

IRIX Earnings Call Transcript

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Quarter: 3

Operator: Ladies and gentlemen, thank you for standing by. At this time, I would like to welcome everyone to the Third Quarter 2025 IRIDEX Earnings Conference Call. I would now like to turn the conference over to Trip Taylor, Investor Relations. You may begin.

Philip Taylor: Thank you, and thank you all for participating in today's call. Joining me from the company are Patrick Mercer, IRIDEX's Chief Executive Officer; and Romeo Dizon, the company's Chief Financial Officer. Earlier today, IRIDEX released financial results for the quarter ended September 27, 2025. A copy of the press release is available on the company's website. Before we begin, I'd like to remind you that management will make statements during this call that include forward-looking statements within the meaning of federal securities laws which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements made during this call that are not statements of historical facts including, but not limited to, statements concerning our strategic goals and priorities, product development matters, sales trends and the markets in which we operate. All forward-looking statements are based upon current estimates and various assumptions. These statements involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated or implied by these forward-looking statements. Accordingly, you should not place reliance on these statements. For a discussion of the risks and uncertainties associated with our business, please see our most recent Form 10-K and Form 10-Q filings with the SEC. IRIDEX disclaims any intention or obligation, except as required by law, to update or revise any financial projections or forward-looking statements, whether because of new information, future events or otherwise. This conference call contains time-sensitive information and is accurate only as of the live broadcast today, November 11, 2025. And with that, I'll turn the call over to Patrick.

Patrick Mercer: Good afternoon, everyone, and thank you for joining us. Today, I'm excited to highlight our third quarter business results. We are proud of the steady progress we have made during my first year as CEO. And over the past 4 quarters, we have executed our strategy to streamline our operations and advance IRIDEX towards profitability. The financial transformation of this business is demonstrating by our fourth consecutive quarter of year-over-year revenue growth, reduced operating expenses and improved adjusted EBITDA. We are on track to achieve both positive cash flows in the fourth quarter and positive adjusted EBITDA for the full year 2025. Importantly, the result of our hard work over the last year puts us in a position to achieve cash flow positive operations in 2026 as well. I am proud to say we have accomplished the goals we set in place for IRIDEX when we started this transformation. Turning to the third quarter specifically, we achieved strong year-over-year revenue growth of 8%. This was accomplished while reducing operating expenses by 12% and improving our adjusted EBITDA by \$1.3 million compared to the prior year period. You will recall that beginning in the fourth quarter of 2024, we implemented a series of targeted cost reduction programs that have resulted in lowered operating expenses throughout 2025. For the 9 months ending September 27, operating expenses have been reduced by 25%. These efforts have meaningfully reduced our cash burn and strengthened the company's overall financial position as the cost structure is now better in line with our revenues. We have identified additional opportunities to further strengthen the company's financial profile and are now implementing actions to enhance our gross margins and further reduce operating

expenses. On the manufacturing front, we are in negotiation with contract manufacturers that could reduce our cost of goods sold and benefit gross margins. It will take some time to implement these new relationships and transition certain product lines, but this is an initiative we remain very excited about for 2026. In the near term, we are relocating certain general and administrative functions outside of California. This initiative alone is expected to generate approximately \$165,000 and quarterly savings beginning in the first quarter of 2026. These moves demonstrate our commitment to continuing cost discipline and improved financial performance. Turning next to discussing our commercial performance. I am pleased to share that in the third quarter, our top line revenue grew a healthy 8% year-over-year to \$12.5 million. With a smaller sales force and reduced marketing spend, our commercial team's strong execution has been truly impressive. They continue to drive efficiency by leveraging technology and long-standing customer relationships to drive sales. The third quarter's revenue increase was driven by strength in both our glaucoma and retina product lines. Starting with our glaucoma business. We remain enthusiastic about the global growth potential as acceptance of our treatment solutions increases. In the U.S., our strategy for the G6 system centers on deleveraging our substantial installed base to drive higher system utilization. The Medicare LCDs introduced last year have also created new opportunities for adoption of the G6 treatment earlier in the continuum of care for mild to moderate stage patients. From a tactical standpoint, we are continuing to utilize MedScout, a sales enablement platform to identify accounts within the midrange of utilization and support them to increase the utilization. These practices have already demonstrated a strong commitment to G6. And with targeted engagement, we see meaningful potential to increase their procedure volumes. Overall, during the third quarter, Cyclo G6 system sales increased to 30 units from 26 in the prior year period. Most units were sold to existing users acquiring additional systems often as they expanded into new locations. We believe this demonstrates recognition of TLT as a necessary treatment option for clinicians. We sold 14,900 probes compared to 13,600 in the prior year period, representing a higher utilization in both the U.S. and internationally. We have also realized an increase in ASPs for both probes and consoles. International glaucoma performance was strong with positive contributions across geographies. In Europe, Middle East and Africa, we saw continued growth in glaucoma probe sales, supported by the fulfillment of several orders initially deferred from Q2 due to supply constraints IRIDEX experienced last quarter. In GmbH, G6 Pro sales remain on a steady upward trajectory, reflecting sustained procedural demand and solid recurring revenue streams. In Asia, for the second consecutive quarter, the region experienced volatility and operational challenges. While demand remains strong, several macro factors continue to weigh on our commercial activity. As anticipated in Q2, the ongoing tariff dispute with China continued to disrupt sales planning and forecasting into Q3. Japan's market remains sluggish, driven by the weak yen against the U.S. dollar, which benefits domestic competitors who are less exposed to currency fluctuations. Looking to Latin America and Canada, we saw improved G6 business momentum following the appointment of new glaucoma distributors and a stronger push from existing partners. Shifting to our retina product portfolio. Here, our top priorities include driving broader adoption of our flagship PASCAL system and securing additional international regulatory approvals for our next-generation retina platforms, enabling us to capitalize on robust global distribution network. In the U.S., PASCAL sales remained strong as sales representatives increasingly focusing their efforts on promoting our next-generation PASCAL platform. Medical and surgical retina revenue grew more than 10% year-over-year in line with expectations and reflecting steady market demand. EndoProbe sales remained stable throughout the quarter, demonstrating consistent performance across our customer base. Now on to international retina performance. In Europe, Middle East and Africa, the region continues to outperform expectations, primarily driven by strong PASCAL performance in the Middle East and Africa, alongside steady Synthesis activities from European markets. MDR certification for the IRIDEX PASCAL are negatively affecting retina cells throughout Europe. We expect this and anticipate pent-up demand will provide a tailwind once certification is achieved. In GmbH, operations faced a slowdown in capital equipment sales, largely due to purchase order delays associated with the region's summer holiday period. In Asia, our retina business was similarly affected by the same regional dynamics impacting the glaucoma business including the continued impact of the China tariff dispute and currency-driven competitive pressures in Japan. Despite these headwinds, underlying demand for our retina products remains solid. In Latin America and Canada, a region is showing signs of recovery,

primarily fueled by a rebound in PASCAL sales supported by renewed distribution engagement. Now I'll hand the call over to Romeo to discuss our financial results.

Romeo Dizon: Thank you, Patrick. Good afternoon, everyone, and thank you for joining us today. I would like to begin by reviewing our financial performance for the third quarter ended September 27, 2025. As we noted in our press release and in Patrick's comments, our total revenues for the third quarter of 2025 were \$12.5 million, representing an 8% year-over-year increase. Growth was driven primarily by higher glaucoma probe sales and PASCAL system sales partially offset by lower surgical retina probe sales. Retina product revenue increased 4% in the third quarter of 2025 to \$6.7 million compared to the third quarter of 2024, driven primarily by higher PASCAL system sales, medical and surgical retina system sales, partially offset by a decrease in surgical retina probe sales. Total product revenue from the Cyclo G6 glaucoma product group was \$3.5 million, representing a growth of 13% year-over-year. Other revenue increased \$0.2 million to \$2.2 million in the third quarter of 2025 compared to \$2.0 million in the third quarter of 2024, driven primarily by an increase in service revenue. Gross profit in the third quarter of 2025 was \$4.0 million or a gross margin of 32.1%, a decrease of \$0.3 million compared to \$4.3 million or a gross margin of 37.3% in the third quarter of 2024. Gross margin decreased by 520 basis points driven by \$0.8 million charge to cost of goods sold, issued inventory write-down, partially offset by more favorable geographic and product mix in the current year. In the third quarter of 2025, we recorded a onetime nonrecurring noncash charge to write-down inventory, following a detailed review related to the transition to a new resource planning system in our estimate of the cost of raw materials and subassembled products not absorbed as we continue to transfer our production of various product lines to third-party contract manufacturers. It was determined that such inventories are now excess and obsolete. These stranded costs are typical in the transfer of production to contract manufacturers. Excluding this onetime write-down, our gross margin rate would have improved to 38.7%. Operating expenses were \$5.4 million in the third quarter of 2025, a decrease of \$0.8 million or 12% compared to \$6.2 million in the third quarter of 2024 due to expense reduction measures taken late 2024. Consequently, net loss, including the onetime charge, was \$1.6 million or \$0.09 per share for Q3 2025 compared to a net loss of \$1.9 million or \$0.12 per share in the same period of the prior year. Non-GAAP adjusted EBITDA for the first quarter of 2025 was a loss of \$131,000, an improvement of \$1.3 million compared to non-GAAP adjusted EBITDA loss of \$1.4 million for the third quarter of 2024. The improvement is driven primarily by the expense reduction measures implemented in late 2024. Cash and cash equivalents totaled \$5.6 million at the end of the third quarter of 2025, a reduction of \$1.2 million compared to \$6.8 million at the second quarter of 2025. We are very pleased with our reduction in cash usage and expect cash use to continue or improve on these levels. As you can see, we are making significant progress advancing our business plan with a greater focus on profitability. We are pleased with the results of our continuing financial prudence, and we plan to achieve a cash flow breakeven fourth quarter positive EBITDA in fiscal year 2025. And with that, I'll turn the call back to Patrick.

Patrick Mercer: Thank you, Romeo. Looking back over the past 12 months, we have made significant progress towards the goals we established a year ago when I assumed the CEO role. Most notably, we are proud that our focus on operating improvements are expected to support sustained cash flow positivity for IRIDEX going forward. We continue to take decisive actions to reduce operating expenses and strengthen our financial position. IRIDEX is well positioned to extend its leadership in ophthalmic laser systems. To the IRIDEX team, I'd like to take a moment to thank you for your continued commitment, dedication and outstanding execution. We recognize that many of you are wearing multiple hats and your contributions have not gone unnoted. To our shareholders, thank you for your continued support of IRIDEX. We look forward to updating you on our progress next quarter. To all the veterans, Happy Veterans Day. Thank you for your sacrifice and service.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect.