumes trended. In January 2024, sell-through was up, followed by declines in February and March. Then, we saw a spike in April, and then sell-through moderated again through August. September saw steep decline, but then we saw the rebound in October around Golden Week. Following the short-lived recovery in October, we saw some ups and downs in November, and things worsened in December.

We believe this volatility in procedural volumes will continue until consumer confidence stabilizes and ultimately improves in China. We expect our sell-through to remain highly correlated to macroeconomic conditions there.

Although we cannot predict or control when China consumer confidence and economic conditions will improve, data shows that the China consumer has been saving money with significant increases in household savings over the past several years. As we have stated before, when consumer confidence improves, we have seen rapid improvement in our China sales. For example, we saw a 50% plus monthly increase in sell-through in China in the first quarter of 2023 following the China COVID-19 lockdown as the economy reopened. We and our distributors continue to believe the current weakness in China is transitory and the overall refractive market will rebound.

As we continue to closely monitor the challenging demand environment in China, we are pleased with our performance across our other regions. Excluding China, ICL sales were up a resilient 17% in the fourth quarter and 13% for the full year.

In the Americas, we generated ICL sales growth of 22% in the fourth quarter and 15% for the fiscal year. Our quarterly performance included US sales growth of 22% and unit growth of 21%. We delivered this growth as overall laser vision correction procedures in the US declined 20% in the fourth quarter and declined 18% for the full-year 2024 according to third-party data. We continue to outpace the US refractive market by a large margin, as we refine and execute against our Highway 93 and Fast Lane commercial strategies in the United States.

I am particularly pleased with the progress of our Fast Lane initiative, as these customers generated sales growth of 45% in fiscal 2024 compared to 2023. These results reflect the significant value that our EVO ICL solutions provide to both patients and providers, and show that our commercial strategies in the US, including increased professional education, practice development, and clinical application support, are working.

In EMEA, we generated ICL sales growth of 9% in the fourth quarter and 10% for fiscal 2024, driven primarily by strength in our European distributor markets, Spain, and the Middle East. We are pleased with the performance in this important region, which has delivered growth in the face of a dynamic geopolitical backdrop and elevated inflation levels.

In APAC, excluding China, we generated ICL sales growth of 20% in the fourth quarter and 14% for fiscal 2024. Japan and South Korea contributed to our strong performance, with South Korea boosted by the first ICL-only clinic, which implanted well over 2,000 lenses in 2024, its first year. In India, we generated 21% ICL sales growth for fiscal 2024. We continue to invest in this large market with a focus on regions with rising income levels.

STAAR's total business is geographically diverse with sales in over 75 countries, yet remains heavily indexed to China. Therefore, it will be difficult for the total company revenue to grow at historic rates until China rebounds.

Turning to our outlook. For fiscal 2025, we anticipate ICL sales excluding China of \$165 million to \$175 million, which represents a growth range of 9% at the low end and 15% at the high end. We expect China ICL sales in the range of \$75 million to \$125 million, which we acknowledge is a large range.

I will now turn the call over to Patrick to discuss this in more detail with our outlook assumptions and financial results. Patrick?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

Thank you, Tom, and good afternoon, everyone. Allow me to provide some more details on the underlying variables impacting the ranges of our ICL sales outlook in fiscal 2025 shown here. The amount of revenue that we recognize from selling to our China distributors in 2025 will depend on their sell-through as a proxy for procedural volumes. If procedural volumes remain low, this demand will be satisfied from our distributors' existing inventory. As the overall refractive market and our procedural volumes recover, our distributors will purchase more product from us. And if forward-looking demand looks strong and sustainable, they will purchase even more product, which gets us to the higher end of the range.

Our outlook range assumes overall refractive market procedure growth and our Americas region is down minus 5% to minus 10%, and flat growth for refractive procedures in EMEA and APAC, excluding China. We believe macroeconomic conditions and consumer confidence in China will improve in the second half of 2025. Our ability to reach the high end of the range will depend on whether anticipated government stimulus packages have their intended impact and the 2025 summer high season in China leads to increased demand.

We are collaborating with our distributors to address elevated inventory levels in China in light of the demand environment and have confirmed that there is sufficient product in-country to meet the currently expected sell-through or procedural volumes for the first half of 2025. We therefore anticipate we will report minimal China ICL sales in the first half of the year. We expect global net sales to be approximately \$40 million per quarter for each of Q1 and Q2.

As China in-country inventories reduce during the first half of 2025, we would expect our China revenue to rebound in the second half of 2025 in a range of \$75 million to \$125 million. Our underlying assumption is that the overall refractive procedures in China will be down 10% year-over-year at the lower end of our sales outlook and up 10% year-over-year at the higher end of our sales outlook.

Our outlook range for China ICL does not factor in any potential ASP benefit from the launch of EVO+ in China in 2025. However, we do anticipate that there will be demand from customers and patients in China for EVO+, the latest version of our lens and a new entry to the China market, which should garner a higher ASP. While the product is not yet approved, we continue to expect a midyear timetable. If EVO+ can drive incremental pricing power, it could provide us with some potential revenue upside.

Based on the company's outlook for fiscal year 2025, we no longer expect to achieve our Vision 2026 target sales and operating model originally announced on September 14, 2023. In order to leave sufficient time for Q&A, we have provided our Q4 and full-year 2024 financial results on slides 12 to 14. Please also refer to slides 18 and 19 of this earnings presentation for additional unaudited financial results and a reconciliation of non-GAAP financial measures, which are also shown in today's earnings press release.

For fiscal 2024, our total net sales were \$313.9 million, a decline of 3% compared to \$322.4 million in fiscal 2023. As Tom indicated, our results were adversely impacted by a significant decline in ICL sales in China in the fourth quarter, where the volatile economy and weak consumer consumption contributed to fluctuating demand for ICL procedures.

In December 2024, we shipped \$27.5 million of ICLs to China, for which we did not recognize revenue. To provide some background, our distributors placed orders in December, which we shipped in the ordinary course. In January 2025, as we engaged in discussions with our distributors about demand expectations for fiscal year 2025, it became clear that inventory levels in country were elevated.

Our contracts with our distributors require that they maintain minimum levels of inventory to support quick and efficient delivery and fulfillment for EVO procedures. Given that anticipated demand was lower than expected, one of our distributors indicated that they had sufficient inventory and requested a significant extension of payment terms for its December order.

Ultimately, after discussions in January, we agreed to extend the payment terms and, as a result, we did not recognize the revenue. We did not want the lenses to be returned or shipped back, as we believe keeping additional product in-country mitigates potential risks related to importation challenges, as well as potential impact from geopolitical and tariff changes. Due to the accounting, we were required under GAAP to recognize cost of sales in the fourth quarter of \$3.9 million related to the shipment.

Finally, based on the extended payment terms, we expect to receive full payment and fully recognize this revenue by the end of Q3 2025. Our results in China drove a net loss of \$20.2 million in fiscal 2024, compared to net income of \$21.3 million in fiscal 2023.

Our gross margin for full year fiscal 2024 was down 210 basis points, but remained at a solid 76.3%. For the fourth quarter of fiscal 2024, gross margin decreased primarily due to the recognition of cost of sales of \$3.9 million associated with the ICLs shipped into China in December. Gross profit margin was also negatively impacted by period costs related to the expansion of our manufacturing capabilities in our Switzerland facility, as well as the temporary idling of our US manufacturing facility during the holiday season and for facility upgrades.

As the gross margin hit in Q4 that was related to the December order, gross margin will normalize in fiscal 2025 except that we will see a reduction due to our planned decrease in production output. We expect first half gross margins to be in the low-70s and second half gross margins to be in the mid-to-high 70s, resulting in a full year gross margin of approximately 75%.

Longer term, as our growth rebound, we expect to increase our production output which will lead to higher gross margins. We continue to believe that we will have the potential to achieve 80%-plus gross margins. With our existing capacity in Monrovia and our planned manufacturing in Switzerland, which is close to completion, we will be able to address growth in demand without significant incremental CapEx for manufacturing.

Over the last few years, STAAR has made significant investments globally in human capital, manufacturing capacity expansion and technology infrastructure to bring our procedures to the market. In 2025, we will manage our working capital and implement appropriate cost-cutting measures in light of the lower revenue forecast. We intend to lower production output, decrease capital expenditures, and make targeted reductions to operating expenses which will impact head count and discretionary spend.

We will continue to invest in commercial-facing activities, especially in those markets that have the potential to drive double-digit growth. A high percentage of our total operating expense is related to head count and is essentially fixed in nature. With that said, we will closely monitor sell-through procedural volume in China and its potential impact on our overall revenue, and we will make further reductions to OpEx as appropriate.

For modeling purposes, the following operating expense ranges are provided and take into account the low and high end of our fiscal 2025 sales outlook range. We expect general and administration expenses to be approximately \$20 million to \$27 million per quarter, as we complete various technology system programs like our ERP, quality and CRM upgrades; and as we annualize compensation-related costs.

We expect selling and marketing expenses to be approximately \$22 million to \$30 million per quarter, as we continue to invest in activities that drive demand generation across our global markets. And we expect research and development expenses to be approximately \$11 million to \$15 million per quarter, as we continue to invest in our product pipeline.

Turning to adjusted EBITDA. Depending on where we land in our sales outlook range, we anticipate an adjusted EBITDA loss of approximately \$30 million per quarter in the first half of 2025, followed by an adjusted EBITDA gain range of approximately \$5 million to \$22.5 million per quarter in the second half of 2025, resulting in a full-year adjusted EBITDA loss range of approximately \$50 million to \$15 million, or an adjusted EBITDA loss per diluted share range of approximately \$1 loss per share at the low end of the range to \$0.30 loss per share at the high end of the range.

Finally, turning to cash. We ended fiscal 2024 with \$230.5 million in cash, cash equivalents and investments available for sale, compared to \$232.4 million at the beginning of the year. Over the past several years, STARR has shown the ability to generate significant cash from the operating leverage of our business model, as evidenced by our strong balance sheet and ability to maintain our cash reserves despite important operating and capital investments.

We also had no debt and approximately \$78 million in accounts receivable at December 27, 2024, which we do expect to fully collect in the first half of 2025. As of today, we have received additional payments from our distributors, and our AR balance is now below \$65 million. We will continue our disciplined financial approach as we move to the first half of 2025. We will pause some CapEx build-outs, and anticipate our total CapEx spend in the fiscal year 2025 will be approximately \$15 million, primarily related to completing the aforementioned manufacturing expansion and system and technology infrastructure improvements.

Use of cash and cash flows will vary by quarter, but we will be managing capital expenditures and working capital closely, especially in the first half of 2025 and expect to end the year with cash, cash equivalents and investments available for sale of approximately \$150 million to \$175 million. We do expect to begin rebuilding our cash reserves as we move beyond 2025.

And now back to Tom.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

Thank you, Patrick. Before turning to questions, I want to provide some closing remarks on 2024 and level-set our path forward for 2025 and beyond.

Ongoing macroeconomic challenges in China clearly pressured the business in 2024, particularly in the latter half, as consumer spending dropped to unprecedented low levels. China remains the largest market for refractive procedures globally and is a large part of our business. It is disappointing that the challenging market dynamics in China overshadowed the growth we achieved across our other markets.

As we have said before, myopia is not going away. Global myopia rates are expected to increase by almost 20 points to 50% of the world's population by 2050. EVO ICL continues to outpace the global refractive market. We have a unique technology in Collamer with over 30 years of proven success and demonstrated clinical outcomes. Our team, our best-in-class technology and our disciplined commercial strategies all position us to capitalize on this total addressable market opportunity and drive continued growth, including in China as that market rebounds.

Our strong balance sheet was built over years to provide resiliency to weather times of global uncertainty like these, which we believe are transitory. We will maintain our discipline and continue investing in critical areas of demand generation in our product pipeline, while closely monitoring and managing our expenditures and working capital.

Again, I want to thank the STAAR team for their efforts during these dynamic times, as we build lens-based refractive surgery with our EVO ICL. And we will return the total company to a strong growth trajectory. And I also want to thank all of you for your continued support.

And with that, operator, we will now take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Ryan Zimmerman with BTIG. Please go ahead.

Q

Hi, everyone. This is [indiscernible] (00:26:41) on for Ryan. Thanks for taking the questions. So, just to start out, it looks like your global units are down about 39% year-over-year. And I was curious if you could speak to what you guys thought for pricing during the quarter?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. I mean, it's all about the China fall that we saw in Q4. So, it's really related to the \$7.5 million in overall revenue in China. And that follows through to the units and the decline that we saw.

Q

Got it. Thank you. And then, as we start to look about or look at 2025 guidance, it seems that you're assuming a slowdown in refractive volumes across all regions compared to 2024. I was hoping you could speak to what's driving this. And then, as we look specifically at China, is your assumption for growth in the back half of the year predicated entirely on stimulus taking effect? Thanks for taking the questions.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah, I think let me try to address the latter part of your question. Certainly, stimulus will have a large impact on that. I think as there's more clarity between the US and China relationships, I think the China government will make some decisions. I know there's a key meeting coming up in March. So we do believe, as we've said many times, the challenges in China are transitory. I think the business integrity is there. The market opportunity remains strong. Myopia isn't going away, and we feel we're well-positioned.

And we do think it's a tale of two cities. Given elevated inventory levels, given the poor high season this past year and how the year ended, we anticipate that it's going to be slow in the first half, but we do believe it'll pick up in the second half. And given our relationships in the market with KOLs and our relationships with our distributor partners, we believe we'll be able to, as was demonstrated in 2023 and 2021, respond rather quickly as the market turns.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

And I'll go ahead and hit the underlying assumptions for the major regions, and you are correct. So, the basis of our outlook on the rest of the world, excluding China, for the Americas, we are assuming that it will continue to be a challenging year. We believe the overall refractive market in the Americas, which is primarily driven by the US, will be down minus 5% to minus 10%, but we do believe that our US number will still grow around 15% year-over-year. So, we are still taking market share.

For EMEA and for APAC, excluding China, we do assume that the markets will be flat, overall market. We will, of course, continue to grow, and we provided that in our guidance.

And then finally in China, just to hit that a little bit further, we did give quite a wide range. The overall refractive market on the lower end of our range does assume that there's continued deterioration in the overall refractive market upwards of minus 10% year-over-year. The upper end of our range assumes that the overall refractive market in China would have a rebound and that was at the higher end of 10% year-over-year.

Q

Thanks for taking the questions.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Absolutely.

Operator: The next question comes from Tom Stephan with Stifel. Please go ahead.

Thomas M. Stephan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Hey, guys. Thanks for taking the questions. I guess I'll start kind of big picture. How did we get here in terms of the China inventory issues and I think the pretty significant fallout from a P&L and accounting standpoint? I mean, maybe the heart of my question is, I guess, how can investors be assured moving forward

that these issues, A, will be remediated, I guess, at the company level and, B, more importantly, not act as a meaningful risk? And then I have a follow-up.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah, look, I think ultimately related to the shipments that we did not recognize revenue in, that's a bit of a timing issue. What we saw as we were exiting 2024 and certainly the high [ph] season (00:30:57) of 2024 is that we started seeing some elevated inventory levels. As we did on our Q3 2024 earnings call, we actually did lower China because of one of our distributors telling us that they were seeing some softness.

The reality is, at the end of the day, no matter what happened to that revenue that we did not recognize in 2024, we do have elevated inventory levels and working through that. And so the first half, as we said, will have very little revenue that we ship into China.

And I think to your ultimate point in your question, Tom, look, we do believe and we provided a very large range for China and I just went over what the underlying assumption is. We think that the government in China will continue to focus on stimulus and focus on building consumer confidence, but that is the basis of the large range that you see for China.

Thomas M. Stephan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. That makes sense. And then, one kind of sort of housekeeping question and then just one on competition, sort of a two-parter. I guess if \$28 million was shipped in December specifically but not recognized, were there only \$7.5 million of China ICL sales in October and November? Maybe you can help me connect the dots there.

And then just on China competition, can you discuss what is factored into your guidance as it relates to the impact from Eyebright, and was the distributor behavior at all related to their response to the Eyebright approval I think it was earlier this year? Thanks.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah. Tom, let me take the last part of your question, and then certainly Patrick could add some more guidance and details relative to the first part of your question. I think as it relates to competition, no, none of this that happened at the distributor level. And again, it's one distributor and one order, let me remind you of that. Had anything to do with Eyebright coming into the marketplace. We've been very clear that we respect a new competitor coming into the marketplace. I think it does validate that the market opportunity continues to be attractive and exciting. But by no means do we believe our distributor took the actions they took as a result of competition.

As we've said in the past, the Eyebright product is sphere only versus sphere and toric, and 50% of the market is toric, 50% is sphere. They have limited clinical experience versus our 3 million implants sold and certainly in China alone, approaching 2 million of implants in eyeballs. So, clearly, we have a reservoir of good experience with key opinion leaders in-country, and our team is well-established in maintaining those relationships. So I think Eyebright will be a factor. They'll probably be sampling and providing product to hospitals, but we believe we're well-positioned versus competition.

The thing we all need to happen in the largest refractive market in the world is for that market to start to turn. And we think it will by the back half of the year, and when it does, we're well-positioned to take advantage of it and get back into the kind of trajectory and growth curve that we believe EVO ICL technology deserves.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

And to answer your question, Tom, on the first part, it's Patrick. Yeah, you are correct. So we did only ship \$7.5 million. As a reminder, on our Q3 earnings call on October 30, we did talk about the fact that we were reducing China revenue for the full year and we took it down from about 10% revenue growth for the full year to about 2%. That was a byproduct of having conversations with our longer-lasting distributor that we've had for over a decade now. I think the business that they support is one that's probably a little bit more steady long term. They took over our biggest end user customers in China like the Ayer Group, Washa, Bright Eye, et cetera.

Our newer distributor, that's where we did reduce – we did ship but not recognize the revenue. As a reminder, really, what they're focused on is expanding into new territories, opening up new accounts. They've added salespeople to do that. They're going into Tier 3 and Tier 4 cities, et cetera. We've always shipped in demand – shipped in product ahead of demand. And in this situation, as we were having further conversations with them post the shipment in December, it became clear that they requested some very, very extended payment terms, as Tom alluded to. And we just felt that it was not appropriate to recognize that. And so, we will recognize it as they make those payments.

But again, we view this as transitory. This is not going to happen again, to your question earlier. We've had clear conversations with both distributors, not just in China, but anywhere in the world that we have a distributor. And we are focused on sell-through now and what we need to drive sell-through.

Thomas M. Stephan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. Thanks for the color.

Operator: The next question comes from Anthony Petrone with Mizuho. Please go ahead.

Anthony Petrone

Analyst, Mizuho Securities USA LLC

Q

Thanks. I'll stick on China a bit. I guess one on the distributor dynamic. I know you brought in a new distributor and you had a legacy distributor. Was this large order in December, was that the new or the legacy distributor? And I guess to what extent do you actually have month-by-month consumption date of ICL? Does it mirror sort of the retail sales data that you gave in the deck here on slide 7? In other words, did you have a good October and then things sort of really decelerated again on the ground in China in November, December? And if you do have that data, what have you seen in January, February? And I'll have a quick follow-up. Thanks.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Sure. So actually, I tried to allude to it on the last answer that I just gave. The order that was specific that we will be recognized revenue in Q3 of 2025, that was related to our newer distributor. And as I said, I think there's reasons behind that. Notably, we've addressed those moving forward, but they are focused on moving into other accounts, expanding, et cetera, Tier 3 and Tier 4 cities.

In terms of your question on sell-through data, Tom made some comments on that as well. We are continuing to fine-tune that. And what I would tell you is, even in a down market in 2024 where we believe the overall China refractive market was down 15%, we believe we held our own and continue to take market share based on the sell-through data that we look at.

In terms of March – or I'm sorry, so in terms of January, we have seen an uptick in that number. We'll call it mid-single-digit year-over-year growth. One month doesn't make a trend, but what I would say is we are cautiously optimistic. But at this point, we will continue to monitor that. And I think it's fair to say that you all asking us that question of what we're seeing with our sell-through data is completely reasonable, and we will provide updates on what we're seeing because that is going to be the basis of what the rebound looks like in the second half. And again, I want to reiterate our underlying assumption for China is still minus 10% refractive market all the way up to 10%, which is the basis of that large revenue range of \$75 million to \$125 million.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

And again, Anthony, I would just reiterate that our focus now going forward in China in particular, but anywhere where we compete in a distributor market, is to closely monitor and manage and incent sell-through, not sell-in. And I think that behavior change, if you will, together with better quality data that we're now generating, I think gives us all a lot of confidence that this was an anomaly, won't happen again, and we're going to manage our business for the long-term growth that it represents.

Anthony Petrone

Analyst, Mizuho Securities USA LLC

Q

Appreciate it. Then a quick follow-up here is just sort of on some of the policy announcements that we've seen. And so, actually, on the Apple call a few weeks ago, Tim Cook actually disclosed that there was a stimulus package released January 20. And then, the expectation is that the first week of March, the economic ministry in China will announce a broader package. Do those dates line up? Have you heard anything similar to that? And then just your high-level comments on the evolving trade war that we're seeing, how does that factor in your minus 10%, plus 10% guidance? Thanks.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah, I think what you mentioned, we're reading the same news and are aligned to those dates in January and March, and we'll see what comes of that. So, again, I think by the second half of the year, stimulus should have an impact. And as it does, I think we're going to be pleasantly surprised to see things get back to normal and be optimistic about it as we move forward.

January is encouraging, as Patrick said. Let's see, high – not high season, but the Chinese New Year hit in early February. We'll look at January and February in combination. If that trend continues, that's another encouraging sign. So, we're keeping our ear to the ground and trying to read the tea leaves just like everybody else.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

And what we're seeing is, there's definitely savings with the consumer patient in China. We know that there's money that they can spend. We eagerly await to see what sort of stimulus or policies that the government is going to put in place to stimulate higher consumer confidence. But the reality is, people are just simply not getting

refractive procedures right now in China. We do continue to take market share, and we believe this can rebound and we have data points that say that it can come back.

So, we've tried to put some bounds around that. We're not being overly bullish in our opinion on what the overall refractive market. Again, that's the low end of our range of minus 10%. We do have a little bit of a rebound on the high end. I know I've said this already, but that is the basis of the wide range for China.

Operator: The next question comes from Macauley Kilbane with William Blair. Please go ahead.

Macauley Kilbane

Analyst, William Blair & Co. LLC

Q

Hi, everyone. This is Macauley on for Margaret tonight. Thanks for taking the question. Wanted to continue the trend here and follow up on the China guidance. I understand the guide doesn't include any pricing benefit from EVO+. But you already have some lower volumes on what would become a lower-priced, call it, first-gen EVO. And as you mentioned, the competitor expected to enter the market this year. So I guess, what gives you that confidence other than potentially a variable input in the stimulus, even on the high end, the low end of that guide, as you mentioned, Patrick?

And then, just as a follow-up. Tom, you mentioned some of those KOL relationships. And I appreciate the team has been traveling out to China more than they have in the past. But I think we have heard this tale of two cities before. So I guess, what gives you – or I guess, what more can you do from a visibility standpoint to kind of help those improvements become more sustainable beyond just that second half as we look longer term and bigger picture?

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah. Look, at the end of the day, this business boils down to good relationships. And I think we have those in China at the KOL level. And as we listen to the news and better understand stimulus that could come, we believe we're well-positioned. We've said all along, the challenges are transitory. It's not a fundamental problem with a business model or a product performance level. We know we have a great product, a unique material and column or we have a history of great outcomes. Myopia is not going away. People continue to need vision correction.

And as consumer confidence returns as a result of China stimulus, we think the business is going to turn. Now, whether that's Q2, whether that's Q3, whether that's Q4, thus the range of minus 10% to plus 10%, we're trying to be thoughtful about what could happen, and we know we're going to be working with our distributor partners to manage down inventory. That's a positive. And as the market rebounds, we believe revenue will pick up accordingly as that inventory gets back to normal levels in terms of how we can service the market in an appropriate way.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

And to follow up on EVO+, again, as we work down these elevated inventory levels, that would be associated with EVO product. And so, as we launch EVO+ which we have right now in the middle of 2025, to be fair, we want to make sure that we're thoughtful about what we incorporate in guidance. In this case, we did not incorporate any potential upside related to EVO+ being launched from an ASP standpoint.

We do need to see what the competitor is going to do and we're watching that closely. So, it could be potential upside, as I said in my prepared comments. And we did not factor it in the guidance. And we'll provide commentary as we move closer and better understand exactly what the competitor's doing out there.

Macauley Kilbane

Analyst, William Blair & Co. LLC

Got it. Appreciate it.

Q

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

Thank you.

A

Operator: The next question comes from Patrick Wood with Morgan Stanley. Please go ahead.

Patrick Wood

Analyst, Morgan Stanley & Co. International Plc

Brilliant. Thank you for taking the questions. And for the record, having a wide range on the guide is totally fair enough, given what you're having to forecast. So, totally fair enough on that.

Q

I guess, my first one is, you guys alluded to tariffs a few times. Just I know it's impossible because you don't really know the lay of the land, but how conceptually are you thinking about how things could evolve there and how your supply chain could or might not be impacted?

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

Well, again, as we've said in the past, we have our Switzerland facility gearing up. And our plan when the EVO+ product is approved midyear in China, we're going to begin shipping product in from Switzerland, which certainly minimizes the impact of tariffs, whatever they end up being, plus with inventory in-country already, that also provides a little bit of insulation from what can happen on a go-forward basis relative to tariffs. So, we think we're certainly not 100% immune, but we think we're fairly well-insulated from what could happen geopolitically.

A

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

And from a supply chain standpoint, I can tell you that we are highly vertically integrated. To build our products, it's a few raw materials, porcine and some chemicals, those are all sourced from the United States. So, any of the news that you're hearing about tariffs, not just with China but other parts of the world, we do not see that we will have any material impact at all. Once again, vertically integrated and virtually anything that matters is sourced within the United States.

A

Patrick Wood

Analyst, Morgan Stanley & Co. International Plc

Super helpful. Thank you. And then, as a quick follow-up, I mean, imagine a world where the guide kind of pans out exactly for 2025 exactly as you've left the road map. How do you feel, sort of midway through the year, the inventory rate in China would be? It's obviously quite a lot that's getting taken out of your customers' inventory just because of the amount of sell-in versus sell-out. Like, are we going to be at very low inventory levels or relatively normalized even just qualitatively would be super helpful there.

Q

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. It's a fair question. And clearly with us not shipping in a lot of revenue for two quarters, I think most people can probably do a back of the napkin to say, perhaps you've got elevated inventories upwards of six months or two quarters. And so, what we've tried to take into account is a situation of that large range once again of minus 10% to plus 10% over the overall refractive market, which is the basis of how much additional revenue would be potentially ship in.

Clearly, if we're in the high end, what we're looking to do – whether we're on the high end or low end, Patrick, what we're looking to do is work down our inventory levels, back down to the contractual levels that are in the contract with both distributors, which we believe is the appropriate amount in order to provide the ultimate service that we need to which is really same-day lenses or next-day lenses throughout the country of China.

Patrick Wood

Analyst, Morgan Stanley & Co. International Plc

Q

Super helpful. Thank you so much.

Operator: The next question comes from Steve Lichtman with Oppenheimer. Please go ahead.

Steven Lichtman

Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Hi, guys. I wanted to build on that last point, Patrick. So in the first half here, what kind of end market growth do you need to see in order for you to work down that inventory so that you can start recognizing revenue in the third quarter? So, that's question one. I'll ask the second question as well.

On G&A, it would seem that that would be a little more in your control. So, why the wide range on G&A as you look through the quarters here? Thanks.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Sure. So, let me let me start backwards and go back to the – your original question. On the G&A side of it, really, what it relates to mostly is as we reset all the targets and everything coming into 2025, there's a large component related to stock-based compensation and what I would call other variable compensation. So, that's what you're seeing on the G&A side. But rest assured, that's on the high end. If you look at the low end of the guidance, we are managing that, which means there wouldn't be an achievement of some of that.

When it comes to your question on what would we need to see in the market, again, if the overall refractive market is down 10% and we assume that we would take some market share, that would be the by-product of exiting the low end or \$75 million. We may ship sooner if we see the market rebound. If January is any indication of where it could go and that continues and is sustained, you may see some incremental revenue in Q2. But for now, what we're doing is we're focused on really let's manage the inventory level down, and if we can hold our own as we're seeing right now and see some spikes, then we will be on the higher end of that range, but it's yet to be determined at this point.

Steven Lichtman

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thanks, Patrick.

Operator: The next question comes from Jim Sidoti with Sidoti & Co. Please go ahead.

James Sidoti

Analyst, Sidoti & Co. LLC

Q

Hi. Good afternoon and thanks for taking the questions. Can you talk about your cash burn for a little while? It looks like you expect to burn through about \$70 million in cash in a year, which is above the operating loss you expect based on the guidance you've given. So where's the cash going to go?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. So it's Patrick here. So again, we have a pretty wide range on our revenue, right? And getting back to the China range of \$75 million to \$125 million, that's a \$50 million range of revenue that doesn't take much incremental OpEx to support it. So in other words, it's a high translation of contribution margin. So if you apply a 70% to 75% gross margin to that, you're getting some very strong translation. So that's part of it. And on the low end, what I try to provide is we will forecasting to exit the year at between \$150 million to \$175 million, and that's to take into account that large range of the China revenue.

In terms of what the cash usage will be, look, we're – our AR is being worked down. It's all fully collectible. We do have some CapEx that we need to complete, notably completing the manufacturing expansion as some of the infrastructure improvements. We did save \$15 million approximately of CapEx in 2025. That is a reduction from prior years. And, of course, just managing our working capital, which is primarily related to what I would call inventory. Again, because we do have elevated inventory levels, you'll see some of that as we go through and produce our 10-K. We are managing down some of our raw material inventory which obviously results in finished goods, et cetera.

The math should work, Jim. I know we've put a lot on you guys to try to model in a short period of time. Happy to catch up with you on the after calls if we need to, to make sure that you see where all the moving parts are.

James Sidoti

Analyst, Sidoti & Co. LLC

Q

All right. So it sounds like everything else really depends on what happens in China in the second half of the year. If that business picks up, the cash burn would be significantly lower.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

It clearly is the largest market in refractive surgery. And the fact that a large portion of our revenue depends on China, yeah, it does, right, to your to your point, Jim. But let me remind everybody on the call, as we indicated in our prepared remarks and in our press release, we're growing ex-China, and even ex in Asia-Pacific region, we're growing double digits, Japan, South Korea, India, EMEA, the Americas. We are growing.

So as we think about how we're managing cash, how we're managing our operating expenses, we've tried to strike a proper balance. So we're supporting those markets where we're growing. We're certainly kind of entrenching ourselves in markets that aren't growing and trying to be thoughtful about where we want to invest. Are we going to get a reasonable return on that investment?

So I think let's not lose sight that we are growing. And the fact that we have, over the years, built up a strong balance sheet with no debt certainly serves us well to manage through the transitory nature of the challenges that we're facing here. We believe on the optimistic side that it's a two-quarter challenge. Whether it's a two-quarter or three-quarter or, for that matter, a four-quarter challenge, we're still able, because of our strong balance sheet, to manage through this, come out the other side a stronger organization and be prepared to get back to the growth trajectories and cash generation our business model produces.

James Sidoti

Analyst, Sidoti & Co. LLC

Q

And that was my next question. So, despite the issues in China, it sounds like you're going full speed ahead with some of your marketing initiatives in the US and Europe. Is that right?

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Absolutely.

James Sidoti

Analyst, Sidoti & Co. LLC

Q

All right. Thank you.

Operator: The next question comes from Matthew O'Brien with Piper Sandler. Please go ahead.

Q

Hey, this is [ph] Phil (00:56:03) on for Matt. Thanks for taking our questions. I was just hoping to go back on to the discussion with consumer confidence. It goes without saying that China's consumer confidence has been depressed for some time. We've been talking about it for two years. Why did refractive volumes take so long to kind of lag that broader economy, given the slowdown you saw rapidly in Q4?

And what does your current guidance imply as far as refractive volumes kind of coming back quicker than maybe consumer confidence might imply, given that it was lagging before? And then, just hoping to get your color on how you really triangulate it on 10% volume declines on the low end as being appropriate.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. I think I'll start with the consumer confidence piece, right? So, yeah, there – I can't speak to maybe some of your specific questions, but I think with the refractive market, what we're seeing is myopia is not going away. China is the largest refractive market. There's a higher incidence of myopia. It happens at a younger age, and we continue to see the demographic of those people to continue to grow.

And so, I think it just gets back down to that people love the EVO procedure. One out of every five eyes is – or is getting an EVO in their eyes, and so that's probably why we might have been a little bit more resilient. I think as consumer confidence comes back, we will absolutely see an uptick in our refractive models.

I want to reiterate to everyone, procedures are still happening today. EVOs are happening today. Refractive procedures are happening today. We just have to work through these elevated inventory levels as a transitory nature.

In terms of how we came up with the minus 10% to the plus 10% for the refractive market, look, I think for us, we believe the China market was down 15% overall refractive in 2024. Obviously, our sell-in revenue that we recognize, we're shipping product in ahead of demand and consumption for the sell-through. Clearly, as we ship that in, inventory levels have risen, and therefore, we're working them down.

With that said, we believe that on the low end, we'll be continuing to see some depression, especially in the first half, but we also think that the government is going to do everything they can in China to stimulate consumer confidence. We heard earlier someone talk about Apple mentioning that in early January. That happened to focus more on electronics and specifically cell phones. But we do believe the government will look at other areas to stimulate consumer confidence across the board.

Q

That's helpful. Then one quick follow-up. As far as the inventory being related to the new distributor focused more on lower-level prefectures, any way that might be a canary in a coal mine as far as China Tier 1 cities go, the Beijings, the Shanghais, that sort of thing?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

No. If anything, clearly, those big cities will probably rebound quicker. We are making efforts to move into Tier 3 and Tier 4 because we believe there's some low-to-mid hanging fruit out there of patients that want to get the procedure that don't want to initially take the time to travel to the big cities. And so, that was one of the reasons why we went with the newer distributor that has that large network into the countryside in Tier 3 and Tier 4 cities, et cetera.

Q

That's helpful. Thank you so much.

Operator: The next question comes from John Young with Canaccord. Please go ahead.

John Young

Analyst, Canaccord Genuity LLC

Q

Yeah. Hi, Tom, Patrick. Thanks for taking the question and pardon my background noise, I'm taking the call from the airport. First is on China. I just want to focus on your field force that you have on the ground today. We haven't really spoken about them yet. But what feedback have you heard from your own sales force and maybe how you're going to incentivize any differently to help manage the dynamic with the distributors?

And I'll ask my second question, too. It was nice to see the return to quarter-over-quarter growth in the US. How many Fast Lane accounts today are you at? And just any updates on the US growth initiatives that you highlighted in the past in relation to cost-saving measures you're speaking about today? Thanks.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah. No, I appreciate it, John, for the question. Relative to China and our distribution channel there, as you've heard us say in the past, we have roughly 100 people on the ground in a variety of capacities around training, selling, clinical application support. And clearly, the focus in China with our own people has been constantly on training and demand creation. So, we're going to continue to focus in those areas.

But as you heard us allude to earlier in this call, one of the changes is to really now incent the behavior on sell through, not sell-in, to our distributors, but now making sure that we're really paying attention at the ground level on execution against procedures as opposed to just selling in. It's got to be about sell-through and really focusing our teams on true demand creation, working directly with the accounts as well as working closer with our distribution partners.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. And I would say that I'll answer the US growth as well. But just to piggyback off of Tom on China, it's all hands on deck. Our Chief Operating Officer, Warren Foust, just came back from China. He's given a great download. Many of us are headed back over there. And clearly, as Tom said, we are highly focused on what we need to do to move the needle in China, especially with sell-through and working closely with our distributors. We also have an opportunity with EVO+ coming out here shortly to collaborate and open up terms with our distributors as we move forward. And so, that will be a big part of what we do going forward. We think there's opportunity there for economics as well as if we want to change behavior and incentivize differently.

Related to US, thank you for mentioning it. It did have a strong quarter to end the year. As we said in our underlying comments, we still think that the US market has some pressure in it for overall refractive, 5%, maybe 10% down year-over-year, which is clearly not a rebound. We continue to take market share, but we've moderated our overall growth on a year-over-year basis to approximately 15%.

We do have about 13 Fast Lanes now out of the I think it's a little more than US High 93 now. But we started off the year at around zero, and we do have a new way to segment our customers and that has continued into 2025. And we just came back from our big national sales meeting where there was a lot of enthusiasm, a lot of excitement. The teams are ready to go out there and see what we can do to continue to move down the diopter curve. And I think importantly, as Tom likes to say, is what can we do to build the pie again, right?

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Yeah. I think that point should be even emphasized more. Look it, clearly, laser vision correction, particularly in a market like the US or I'd say globally around the world, has been in steady decline. We referred to it jokingly as a melting ice cream cone. And yeah, we're taking share. But you know what? We have to get into the business of building the pie back up. We'll continue to take share. We'll outpace the current refractive market. But we need to engage more contact lens wearers and spectacle wearers to opt for a lens-based refractive procedure versus a corneal-based procedure.

So in 2025, we have new initiatives geared towards the optometric community, educating them on the benefits of lens-based refractive surgery generically. The fact that we're not severing corneal nerves, we're not inducing dry eye, it's a removable technology, preserve the integrity of the cornea for future consideration, et cetera, et cetera.

And I believe part of our focus in 2025 is to bring more people into refractive surgery because, as you've heard us say, and some of you have alluded to, the markets continue to decline. We believe we'll take advantage of that because we think we have better medicine as well as better business, and we'll continue to take share. But I think we have to grow the pie as well, and we're focused on doing that.

We obviously have a head-to-head study that we've kicked off in the US, staying on a US track here. We're about 50% enrolled in that. We think full enrollment will be completed by the end of Q1 and we think that's going to be further evidence of demonstrating the future is lens-based as opposed to corneal-based when it comes to vision correction.

So, the China issue has been a gut punch. There's no doubt about that. Nobody's happy that this occurred, but it is transitory. We believe we have a balance sheet that can manage it. We believe myopia is still a great growth opportunity for us to continue to build our business. We believe we have the best technology. We believe we have the best people. And it's keeping our head down, manage through this adversity, come out the other side stronger, and get back to the kind of growth initiatives that you and we have come to expect.

John Young

Analyst, Canaccord Genuity LLC

Thanks.

Q

Operator: The next question comes from David Saxon with Needham & Co. Please go ahead.

David Saxon

Analyst, Needham & Co. LLC

Great. Good afternoon. Thanks for taking my questions. Wanted to follow up on that \$28 million order. I thought you typically recognize revenue on shipment into China. Patrick, you seem to be suggesting you could recognize that sooner than the third quarter you talked about. So what do you need to see in order to recognize that revenue? Is it actual payment or some other milestone?

And then the China guide, Tom, I wasn't really clear on the previous answer. Like what if any impact is assumed in guidance from Eyebright? And then, I have a follow-up.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

Sure. Let me try to answer the Eyebright situation. Again, I think they've gone on record as saying, they think they're going to do somewhere around \$5 million worth of revenue in their first year. Obviously, relative to our business in China, whether it's in this current state or in our historic state, that's a small part of the pie.

So, we believe, given the economic realities in that market, it's tough to be launching a brand new product. We think we continue to be well-positioned. We've tried to be balanced in our minus 10% to plus 10% range. Granted it's a big range, but we think that's driven more by the economic realities than it is by Eyebright being in the market.

But as I said, I believe competition coming to the market is a good thing. It validates the ongoing market opportunity. But we believe we have such a firm, established position in the market that will weather not only these economic times, but also competition coming in.

A

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah, and I'll hit your question a little bit more. So, just to piggyback off of Tom, as he said, we think they'll do about \$5 million worth of revenue which clearly would come out of our pockets if that's the case. We also know they may do some trialing and give out free lenses. We've tried to account for that as best to our ability. That's included in the guidance that we provided of that \$75 million to \$125 million.

In relation to the shipment, I want to make sure I reiterate it. I know you guys are digesting a lot. We did ship that product based on the order that was placed by the distributor in December, and we would normally recognize revenue on that. And in fact, we were ready to recognize revenue on that. It's one of the reasons why we pulled this forward as we worked through it in kind of the mid-January timeframe, as we were settling in on our 2025 numbers and reconfirming worldwide with everybody our commercial team.

This distributor said that they weren't going to be able to pay in a timely manner. That timely manner ended up being a pretty prolonged number. And if you listen to what we said, which is we anticipate to recognize by the end of Q3, that's essentially like a nine-month extension. And we just felt it wasn't appropriate for us to recognize revenue. We made that determination. That's not how we run our business. And when they began to pay against that \$27.5 million, we will recognize the revenue, and we have commitments from them that they will pay by September.

They do have some outstanding orders that we shipped in Q3 that they have paid for and continue to pay a little bit on. So, there is no issue from our minds related to liquidity. There's no issue related to their business. This is just simply them working through their working capital. Again, we've had this frank and candid conversation with them. This will not happen again. And if they need to have extended payment terms, we would simply choose not to ship. So, it just happened to be that the accounting required that we do this. It's a little bit of a nuanced accounting, but this is what's required under GAAP.

Does that answer for you, David? I want to make sure it's very clear.

David Saxon

Analyst, Needham & Co. LLC

Q

Yeah. No, that was super helpful. So, on the ordering and the rev rec, I mean it sounds like it might just be more of a trickle versus 2027 to 2028 recognized at any given point. Is that right?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

It could be, but they tend to pay us in pretty lumpy amounts, right? So what I would tell you is, if you kind of listened to – on my prepared comments, I said our AR was around \$78 million at the end of December, the end of the fiscal year. We're already down to \$65 million. A significant portion of that \$13 million reduction is a payment from one of our China distributors. So, they do tend to pay in large bulks which is consistent to kind of how they take orders.

Again, they take multiple orders throughout the year. It's not like they wait until the last second. It just happened to be that this specific order was a little outsized and pushed towards the end of the quarter. We can speculate as to the reasons why. But at the end of the day, we did the right thing and we'll work down the inventory levels and come back in the second half.

David Saxon

Analyst, Needham & Co. LLC

Q

Okay. Very clear. And then my follow-up is on the US. So if I heard you right, Patrick, you're assuming 15% growth in the guide. I think you did like 23% in 2024 and it's small numbers. But I mean, the dollar growth is a touch lower than what you saw in 2024 as well. So what's driving that assumption? And then, how confident are you in sequential growth in the US? Thanks so much.

Thomas G. Frinzi

Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.

A

Look, and as we said, the market is going to be down again in the US. And I think to a degree that we can begin growing the pie again, David, I think that's when you'll start to see bigger increases. Look, we're all focused on how quickly can we get to a \$6 million, a \$7 million, an \$8 million quarter, and really start driving this business. And that's going to continue to take time.

We're developing a brand-new channel, lens space refractive surgery. We've been at it now in the US pretty hard for about two-and-a-half to three years. And as you've heard me say time and time again, it takes time to build a new channel. And we've been doing this, taking share in a declining market ever since we brought EVO to the marketplace. And we're going to continue to do that. But I think in terms of the kind of growth I believe this technology deserves, we need to get the whole pie growing again, not just simply taking shares from a declining market.

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. And then to answer your question on sequential, I think in our supplemental, we provided that the US did about \$5 million, \$5.1 million, right, in Q4. We would expect that we would be above that coming into Q1 of 2025. We'll see where we get in the range. But we do expect we had a decent close to the year. The team's pumped up, and I think the low mark would be \$5 million is what we're expecting in the quarter right now for Q1 2025.

David Saxon

Analyst, Needham & Co. LLC

Q

Great. Very clear. Thank you.

Operator: The next question comes from Mason Carrico with Stephens. Please go ahead.

Mason Carrico

Analyst, Stephens, Inc.

Q

Hey. Thank you, guys, for fitting me in here. Just a few quick cleanups for clarity. On the back half revenue range you provided for China, is the procedure volume range for China a full-year range? If it is, what are your assumptions for volume growth in the back half?

And then did you say that the back half range for China assumes that inventories work down to the minimal required levels and normalizes there for the remainder of the year, or is it assuming some sort of dynamic with reorders stepping up above that?

Patrick F. Williams

Chief Financial Officer, STAAR Surgical Co.

A

Yeah. So, on the inventory levels, on the low end, number one, we're trying to work down the inventory levels to the contractual numbers that we talked about, right? As I said, going dark and not shipping a lot of revenue in the first two quarters, most people assume we have probably upwards of six months of elevated inventory. Clearly, if we're on the low end of that range of the \$75 million, then we haven't worked down probably as much inventory as we had hoped. But the range is to make – to ensure that we try to get down as close as we can to those contractual levels.

In terms of what our assumption is for overall sell-through procedures, again, it's probably fair to say that the overall market that we have right now, you can peg us to that with some market share gains. In other words, what I'm trying to say is if we were down 10% in overall sell-through versus up 10%, although that's a number that we're seeing for the overall refractive market, that's kind of how we're thinking about our sell-through numbers, right?

And so, we believe we will continue to take market share. We did it in 2024. We've done it in every year. But we're trying to be somewhat conservative on this because we want to make sure that we work down inventory levels so that as we move through 2025, really in the second half of 2025, we can all be rest assured that as we sell product in, we feel very comfortable with where they're at and we don't run into this again.

Mason Carrico

Analyst, Stephens, Inc.



Got it. Thank you.

Operator: [Operator Instructions] As there are no further questions at this time, this concludes our question-and-answer session. Thank you for attending today's presentation. You may now disconnect.

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