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PRESENTATION

Operator

Welcome everyone, to the Surmodics' First Quarter of Fiscal Year 2024 Earnings Call. Please note that this call is being webcast. The webcast is accessible through the Investor Relations section of the Surmodics website at www.surmodics.com, where an audio replay will be archived for future reference. An earnings press release disclosing Surmodics' quarterly and full year results was issued earlier today and is available on the company website as well.

Before we begin, I'd like to remind everyone that remarks and responses to your questions on today's call may contain forward-looking statements. These forward-looking statements are covered under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 and include statements regarding Surmodics' future, financial and operating results, or other statements that are not historical facts.

Please be advised that actual results could differ materially from those stated, or implied by Surmodics forward-looking statements, resulting from certain risks and uncertainties, including those described in the company's SEC filings. Surmodics disclaims any duty to update, or revise these forward-looking statements as a result of new information, future events, developments, or otherwise. This call will also include references to non-GAAP measures because Surmodics believes they provide useful information for investors. Today's earnings release contains reconciliation tables to GAAP results.

I would now like to turn the conference over to Mr. Gary Maharaj, Surmodics' President and Chief Executive Officer. Please go ahead, sir.

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

Thank you, operator. Welcome everyone, to our first quarter fiscal year 2024 earnings call. Here's what we plan to cover today. I'll begin with a high-level overview of our quarterly financial performance, followed by a discussion of our recent progress from an operational standpoint and our outlook for the rest of the year. Tim will discuss our Q1 financial results in more detail and review our financial guidance for fiscal 2024, which we updated in today's earnings press release. Then we'll open the call for questions.

Let's start with the discussion of our financial performance. In the first quarter, we were pleased to achieve total revenue growth of 23% year-over-year to $30.6 million. Excluding the SurVeil DCB license fee revenue in both periods, which represented an approximately $300,000 headwind in the quarter, we achieved total revenue growth of 25% year-over-year.

Our total revenue performance came in, just above our stated range of expectations, for the quarter of $29.5 million to $30.5 million, which we shared in our last earnings call. Importantly, our performance was driven by impressive contributions from both of our business segments.

The Medical Device segment grew 24% year-over-year to $23.5 million and increased 27%, including the year-over-year headwind related to the SurVeil DCB license fee revenue that I just mentioned. And revenue from our In-Vitro Diagnostics or IVD segment grew 18% year-over-year to $7 million.

In our Medical Device segment, growth is primarily driven by record product sales, which increased 43% year-over-year, fueled by our vascular interventions device portfolio, specifically our SurVeil drug-coated balloon and Pounce thrombectomy platform. We also saw important contributions from royalties and license fees from our performance coatings as well as R&D services revenue.

Growth in our IVD segment, which was exceptionally strong in the quarter, benefited from a combination of factors, including strong demand for select products heading into peak influenza season. The timing of orders and a continued return of more normalized purchasing patterns from some of our customers that had taken steps last year to manage COVID era elevated inventory levels.

Lastly, we were pleased to complement our impressive revenue performance with year-over-year improvements in our operating results, delivering adjusted EBITDA of $3.9 million, a $7.2 million improvement compared to the first quarter of last year. Overall, we were quite pleased to deliver a strong start to fiscal 2024.

Turning now to our operational progress in the first quarter. In addition to our financial performance, our team has been hard at work, executing with respect to the three strategic objectives for fiscal 2024 that, we outlined in our last earnings call. As a reminder, these objectives are: first, to capitalize on the key near-term growth catalysts in our vascular interventions portfolio, our SurVeil DCB, Pounce thrombectomy, and Sublime radial access products. Second, to drive durable revenue growth and cash flow generation, across our core medical device performance coatings offerings and IVD business. And third, to facilitate our long-term growth by developing and introducing new products and line extensions that will enhance our existing Pounce, Sublime, and Medical Device performance coatings' portfolio.

Let me walk you through our recent progress with respect to each of these objectives, beginning with our vascular interventions portfolio. As I mentioned, product revenue in our Medical Device segment increased 43% year-over-year. This impressive growth, was driven primarily by sales of our SurVeil DCB and Pounce thrombectomy products.

Most notably, we generated the first commercial revenue from our SurVeil DCB, as we began shipping units in October to our commercial partner Abbott in preparation, for a January launch. I'm pleased to report that the commercial manufacturing process proceeded reasonably smoothly during the first quarter, and we ultimately completed all shipments required to satisfy Abbott's initial commercial stocking order on time as planned.

Drug-coated balloon balloons like our SurVeil DCB are some of the most difficult to manufacture with consistent quality in the interventional device segment. Our efficient and successful transition from manufacturing clinical units to commercial quantities, a process, which I previously equated to starting a diesel engine in the middle of winter, speaks to Surmodics' unique technology capabilities and expertise as an organization, as well as the talent and dedication of our employees.

Our SurVeil operation team did an excellent job of ensuring the success of initial commercial production, and I'd like to give them a shout-out in today's call to thank them for their efforts. In addition to our manufacturing efforts, we continue to support Abbott's commercial readiness activities, such as the development of technical marketing and sales team training materials.

We were also pleased to share the 3-year results of our 446-patient TRANSCEND trial, which were presented at the 50th Annual VEITHsymposium on November 15. As a reminder, the 65-site randomized control trial founded our SurVeil DCB to be non-inferior in both safety and efficacy to the market-leading IN.PACT Admiral DCB, which uses a 75% higher drug load of paclitaxel.

97% of our patients in the trial completed their 3-year follow-up, and we are pleased to see that the data continue to demonstrate sustained safety and efficacy outcomes, for the low-dose SurVeil DCB that, are comparable to the control device. I'm pleased we were able to provide this compelling clinical evidence, to the medical community, which supports the long-term outcomes that, can be achieved with our technology.

I will also add this is the only randomized control worldwide trial of a low-dose DCB compared to a high-dose DCB like the IN.PACT. With this recent progress as a backdrop, I'm excited to share that the SurVeil DCB is now a commercial product available in the United States through Abbott.

Last week at the International Symposium on Endovascular Therapy, Abbott hosted a lunch symposium featuring the SurVeil DCB entitled, drug-coated balloons, time to unveil what you're not seeing. Dr. Bill Gray, a key opinion leader in the field of interventional cardiology and one of the principal investigators of the TRANSCEND pivotal trial, discussed the differentiating features of the SurVeil DCB, which he highlighted in the 3-year clinical data from the TRANSCEND trial.

We're excited to see the SurVeil DCB positioned as the next generation, of drug-coated balloons. We look forward to Abbott's progress and remain committed to addressing their future demand, as they move through the initial months of commercialization. In addition to the commercial revenue, we recognized from the initial stocking order for our SurVeil DCB, sales of our Pounce thrombectomy products, also represented an important contribution to the 43% growth, we achieved in the Medical Device segment.

Sales of these products continue to track with our expectations, as our direct sales team remained focused on supporting both existing and potential customers, raising awareness in the marketplace, and educating the medical community. We ended the first quarter with a direct sales team consisting of 23 territory managers, which is unchanged from the end of fiscal 2023 and compares to 28 territory managers as of December 31, 2022.

Building on the progress made in fiscal 2023, our team continued to establish a foundation for future growth by developing existing accounts, and expanding our active customer base. In the first quarter, we continued to be pleased that our customer -- we had great customer reorder rates and saw healthy year-over-year growth an average revenue per existing customer. As part of our efforts to raise market awareness, and educate prospective new users during the quarter, we sponsored two digital and print supplements in Endovascular Today, a leading industry publication with an editorial advisory board composed of the top endovascular specialists. The publication's focus is the latest technological advancements in the endovascular field.

And the November issue featured a supplement on our Sublime radial Access platform and its impact on patients and practices. And the December issue featured a supplement on our Pounce Arterial Thrombectomy System. The Pounce supplement featured case studies and interviews with 10 physicians, including a diverse set of vascular surgeons, interventional radiologists, and interventional cardiologists.

It provides clinicians with insights into how their peers are integrating Pounce into the approach to treating patients with acute limb ischemia. With case studies featuring pre- and post-procedure angiograms, it also succinctly and powerfully demonstrated Pounce's ability to quickly remove multiple mixed morphology clots in a single treatment session, eliminating the need for capital equipment or aspiration, and reducing reliance on lytic drugs.

I encourage you to read these supplements and draw your own conclusions and develop your own view as to whether our VI products are not far and away the best in any class, including products marketed by current large incumbents. You've heard me say in the past, the future has already been created. It's just not evenly distributed yet, the latter is our job to be done with the Surmodics VI portfolio. These supplements serve as an important resource to do just that, to increase awareness for potential customers, and for a relatively small, but talented sales team to increase their leverage.

Turning to our second strategic objective, we continue to make progress in our efforts to drive durable growth and cash flow generation across our core medical device performance coatings and IVD businesses. Our team delivered a strong start to fiscal 2024, with revenue from these two areas growing 10% year-over-year on a combined basis, driven by growth in each business.

The performance in Medical Device performance coatings was driven by growth in royalty and license fee revenue as well as revenue from R&D services. Our IVD sales growth was fueled by sales of our antigen and slide products and benefited from a combination of factors, as I mentioned earlier, including flu season demand, the timing of orders and the return of more normalized customer purchasing patterns. These core businesses are tracking towards our expectations of low to mid-single-digit growth for the full year of fiscal 2024. Note however, that the performance of these core businesses, was an important contributor, to the adjusted EBITDA profitability that we achieved in the first quarter.

And lastly, with respect to our third strategic objective, we continue to lay the foundation for future long-term growth, by advancing our pipeline of new products and line extensions, with notable progress on multiple fronts. In our medical device performance coatings' business, we secured the first 510(k) clearance and initiated a commercial launch of our Preside line of hydrophilic coatings. The most advanced hydrophilic coating our team has ever developed, and I believe that the world has ever seen. As I discussed in detail in our last earnings call, Preside is specifically formulated with a next generation neurovascular, coronary, and peripheral vascular devices in mind.

It is designed to provide both enhanced coating durability and industry-leading lubricity, enabling coated devices, to reach distal treatment sites across challenging coronary lesions, and chronic total occlusions, all with minimal particulate generation. By addressing these specific needs, Preside complements and enhances our existing portfolio, including our Serene hydrophilic coating, and facilitates improved treatment outcomes.

And furthermore, reinforces our position as the market leader and provider of performance coating technologies for years to come. In the months following the commercial launch of Preside, we've been pleased with the level of interest we're seeing from both new customers and existing customers, most notably in the neurovascular segment of the market. We look forward to supporting the efforts as they integrate Preside into the next generation devices and pursue regulatory clearance.

In our vascular interventions portfolio, we continue to make strides in the limited market evaluation of our Pounce Venous thrombectomy system. Physician feedback from the LME, continues to highlight the product's flexibility, when it comes to treating different clot morphologies and its atraumatic design, which enables clinicians, to make multiple passes with a single device, while minimizing stress, or damage to the vein.

In our most recent LME, we have completed just under 60 cases at the end of the quarter, and compared to just under 40 as of September 30. Looking ahead, our team remains focused on gathering additional physician feedback, as we complete the remaining cases in this LME, and prepare for commercialization on a limited basis, before initiating our full commercial launch in the second half of fiscal 2024.

This past week, we were also pleased to announce, the successful early clinical use of our Low Profile Pounce Arterial Thrombectomy system, otherwise known as Pounce Arterial LP, in tandem with initiating our limited market evaluation of the product. As a reminder, our Pounce Arterial Thrombectomy system is designed to remove acute to chronic thrombi and emboli in peripheral arteries throughout the body in vessels ranging from 3.5 to 6 millimeters in diameter.

By comparison, Pounce LP is cleared for use in vessels ranging from 2 to 4 millimeters in diameter, which extends the treatment range of our Pounce Arterial portfolio, to include smaller diameter vessels, such as those found below the knee and potentially all the way to the ankle. Pounce Arterial LP represents a promising enhancement to our product offering as it is extremely difficult for clinicians to remove thrombi and emboli from vessels below the knee with the currently available technologies on the market. Many interventionists will tell you the prospect of losing a piece of embolus, or plaque downstream into the tibials during an endovascular procedure is a major concern.

Surgery is likely the most course of action to address issues in this region, and it's not always a viable option. With this in mind, Pounce Arterial LP has the potential to be a game changer, providing clinicians with an ideal non-surgical solution below the knee in an area that, I believe, is not well served because of the limitations of the current technology marketed by incumbents. Clinical outcomes and feedback from the initial 10-plus cases has been overwhelmingly positive, and I stress that. And we look forward to gaining additional insight as we continue to progress through the limited market evaluations in Q2.

In summary, we're pleased to kick off the new fiscal year, with considerable progress across each of the three strategic objectives that we committed to for fiscal 2024. Our team's performance, with respect to these objectives, enabled us to deliver impressive revenue growth in both of our segments, coupled with considerable year-over-year improvements in our profitability profile, while also enhancing our strategic position in the markets we serve.

Our guidance, which we are raising today, reflects the financial and operating performance we achieved in the first quarter as well as our continued confidence in the ability to accelerate our revenue growth profile in fiscal '24, with growth of 10% or higher, excluding license fee revenue related to our SurVeil DCB. We look forward to building on these accomplishments, as we progress through the fiscal year, while continuing to focus on

cash efficiency, preserving and allocating capital strategically in order to achieve strong, sustainable growth and value creation on a long-term basis.

I'd like to thank our entire team, for their contributions this past quarter, and their commitment to advancing the leadership in the markets we serve as well as our customers and stakeholders for their ongoing support of Surmodics and our mission.

Tim will now review our first quarter financial results of fiscal '24 guidance in greater detail. Tim?

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

Thank you, Gary. Unless noted, all references to first quarter results are on a GAAP and year-on-year basis. Total revenue for the first quarter of fiscal 2024 increased $5.6 million, or 23% to $30.6 million. Excluding SurVeil DCB license fee revenue, total revenue increased $5.9 million, or 25% to $29.6 million. Our earnings press release includes detailed reconciliations of total revenue, excluding SurVeil DCB license fee revenue. Product revenue increased $4.6 million, or 32% to $18.8 million. Medical Device product revenue increased $3.6 million, or 43% to $12 million. A record for our Medical Device business.

Product revenue growth was primarily driven by our fulfillment of the initial SurVeil DCB stocking order from Abbott as well as increased sales of our Pounce thrombectomy device platform. As a reminder, product revenue from sales of our SurVeil DCB consists of revenue from both the contractual transfer price and estimated profit sharing, the two revenue streams under our development and distribution agreement with Abbott.

IVD product revenue increased $1 million, or 17%, to $6.9 million. Our diagnostics business benefited from strengthen in our antigen and microarrays slide offerings, and benefited from a combination of factors, Gary mentioned earlier, including flu season demand timing of orders, and the return of more normalized customer purchasing patterns, from some of our customers that had taken steps last year to manage COVID era related elevated inventory levels.

Royalty and license fee revenue increased $410,000 for 5% to $9.2 million. Performance coating royalty and license fee revenue increased $740,000, or 10% to $8.2 million, driven customer utilization of our Serene coating, and benefiting from a relatively easy comparison in the prior year period.

SurVeil drug-coated balloon license fee revenue, decreased $330,000 or 25% to $1 million, corresponding to the decrease in TRANSCEND clinical trial costs incurred. R&D services revenue increased $610,000, or 32% to $2.5 million. The increase was primarily, due to increased customer demand for performance coating services and our Medical Device business, which was impacted in the prior year period by our customers, supply chain challenges.

Moving down the P&L, product gross margin was 53.2%, compared to 63% in the prior year period. Several factors can trade contributed, to the adverse mix impact, to product gross margin relative, to the prior year quarter. Importantly, sales of our near-term growth catalysts, our SurVeil drug-coated balloon, Pounce and Sublime products, are increasing as a portion of total company product sales. These device products are not yet at scale and product gross margins, are impacted by the associated under-absorption and production inefficiencies.

IVD product sales also contributed, to the adverse mix impact this quarter, with increased sales of our distributed antigen products that, carry a lower margin profile. In addition, absorption of fixed overhead costs had an unfavorable impact this quarter, relative to the prior year, due to a timing-related decrease in production volumes. R&D expense including costs related to clinical and regulatory activities decreased $4.1 million or 32% to $8.7 million reflecting lower SurVeil DCB clinical costs. The timing of certain projects in our pipeline, and the benefits from the spending reduction plan, we implemented during the second quarter of fiscal 2023.

SG&A expense decreased $700,000, or 5% to $12.5 million, due to lower headcount in our commercial organization compared to the prior year period, related to the aforementioned spending reduction plan as well as the timing of investments in our commercial organization. Our Medical Device business reported an operating loss of $220,000 compared to $7.2 million in the prior year period, which reflects the operating expense savings, from the restructuring, and workforce reduction implemented in the second quarter of fiscal 2023, and lower SurVeil DCB clinical expenses, favorability and timing of operating expenditures in the first quarter and broad-based revenue growth.

Our IVD business reported operating income of $3.1 million, or 45% of IVD revenue compared to $2.9 million, or 50% of IVD revenue in the prior year period. This reflects leverage on product sales growth, partially offset by the adverse mix impact product gross profit of increased distributed antigen sales.

Turning to income taxes. We reported income tax expense of $60,000, compared to an income tax benefit of $170,000 in the prior year period. GAAP net loss was $790,000, or a loss of $0.06 per diluted share, compared to a net loss of $7.8 million, or a loss of $0.56 per diluted share in the prior year period.

Non-GAAP net income, was essentially breakeven, and consequently, non-GAAP EPS was zero, compared to non-GAAP net loss of $7 million, or a loss of $0.50 per diluted share in the prior year period. Non-GAAP adjusted EBITDA was $3.9 million compared to adjusted EBITDA loss of $3.3 million in the prior year period. Adjusted EBITDA includes adjustments for stock-based compensation expense in both periods. Our earnings press release includes detailed reconciliations of GAAP to non-GAAP measures.

Moving to the balance sheet. We began the first quarter with $45.4 million in total cash and cash equivalents, and investments in available for sale securities. And ended the quarter with $35.2 million in cash and investments. Total cash used in the first quarter, or the decrease in cash and investments was $10.2 million. As we shared on our last earnings call, our first quarter historically requires a higher use of cash to fund our working capital needs such as annual employee bonus payments and annual prepaid insurance premiums.

During the first quarter, we reported cash used in operating activities of $8.8 million and capital expenditures of $720,000. Long-term debt was unchanged during the first quarter at $29.4 million. As of the end of the first quarter, we had access to approximately $64 million in additional borrowing capacity, under our existing credit agreement.

Turning now to fiscal 2024 guidance. We updated our fiscal 2024 revenue guidance today to reflect our performance in the first quarter as well as our revised expectations for the remainder of fiscal 2024. We now expect fiscal 2024 total revenue to range from $117 million to $121 million, representing a decrease of 12% to 9%. Excluding SurVeil DCB license fee revenue, we expect revenue to range from $113 million to $117 million representing an increase of 10% to 14%. This compares to our prior range of $112 million to $117 million, or an increase of 9% to 14% over the prior year.

SurVeil DCB license fee revenue, is expected to be approximately $4 million in fiscal 2024 compared to $29.6 million in fiscal 2023. We now expect fiscal 2024, GAAP loss per diluted share to range from a loss of $1.40, to a loss of $1.10. Compared to our prior range of a loss of $1.55, to a loss of $1.20 per share. Non-GAAP loss per diluted share is expected to range from a loss of $1.17, to a loss of $0.87, compared to our prior range of a loss of $1.32, to a loss of $0.97 per share.

I'll now share, a few additional considerations, for modeling purposes. With respect to our fiscal 2024 total revenue guidance, product revenue is expected to be approximately 60% of total revenue, driven largely by contributions from our product growth catalysts. Specifically, we now expect combined product revenue from our SurVeil, Pounce and Sublime products, of at least $14 million, an increase from the $13.5 million we communicated last quarter.

Revenue associated with our Medical Device performance coating offerings and IVD business, is expected to grow in the low to mid-single-digits, from the $88.3 million of combined revenue, generated in fiscal 2023. Our fiscal 2024, diluted loss per share guidance, reflects the following full year assumptions: product gross margin is expected to be in the mid-50's. We expect operating expenses excluding product costs, to decrease in the low to mid-single-digits.

We expect R&D expense to range from $40 million to $41 million, representing a decrease of 14% to 12%. We expect SG&A expense, to range from $54 million to $55 million, representing an increase of 4% to 6%, as we invest in our commercial organization. Interest expense, is expected to be approximately $3.5 million, consistent with the prior year.

Finally, our EPS guidance reflects full year tax expense of $2 million to $3 million. With respect to our revenue growth in the second quarter, we expect second quarter total revenue to range from approximately $28.5 million to $29.5 million, representing an increase of approximately 5% to 8%.

Lastly, with respect to cash utilization, at the end of fiscal 2023, we had $45.4 million of cash and investments, which included $3.9 million of available for sale securities. In fiscal 2024, we expect to finish the fiscal year with approximately $28 million to $32 million of cash and investments.

Let me take a moment, to walk through what this means for our anticipated cash use in fiscal 2024, compared to 2023. In fiscal 2023, our cash and investments increased, by $26 million year-over-year. Importantly, this included an influx of cash, from both a milestone payment for obtaining SurVeil PMA approval, as well as debt proceeds, drawn from our term loan and revolving credit facility.

As we discussed on last quarter's call, when we set aside the $27 million from the SurVeil PMA milestone payment and the $19.3 million in net debt proceeds. Cash and investments, decreased by approximately $20 million for fiscal 2023. By comparison, in fiscal 2024, we expect the year-over-year, decrease in cash and investments, to range from approximately $17 million to $13 million, reflecting an improvement in total cash used, of approximately $3 million to $7 million, compared to the $20 million in fiscal 2023.

As a reminder, our expectations for cash use in fiscal 2024, reflect the following assumptions. The receipt of a $3.4 million cash tax refund from the IRS, associated with the CARES Act Employee Retention Credit.

Capital expenditures of up to $5 million, compared to $2.9 million in fiscal 2023, which includes certain investments postponed last year, as a part of our spending reduction plan, and payments totaling approximately $2.7 million, to satisfy obligations related to previous acquisitions.

As Gary mentioned cash efficiency, continues to be a top priority for our organization in fiscal 2024. We remain focused on disciplined expense management, and optimization of working capital. And importantly, our fiscal 2024 guidance, continues to assume no borrowings, under our credit agreement.

With that, operator, we'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Brooks O'Neil from Lake Street Capital Markets.

Brooks Gregory O'Neil - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

I'll try to limit myself as you expect. First, can you give us any color at all with regard to the market response to SurVeil that has been seen so far?

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

It's very early innings and we chatted with Abbott team last week at the ISET meeting. They are excited, but it's really early innings for this. So, we don't have that feedback loop associated yet. But what I will say was exciting to see, at least the social media posts of the first patients treated.

And Brooks, remember we also -- our job here is to really respond to Abbott's demand and support them with whatever materials they know. So, I'm sure we'll be hearing more in the weeks to come after this early innings period.

Brooks Gregory O'Neil - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Sure. That makes sense to me. Okay. The second question I have is, obviously, you and Tim provided a lot of detail about the clinical superiority of some of the new products, in particular, Pounce. Maybe Tim can help us think about what the commercial impact of new products and growth for Pounce, is likely to be in terms of maybe the number of products that you're offering to the marketplace, and maybe the price points, of some of the newer products and how that might impact performance for you guys this year?

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

Yes. And I'll turn it over to Tim, just to calibrate a little bit. Products like Pounce LP and the Sublime microcatheters are in limited market evaluation right now. So, the launch window of those, is the second half of the year. And like anything that's pre-commercial, we want to be very careful of what -- when we trigger that full commercial revenue stream. But right now, we're excited with how the limited market evaluations are progressing.

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

Right. Thank you, Gary. Brooks, as I mentioned on the call, we have at least $14 million of total product revenue coming from the likes of Pounce, SurVeil, and Sublime in fiscal 2024. So, we just raised that from $13.5 million, as you can imagine. It's a combination of factors, including Pounce, but as well as SurVeil.

The guidance that we've provided does reflect a modest amount of revenue, coming from the introduction of new products, once they've followed limited market evaluations. I would say more towards the second half of fiscal 2024. You'd asked about the selling prices. We'll remain somewhat silent here on Pounce Venous.

We'll talk more about that as we get that into the market. But as you can imagine, these products run at ASPs from a market perspective, competitive offerings anywhere from about $2,500 per unit to about $4,000, $4,000 plus per unit. You can imagine our Pounce technology, given our value proposition, is on the upper end of that range.

Operator

Our next question is coming from Mike Matson from Needham & Company.

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

So just wanted to ask one on Pounce LP. So, can you maybe just talk about, the size of the market opportunity? I mean, how common are clots in below the knee area? And then the degree of competition here. I think you've said that the competitor's products don't work very well there, but maybe just talk about what options are out there other than LP?

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

Sure. The bane of the competitor's products are capital equipment and not an on the table solution. And Mike, as you go below the knee, the vessels taper towards the ankle. We're trying to ascertain the market right now. The initial feeling is, it's not a huge market, but the reason for that is sometimes they just can't get there with a mechanical device, suction, or otherwise.

And so they revert to surgical embolectomy, or lytics, right. So now if you take that potential market, I suspect it's many times larger, but I don't want to speculate, as to what it is, as we get our bearings on it. So what's unique about our device, it's the same techniques that they're using above the knee, right. This device is downsized. And it's downsized specifically, because we respect the integrity of the arterial wall, so first thing.

So the reason we designed LP is -- you don't want to shove a big honking device into very small friable tibial arteries. So, we specifically designed LP to get down to 2 millimeters, maintain the health of the vessel wall, and pull the crud out. Other devices and that -- not disparaging according to devices, but there's limitations to the technology. As you're trying to suck, for example, and you're trying to suck through a much longer straw that's narrowing and tapering.

It's very difficult to generate the power to remove all types of clot down there. The soft stuff will come out early, the hard stuff not so much. And so, what we're seeing is the lessons learned in the techniques above the knee are allowing that experience, to just go below the knee and use the same techniques to pull out clot. And the physicians I personally talked to, with this feel that it's just given them an extra arm, with similar techniques.

And so that's exciting. Now again, we're just in the double figures on it. And as you know with my prudence, I like to see quite a few more cases, before we start fist pumping. And that'll be the work on tap for Q2. And then it'll also allow us to understand more of the market opportunity by real world experience instead of reading some report that's ancient. So put it that way. Did we lose Mike?

Operator

Our next question is coming from Jim Sidoti from Sidoti & Company.

James Philip Sidoti - *Sidoti & Company, LLC - Research Analyst*

First question on SurVeil. Do you expect additional orders in the second fiscal quarter? And do you expect Q2 to exceed Q1, or be down from Q1 in terms of SurVeil orders?

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

Yes. Great question, Jim. I'm sure this is a question that's on a lot of folks' mind. Yes, we continue to expect SurVeil orders from Abbott, throughout the fiscal year. I will say that typically, not always, but typically, one can expect that the stocking orders will outpace the initial follow on orders.

Our guidance would reflect that, meaning you would expect that Q2, would see lower orders and shipments to Abbott of SurVeil. You'll notice that our guidance reflects a sequential decline. And you would be right to think that might have something to do with it and totally normal.

James Philip Sidoti - *Sidoti & Company, LLC - Research Analyst*

Okay. And then is part of that decline also lower sales on the coatings business, because of seasonality, or is it primarily, because of the stocking order?

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

Yes. Not really getting into a lot of specificity, but you would imagine that it's probably going to be more related to the SurVeil stocking order.

James Philip Sidoti - *Sidoti & Company, LLC - Research Analyst*

Okay. And then question, your guidance for interest expense, I believe it's around $3 million. You only reported about $400,000 in the quarter. Is that guidance, is that minus the interest income you expect on the cash you have on hand, or do you expect interest expense to pick up going forward?

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

No, interest expense is going to remain, you can almost take the $3.5 million and just kind of normally distribute it across the four quarters. So any variability that you'll see is really kind of going to be, at the interest income that will be generated.

Operator

(Operator Instructions) Our next question is from Mike Matson from Needham.

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

So just on Sublime, you didn't call it out as a growth driver in the product category. So can you give us an update there? And I'm just wondering, s this an issue of just the, market for radial access, or I guess adoption, radial access and peripheral still not really taking off? Or is this some kind of competitive issue where competitors, the bigger guys are starting to offer some of this radial access products?

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

No, that's a good point, Mike. There actually is nothing to see there. It actually, I don't want to give the absolute detail here, but it actually met our plan in Q1. So, it's just we have to get the microcatheters complete that LME. And that's when you'll be hearing a lot more about it, because the microcatheters will break open the market in terms of being able to get through difficult lesions from the wrist. But no, Sublime is on track for us. Tim?

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

Yes, Mike, I'll just add, it did contribute growth in the period, but we call out the products that are driving the greatest majority of the growth. And that would be, of course, Pounce as well as SurVeil. And keep in mind, as I mentioned, I think the earlier call from Brooks asked about ASPs. There's certainly a difference in ASPs, between the offerings, which obviously has an influence this quarter in terms, of the overall growth profile.

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

Yes. Okay. That makes sense. And then I haven't dug into our model yet, but just looking at the kind of profitability results for the quarter, it seems like there's a bit of a disconnect, between the strong results you had this quarter and kind of the guidance. I know you've raised the guidance some, but were there some one-offs, or something this quarter? I know you called out timing of expenses a few times, but is that just the main issue that you just had some things that just didn't hit this quarter that -- will kind of catch up later in the year? And that's why you're expecting profitability, to sort of worsen over the next couple quarters?

Timothy J. Arens - *Surmodics, Inc. - Senior VP of Finance & Information Technology and CFO*

Thank you for paying attention and catching that, yes. What you noticed was a decline year-on-year and even sequentially both in R&D and SG&A expense. As we've described in terms of the strategic objectives, you'll see that we're focused heavily this year on driving revenue growth from the catalytic products that we've mentioned, including Pounce and Sublime.

Gary and I have discussed, probably over the last several quarters that we've got a pretty rich and robust pipeline of opportunities that are going through limited market evaluations currently, and we expect to commercialize during the second half of the year. So as we get closer to the commercialization period, you can expect that there would be incremental expense to support that.

Our third strategic objective is to continue to enhance and develop and introduce new products and extensions to our existing platform technologies, and that's what we're doing. So, you're going to see continued expense. That's mostly the timing-related matters, along with introduction in new products, but that's really what's driving that.

I would say, Gary, one of the things that we probably did in Q1 was as we were focused on launching SurVeil or helping Abbott to launch SurVeil and satisfy their demand, we put a lot of our energy and effort and focus and time on SurVeil. Now that we've successfully done that. We feel that we've got that pretty well dialed in, but we'll know more about that as we go through the next couple of quarters. We feel more confident and comfortable moving forward and accelerating some of these things that we were probably moving a little bit slower on, or pacing a little bit slower in the first 13 weeks of the year.

Gary R. Maharaj - *Surmodics, Inc. - CEO, President & Director*

Yes, Mike, Tim hit it on the head. The year isn't divided into four equal quarters. And we drive the car at full speed when it's a nice freeway, and then we have other things, if it's a small country road, we slow it down. But as Tim said, we have three major product launches coming up, the microcatheter, Pounce LP and Pounce venous. And so, expect to see us, throttle up on SG&A appropriately, not blowing up to P&L, but throttle up appropriately in the back half. And then as our R&D is really focused on these launches, as we get back into the R&D for the things that are just slightly over the horizon that, should pick up as well. So that's really what it is.

Operator

Thank you. We've reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.
