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New Rec: Glaukos Corp. (GKOS: \$78.03) July 7, 2019

Position: Source of funds

Potential downside: 45%

| \$MM | 2Q19e | 3Q19e | 4Q19e | 1Q20e | 2019e | 2020e |
|-----------|--------|--------|--------|--------|--------|--------|
| Revs | 55.7 | 57.7 | 57.9 | 56.5 | 225.3 | 250.0 |
| EPS | (0.04) | (0.04) | (0.12) | (0.16) | (0.24) | (0.19) |
| Y/Y Gr | n/m | n/m | n/m | n/m | n/m | n/m |
| PSR | n/m | n/m | n/m | n/m | 12.5 | 11.3 |
| Cnsns Rev | 56.25 | 57.0 | 63.4 | 63.1 | 230.7 | 274.2 |
| Cnsns EPS | (0.08) | (0.10) | (0.04) | (0.02) | (0.27) | 0.07 |

Shares Out: 36.2M

Market Cap: \$2.8B

FYE Dec

For more information on this name, please email brian@offwallstreet.com, or call Brian Rogers at 617 868 7880.

Concept:

1. GKOS' iStent device revenue growth (100% of revenue) has been driven mainly by adding newly trained surgeons. With nearly all high-volume U.S. cataract surgeons trained, iStent growth should mirror what appears to be mid-single digits market growth. At about 10x 2020 consensus sales estimates, GKOS shares do not appear to reflect such potentially slow growth.
2. Slowing market growth has been masked by a competitor recall in August 2018. iStent revenue grew rapidly as GKOS regained previously lost share. This benefit should soon lap.
3. A newer version of iStent launched in September 2018 seems unlikely to expand the market.
4. GKOS' product pipeline unlikely to add significant revenue until at least 2021. Moreover, products may not be approved, and competitors plan earlier launches.

Summary: Glaukos Corp. (GKOS) manufactures and markets medical devices used to treat glaucoma. It has two marketed products: the original iStent (launched in 2012) and the follow-on iStent inject (launched September 2018), which together represent 100% of revenue. In the US, the devices are priced at about \$1,400 per procedure. In 2018, 84% of sales were in the US, and 16% were international. In this report, we focus primarily on the US market, which drives our top line divergence from consensus estimates.

iStent was the first in a new class of minimally invasive glaucoma surgery (MIGS) devices to reduce intraocular pressure (IOP) in patients with mild-to-moderate primary open angle glaucoma (POAG). It is a micro-sized, heparin-coated titanium stent implanted in the eye. It works by restoring drainage pathways for fluids that fill the front part of the eye. The newer iStent inject uses an autoinject device and delivers two stents that are 1/3 the size of the original one stent version, creating slightly more pressure reduction. Most US surgeons have now converted to the iStent inject.

The procedure using the device is covered by Medicare/commercial insurance, but only when done in combination with a cataract operation. Thus, while about 2.7M Americans (5.4M eyes) have glaucoma, the available US market for iStent is the estimated 600,000 (15%) of 4M annual cataract surgeries in patients with POAG. Growth in this population is about 2% per year, and more than 80% of patients are over 65, and are therefore covered by Medicare.

GKOS has grown iStent revenue primarily by expanding the number of cataract surgeons (glaucoma specialists and comprehensive ophthalmologists) trained to use the product. In 2016, the average number of iStent trained US surgeons increased 46% y-y, and revenue grew 55%. In 2017, the average number of trained surgeons increased 36%, and revenue was up 34%. 2017 growth also benefited from a significant price increase that offset share losses to a new competitor, as we explain below. By the end of 2017, 3,000 US surgeons were trained to use the iStent, representing 54% of the 5,500 high volume cataract surgeons the company says are its target market. Interestingly, the company

stopped reporting the number of trained surgeons at the end of 2017. We suspect it has run out of surgeons to train.

We think GKOS was able to train users so quickly because surgeons saw plenty of upside and little downside to the iStent procedure. The clinical benefit is described by physicians as modest, since it provides only an increased chance (versus cataract removal alone) that a glaucoma patient can reduce/discontinue use of pressure-reducing eye drops, at least for a few years. However, the procedure is safe, adds to the profitability of cataract surgery for both the surgeon and the ambulatory surgery center (ASC), is quick, with little impact on work flow, and adds no out of pocket costs or recovery time for the patient. The only downside is that it might not work, meaning patients continue to use drops. But as one surgeon quoted in a trade magazine put it, since patients are not paying for it, “No harm, no foul.”

Our research suggests that in the six years since GKOS launched the iStent, it has trained the vast majority of cataract surgeons with reasonable volumes of glaucoma patients. We estimate that, in recent quarters, growth of the available market for iStent has slowed to the mid-single digits, well below the mid-teens volume growth estimates put forward by management on its 1Q19 earnings call.

Slowing market growth has been masked by the recall and market withdrawal of Alcon’s CyPass MIGS (minimally invasive glaucoma surgery) device in August 2018. CyPass, launched in October 2016, was the second MIGS device market to hit the market. Alcon targeted high volume iStent users for training, and CyPass rapidly gained market share from iStent. By mid-2018, Alcon had trained nearly 1,500 surgeons to use the device, and had taken about 20% of US MIGS device unit volume. iStent US revenue growth slowed from 34% y-y in 2017 to just 5% y-y in 1Q18 and -2% y-y in 2Q18.

The CyPass recall was announced on August 29, 2018. GKOS shares jumped 40% that day to \$62.86, because investors anticipated rapid revenue growth as the company gained back lost share. This has played out, with US revenue increasing 25% y-y in 4Q18 and 32% y-y in 1Q19. Bulls expect ~30% y-y revenue growth in 2Q19 and 3Q19. Our estimates for the next two quarters are in line with the “street.” Thereafter, however, we expect top line growth to disappoint, as the benefit of the CyPass recall laps, and as the underlying single digit growth of the market is exposed. Bulls estimate US iStent revenue will increase 15% y-y in 4Q19, 15% y-y in 2020, and 11% y-y in 2021. We expect US iStent revenue to grow just 3% y-y in 4Q19, 6% y-y in 2020 and 5% y-y in 2021.

With nearly all high-volume US cataract surgeons trained to use iStent, GKOS must try to get surgeons to use the device in more of their mild-to-moderate

POAG cataract surgery patients. The company suggests the iStent inject can expand the market because it offers more pressure reduction than the iStent and is easier to use. We think this is unlikely. Cataract surgeons tell us that the iStent inject does not offer enough additional pressure reduction to significantly expand use. Moreover, while the injector does make the procedure somewhat easier, it adds to the procedure time and makes it harder for surgeons to know if the stents have been implanted correctly.

Several other factors threaten the growth of iStent revenue. Privately held Ivantis launched the Hydrus MIGS device in 4Q18. GKOS has sued Ivantis, claiming the Hydrus infringes GKOS patents, and a trial date has been set for July 2020. In the meantime, Ivantis is selling the product. Our research suggests the product offers pressure reduction superior to the iStent, but the learning curve for surgeons is steeper. The roll out has been slow so far, but surgeons tell us that they are trying it or want to try it. Second, 44%-68% reductions to physician reimbursement for iStent procedures went into effect on January 1, 2019 in Medicare regions accounting for 32.9% of Medicare annual claim volume. Surgeons suggested to us that these reductions make other glaucoma surgeries (e.g., goniotomy) more attractive, and some surgeons are switching a portion of their patients to other approaches.

International sales of iStent/iStent inject are growing rapidly off of a small base. Sales were up 61% y-y in 2018 and are expected to increase 33% y-y in 2019. Sales in 2019 may benefit from improved reimbursement in France, but we have heard that ophthalmologists there see it as a trendy device and are skeptical about its efficacy. The company has said that sales in the UK will be challenged this year by a reduction in the facility fee paid for iStent from £2,000 to £1,200. Since the facility fee includes the cost of the device, this is likely to negatively impact use or reduce the price GKOS can charge for the device. That said, given our limited ability to research international use of iStent, our estimates closely mirror those of the “street” and do not drive our short thesis.

Management has recently been talking up its product pipeline, even though meaningful sales are not expected until 2021. The “street” is most excited about the iDose, a micro-sized titanium device that delivers glaucoma medication for one year or more. The product is currently in Phase III trials with launch expected at the end of 2021. This product faces potential competition from Allergan’s Bimatoprost SR, expected to launch at the end of 2020. GKOS also has several other products in its pipeline that are offshoots of the iStent, and it is the exclusive US distributor for Japan-based Santen’s Microshunt, which is expected to be approved in 2020. Approval and ultimate revenue from these products are highly uncertain, and the competitive landscape is likely to change significantly by the time they reach the market.

The “street” expects revenue of \$230M in 2019, \$274M in 2020, and \$323M in 2021), and EPS of (\$0.27) in 2019, \$0.07 in 2020, and \$0.45 in 2021. We model revenue of \$225M in 2019, \$250M in 2020, and \$287M in 2021 and EPS of (\$0.24) in 2019, (\$0.19) in 2020, and \$0.06 in 2021. GKOS currently trades at 10.3x 2020 sales, near the high end of its 2016-2019 EV/forward sales trading range of 4.2x-10.6x. This multiple is well above that of ophthalmic peers like COO (6.5x), ALC (3.2x), STAA (6.6x) and Carl Zeiss (5.2x). We apply a 6.5x multiple to our 2020 sales estimate which results in a fair value estimate of \$43.

Borrow information: GKOS

| Supply Quantity | Short Interest | Available to Borrow | Date |
|-----------------|----------------|---------------------|----------|
| 13.02M | 2.82M | 10.11M | 7.5.2019 |

Source: OWS/Prime Brokers Estimates

Background:

Glaukos Corp., based in San Clemente, CA, manufactures and markets medical devices to treat glaucoma. The company was founded in 1998, launched iStent, its sole product, in 2012, and went public in June 2015.

iStent was the first in a new class of minimally invasive glaucoma surgery (MIGS) devices. It is a tiny titanium stent coated with heparin that is implanted into the eye to restore fluid drainage, thereby reducing intraocular pressure (IOP) caused by glaucoma. GKOS launched its newer version, the iStent inject, in September 2018. It delivers two stents with an autoinjector, making it easier to use and slightly more effective. The products are quite similar, and the transition of to the new device is nearly complete, so we describe them interchangeably in this report.

Surgeons view the iStent procedure as very safe, with an adverse event profile similar to cataract surgery. It achieves minimal IOP reductions, however, so it is approved for use only in combination with cataract surgery, which by itself significantly reduces IOP. The combined surgery improves the chance that a patient can reduce or eliminate use of pressure reducing eye drops following cataract surgery. This is important in glaucoma treatment because patient compliance with drops is poor, and uncontrolled pressures can result in vision loss.

The iStent procedure fits well into a cataract surgeon’s workflow because it is quick and predictable. This is important because cataract surgery is a high-volume procedure, with some surgeons doing 1,500+ per year. Surgeons tell us that cataract surgery takes an average of 15 minutes to perform. The iStent

procedure takes about six minutes, and the iStent inject procedure takes about 7-10 minutes (3-5 minutes per stent). There are times when the iStent inject procedure takes 15-20 minutes (e.g., the injection device fails), so some surgeons schedule cataract/iStent procedures in the afternoon so they do not disrupt the cataract-only workflow.

iStent is covered by Medicare and commercial insurance, and reimbursement is profitable for both surgery facilities and surgeons. Medicare pays for iStent under a temporary CPT code (0191T) effective until December 2023. There are two payments for the procedure: 1) the facility fee paid to the ambulatory surgery center (ASC) or hospital outpatient department (HOPD), which covers both the device and facility costs, and 2) the physician fee for performing the procedure.

The Medicare facility fee is set at a national level by CMS. In January 2017, CMS changed its methodology for setting ASC facility fees, resulting in a 35% y-y increase in facility fees for iStent/cataract surgery from \$2,284 to \$3,074. Note that in combination procedures, CMS pays 100% of the more expensive procedure and 50% of the less expensive one, so the 2017 facility fee includes 100% of the iStent facility fee (\$2,585) and 50% of the cataract fee (\$978 * 50%). GKOS took this opportunity to increase iStent's ASP by ~17% from about \$1,162 to about \$1,356.

Physician fees for temporary codes such as 0191T are set by local Medicare Area Contractors (MACs) and vary significantly between MACs. Fees can also change dramatically from year to year. For temporary codes used in combination procedures, most MACs pay physicians 100% of the fees for both procedures.

When iStent was first reimbursed in 2013, the typical physician fee for the combined iStent/cataract surgery was about \$1,668 (\$1,000 for the iStent, \$668 for the cataract). This reimbursement rate held until 2017, when a large MAC (Noridian, 16.4% of national Medicare claims volume) reduced iStent reimbursement to just \$240. As a result, the physician fee for combination iStent/cataract surgery declined about 47% to \$870. Reimbursement in other parts of the country remained fairly steady until January 2019, when two other MACs representing 32.9% of Medicare claim volume significantly reduced the iStent physician fee. We discuss this further below.

iStent has a very favorable product profile. It is safe, easy to use, profitable for both the surgeon and the ASC, and adds no out of pocket costs or recovery time for the patient. Surgeons readily accepted training from GKOS reps, and then rapidly maximized use in their patient populations. As we discuss below, iStent revenue growth mirrored the growth in the average number of trained surgeons.

GKOS had the MIGS device market to itself until late 2016, when Alcon launched its CyPass device. CyPass offered better pressure reduction than iStent (which did not then have a two stent version), was easy to use, and was marketed by Alcon, an ophthalmology powerhouse already selling intraocular lenses to cataract surgeons and surgery equipment to ASCs. The company rapidly trained surgeons and gave away free product to encourage trials. It seems to have done little to expand the available market, however, since its primary target was high volume practices already using the iStent.

We estimate CyPass took about 20% market share from iStent by mid-2018. But, in an unexpected twist, Alcon suddenly pulled the product from the market on August 29, 2018, due to safety concerns. GKOS has won back most of this business, helping it generate robust top line growth. Now, however, we think the US market for iStent is fully penetrated and market growth appears to have slowed to the mid-single digits.

We expect US iStent revenue growth to mirror market growth rates once the benefit of the August 2018 CyPass recall laps. The “street,” guided by GKOS’ estimate of continued mid-teens growth in MIGS volume in 2019, expects US iStent growth of 16% y-y in 2020 and 9% in 2021. As shown below, our lower US iStent sales expectations are the biggest driver of the difference between our and the “street’s” estimates. Our international iStent sales and other product sales are in line with the “street.”

Table 1: “Street” vs. OWS estimates, 2019-2021

| \$M | 2018a | “Street” 2019e | OWS 2019e | “Street” 2020e | OWS 2020e | “Street: 2021e | OWS 2021e |
|----------------|-------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| US iStent | 151.7 | 191.1 | 186.0 | 222.0 | 197.8 | 242.0 | 207.8 |
| Int’l iStent | 29.6 | 39.3 | 39.3 | 45.0 | 45.0 | 53.0 | 51.0 |
| Other Products | 0.0 | 0.0 | 0.0 | 7.2 | 7.2 | 28.0 | 28.0 |
| Net sales | 181.3 | 230.4 | 225.3 | 274.2 | 250.0 | 323.0 | 286.8 |

| Y-Y change | 2018a | “Street” 2019e | OWS 2019e | “Street” 2020e | OWS 2020e | “Street: 2021e | OWS 2021e |
|----------------|-------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| US iStent | 8% | 26% | 23% | 16% | 6% | 9% | 5% |
| Int’l iStent | 61% | 33% | 33% | 15% | 14% | 18% | 13% |
| Other Products | n/m | n/m | n/m | n/m | n/m | 289% | 289% |
| Net sales | 14% | 27% | 24% | 19% | 11% | 18% | 15% |

Discussion:

1. GKOS appears to have trained nearly all cataract surgeons with reasonable volumes of glaucoma patients. Surgeons now expect their use of iStent to be stable.

Cataract surgeons treating glaucoma patients include both glaucoma specialists and comprehensive ophthalmologists. Cataract surgeries per surgeon vary widely, with some doing 1,500+ per year and others doing a few hundred. GKOS says about 5,500 surgeons are responsible for most of the 4M annual cataract surgeries in the US, and these high-volume surgeons are its target for training.

GKOS has trained about 3,300 surgeons to date (60% of its target). It has reached this penetration over six years by providing a product that is very profitable, safe, and costs patients nothing out of pocket. With such low barriers to adoption, we think nearly all surgeons who want iStent training have received it.

Our research also supports this conclusion. We contacted 24 glaucoma specialists and 24 comprehensive ophthalmologists. 100% of the glaucoma specialists we contacted already use iStent. In contrast, only 50% of the comprehensive ophthalmologists use it, but those users tended to be higher volume surgeons who would encounter enough mild-to-moderate glaucoma patients in their practices to make training worthwhile—especially when iStent reimbursement was \$1,000 per procedure. With iStent physician fees falling, getting lower volume comprehensive ophthalmologists to commit to training is likely becoming more difficult.

Most surgeons told us they are currently using iStent in appropriate patients, and do not expect use to increase beyond growth in the number of mild-to-moderate patients they see in their practices. This seems logical, given the ease of use, low risk of complications, profitable reimbursement, and good Medicare/commercial coverage of the device.

2. Impact of slowing MIGS device market growth on GKOS has been masked by a competitor recall.

GKOS created the MIGS device market by rapidly training cataract surgeons to use the device. As it penetrated the highest volume practices, however, growth in trained surgeons has slowed, as has growth of MIGS unit volumes.

In the table below, we show our estimate of the total US MIGS device market from 2016-2018. Our iStent unit volume estimates are based on iStent sales and ASPs as guided over time by management. In 2015, management guided

investors to an ASP of \$1,131, which increased about 3% y-y in 2016 to \$1,162. This is a blended price for sales to ASCs (75% of units) and hospitals (25% of units). According to GKOS, prior to 2017, ASC prices were significantly lower than hospital prices because the ASC facility fee for the combined iStent/cataract procedure was only \$2,284 versus the hospital payment of \$3,419. Another reason for lower ASC pricing is likely that they can negotiate volume discounts unavailable to hospitals, who do fewer procedures.

In 2017, GKOS took a significant price increase on devices sold to ASCs because a Medicare policy change increased the iStent/cataract ASC facility fee by \$790 (35% y-y) to \$3,074. Management did not disclose the amount of the price increase it took on ASC sales. We estimate the 2018 combined ASP increased 17% to \$1,356, with hospitals still paying a premium versus ASCs due to their lower volumes and the continued higher reimbursement for the procedure. Our estimate is in line with that of surgeons with whom we spoke, who estimated their ASCs were paying \$1,100-\$1,300 for the device.

We also estimate unit volumes for CyPass in 2017 and 2018 based on disclosures in Alcon's filings prior to its spin-out from Novartis in April 2019. According to ALC's 20-F filed on November 13, 2018, CyPass generated \$20M in revenue in 2017 and \$28M in 2018 until its 8/28/18 market withdrawal. We assume 80% of 2017 and 75% of 2018 revenue is from the US, and that each device cost \$1,100 (discounted vs iStent to encourage adoption). GKOS said ALC gave away 7-10 free devices per surgeon to encourage trials, so we assume 300 trained surgeons got 10 free devices in 2017 and 700 got 10 free devices in 2018. We therefore estimate 17,545 US CyPass units in 2017 and 26,901 units in 2018. Finally, we assume the newly launched Hydrus (discussed below) had 2,000 units in 2018.

We estimate unit growth of the MIGS device market was 51% in 2016, in line with the 46% y-y increase in the average number of trained surgeons. In 2017, we estimate the unit growth of 34% versus a 36% increase in the number of trained surgeons, and in 2018, we estimate unit growth was 14% versus a 17% increase in the number of trained surgeons. We think MIGS device use per user declined -1% y-y in 2017 and -3% y-y in 2018 as more lower volume users were trained.

Table 2: OWS Estimate of US MIGS Device Market Growth in Units, 2016-2018

| | 2015a | 2016a | 2017a | 2018a |
|----------------------|--------|--------|---------|---------|
| Trained Users eop | 1,620 | 2,400 | 3,000 | 3,300 |
| Avg Trained Users | 1,373 | 2,010 | 2,738 | 3,213 |
| iStent units | 59,859 | 90,361 | 103,876 | 109,840 |
| CyPass units | - | - | 17,545 | 26,091 |
| Hydrus units | - | - | - | 2,000 |
| Total MIGS units | 59,859 | 90,361 | 121,421 | 137,931 |
| MIGS units/ avg user | 43.6 | 45.0 | 44.4 | 42.9 |

| Y-Y change | 2015a | 2016a | 2017a | 2018a |
|----------------------|-------|-------|-------|-------|
| Trained Users eop | - | 48% | 25% | 10% |
| Avg Trained Users | - | 46% | 36% | 17% |
| iStent units | - | 51% | 15% | 6% |
| CyPass units | - | n/m | n/m | 49% |
| Hydrus units | - | n/m | n/m | n/m |
| Total MIGS units | - | 51% | 34% | 14% |
| MIGS units/ avg user | - | 3% | -1% | -3% |

Slowing MIGS device market growth is evident over the past five quarters. As shown on the table below, we estimate MIGS unit growth has slowed from 23% in 1Q18 to just 2% in 1Q19. This has been masked by the CyPass recall, which caused iStent unit volume growth to increase from 0% y-y in 1Q18 to 27% y-y in 1Q19. MIGS units per average user fell -8% in 4Q18 and -6% in 1Q19. We think this is due to more lower volume users in the average, market adjustments after the CyPass recall, and potentially lower reimbursement in two MACs that became effective on 1/1/19 (discussed below).

Table 3: OWS Estimate of US MIGS Device Market Growth in Units, 2016-2018

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 |
|----------------------|--------|--------|--------|--------|--------|
| Trained Users eop | 3,100 | 3,300 | 3,300 | 3,300 | 3,350 |
| Avg Trained Users | 3,050 | 3,200 | 3,300 | 3,300 | 3,325 |
| iStent units | 24,472 | 26,446 | 26,511 | 32,410 | 31,174 |
| CyPass units | 8,000 | 9,000 | 9,091 | - | - |
| Hydrus units | - | - | 500 | 1,500 | 2,000 |
| Total MIGS units | 32,472 | 35,446 | 36,102 | 33,910 | 33,174 |
| MIGS units/ avg user | 10.6 | 11.1 | 10.9 | 10.3 | 10.0 |

| Y-Y change | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 |
|----------------------|------|------|------|-------|-------|
| Trained Users eop | 19% | 20% | 14% | 10% | 8% |
| Avg Trained Users | 22% | 20% | 17% | 12% | 9% |
| iStent units | 0% | -2% | 2% | 22% | 27% |
| CyPass units | 300% | 125% | 82% | -100% | -100% |
| Hydrus units | n/m | n/m | n/m | n/m | n/m |
| Total MIGS units | 23% | 14% | 17% | 3% | 2% |
| MIGS units/ avg user | 1% | -4% | 0% | -8% | -6% |

3. Hydrus taking some share, other competitors coming

Privately held Ivantis launched the Hydrus MIGS device in 4Q18. Surgeons tell us that it has superior pressure reduction versus iStent, but the surgery is more complicated. One experienced glaucoma specialist described it as “a big hunk of metal,” and said after 3-4 cases, he was still on the learning curve.

There are only 14 Ivantis territory reps on LinkedIn, and not surprisingly surgeons told us they are having a tough time getting trained. We do not expect major share gains for Hydrus, and estimate it gets 8% share in 2019, 10% share in 2020, and 13% share in 2021.

Belgium based iSTAR has a MIGS device called MINIject in development in both Europe and the US. It is similar to the CyPass, but uses a different material and a different entry point in the eye which iSTAR expects will allow it to avoid problems that led to CyPass’ withdrawal. iSTAR expects to receive a CE mark (European approval) for standalone use of MINIject in 2019, and a CE mark for use in combination with cataract surgery in 2020. It is working toward FDA approval in 2022.

Alcon has said that it plans to re-enter the MIGS market, perhaps with a revised version of CyPass, or by acquiring a product in development. At a recent investor conference, the CEO said the market needs a product that is more effective than what is currently available (i.e., iStent). He is looking for effectiveness without complications, and says “There’s lots of ideas out there.”

4. Physician reimbursement is declining, increasing the relative attractiveness of other glaucoma surgeries

When Noridian (16.4% of total Medicare claim volume) reduced the Medicare physician fee from about \$1,000 to \$250 (-75%) in May 2017, GKOS management identified it as a headwind, and admitted that it was having a “modest impact” on use of iStent in those states.

In January 2019, two other MACs cut their physician reimbursement for iStent. Novitas cut reimbursement from about \$1,068 to \$339, a 68% reduction. Novitas covers 25.3% of total Medicare claims volume, and includes states like Texas, Louisiana, Mississippi, and New Mexico with large minority populations who have a higher incidence of glaucoma than whites.

Also, in January 2019, First Coast Service Options, the MAC for Florida, cut its physician reimbursement for iStent from about \$808 to \$452, a 44% y-y reduction. First Coast covers 7.6% of total Medicare claims volume, but is likely an important market for iStent since it is the state with the highest percentage of people over 65 (19% versus 15% nationally). Interestingly, First Coast added a payment of \$104 for use of the iStent inject (CPT 0376T). This is the only MAC we have found doing so. Without it, the reduction in First Coast's reimbursement would have been 57%.

It is unclear how much these payment reductions will impact use of iStent, though several surgeons mentioned it to us as a concern. A glaucoma specialist in Dallas told us that a large comprehensive ophthalmology practice near him is switching away from iStent toward to goniotomy in some patients. While the payment for a combination cataract/goniotomy (\$1,110) is only about 10% more than the new iStent/cataract payment (\$997), the pressure reduction is much greater.

Recent results from Ellex, a small Australia based company that sells the iTrack laser that can be used in goniotomy and other glaucoma surgeries, show unit sales up 27% y-y in F1H19, and revenue up 25% y-y to AUD 6.5. This may be a sign that newer minimally invasive surgery approaches without implants are gaining traction now that iStent is less lucrative for surgeons. There are several other privately held companies with MIGS surgery tools like New World Medical (Kahook Dual Blade) and Sight Sciences (Omni Glaucoma Treatment System) that are also trying to win a piece of this market.

5. iStent is already available in most major markets

International sales of iStent are growing rapidly off a small base. Sales were up 61% y-y in 2019 and are expected to increase 33% y-y in 2019. The product is available in most major markets (EU, Australia, Japan, Brazil). Revenue growth has likely benefited from the conversion of some markets from distributor sales to direct sales. In 2015, the company sold direct in just three non-US countries, which grew to 12 countries in 2016 and 16 countries in 2017.

Sales in 2019 may benefit from improved reimbursement in France, but we have heard that ophthalmologists there see it as a trendy device and are skeptical about its efficacy. The company has said that sales in the UK will be challenged this year by a reduction in the facility fee paid for iStent from £2,000 to £1,200. Since the facility fee includes the cost of the device, this is likely to negatively impact use or reduce the price GKOS can charge for the device. That said, given our limited ability to research international use of iStent, our estimates closely mirror those of the “street” and do not drive our thesis.

6. iDose faces competition from Allergan’s Bimatoprost SR

Bulls are excited about GKOS’ iDose glaucoma drug delivery device, currently in Phase III trials. iDose is a small titanium implant designed to deliver a super concentrated formulation of travoprost (an IOP reducing drug) over one or more years. According to GKOS, the potential US market for iDose is the 3.4M people (6.8M eyes) diagnosed and treated with glaucoma medications, an estimated \$2.2B market.

Glaucoma specialists with whom we spoke are curious about iDose, but voiced a number of concerns. First and foremost among them is how much they would be reimbursed for performing the procedure. One commented that it would not be worth putting a patient through surgery for \$50 in reimbursement. This seems to conflate physician remuneration with patient benefits, but is likely an honest assessment. Other concerns included whether both eyes would be implanted at once and what that would mean for recovery, how willing older patients would be to have another surgery, and how long the implant would last.

GKOS does not expect iDose to reach the market until late 2021/22. In the meantime, Allergan (soon to be owned by Abbvie) is developing Bimatoprost SR, an extended release IOP medication in a polymer formulation that is injected into the eye. It expects to launch the product in 2020.

Bimatoprost SR is administered in the ophthalmologist’s office every four months. According to Allergan, Phase III data shows that after three administrations over the course of a year, most patients do not need another injection for a full year. This was a surprising result for the investigators, who speculate that the drug causes remodeling of the outflow pathways from the eye.

Glaucoma specialists are interested in Bimatoprost SR. They do not see the every-four-month injections as a problem, since they see patients with controlled IOPs every 3-6 months anyway. One concern is that if the polymer does not dissolve completely, it could leave “space junk” behind in the eye. Another

concern is how many injections the eye can handle before scarring or other issues arise.

Another issue facing iDose is the increasing acceptance of selected laser trabeculoplasty (SLT) as first line therapy for mild glaucoma. This in-office procedure can achieve a 20% reduction in IOP, equivalent to one eye drop per day. As pressures increase, many patients are on multiple eye drops, but SLT can lengthen the time patients do not have to worry about drops at all.

Ellex's SLT laser revenue in the US was up 21% y-y to AUD 16.8M. The company attributed the increase to increase acceptance of SLT as a first line approach

7. Other products in pipeline

GKOS has several other products in its pipeline, each of which is an extension of the iStent platform.

iStent Supra (Launch 2020e)

This version of the iStent is injected into the suprachoroidal space, which is the same injection area used by the failed CyPass device. GKOS started developing the product in 2016, well before issues with CyPass came to light. Given the CyPass withdrawal, we think the safety hurdle for iStent Supra may be very high.

iStent infinite (Launch 2020-21e)

This version of the iStent injects three stents instead of two with the iStent inject and one with the original iStent. It is to be used in more advanced glaucoma cases that need more pressure reduction than provided by iStent inject. However, studies have shown diminishing returns with each added stent. We wonder how willing surgeons will be to put ever more stents in the eye rather than going to goniotomy or another surgical procedure for more pressure reduction.

Standalone iStent SA (Launch 2023e)

This would be a new indication for the two stent iStent inject for use in mild-to-moderate glaucoma patients who have already had their cataracts removed. Surgeons told us that if reimbursement for the iStent SA is at current lower levels for iStent inject (\$350-\$450), it would be a "tough sell" to do this procedure rather than a stand-alone goniotomy that reimburses \$776.

Santen MicroShunt (Launch 2020e)

In April 2019, GKOS announced it would be the exclusive distributor for Japan-based Santen's MicroShunt. The MicroShunt is similar to the Xen Gel shunt currently marketed to Allergan, and targets more advanced glaucoma than the iStent. Xen Gel has had difficulty gaining traction, and surgeons told us they expected the MicroShunt will have difficulty, as well. The implantation procedure is difficult, and results have been disappointing. Both Xen Gel and the MicroShunt require use of mitomycin, and anti-scarring medication that creates thin tissues.

8. Increasing expenses delay profitability

After briefly achieving breakeven in 2016, GKOS has lost money each year and is not expected to be EPS positive until 2020, when the "street" expects EPS of \$0.07. GKOS' operating margin deteriorated in 2017 and 2018 as the company increased spending. SG&A was 60% of sales in 2017 and 66% of sales in 2018. Bulls expect SG&A to be 64% of sales in 2019. Management may be ramping up spending in an attempt to reinvigorate MIGS market growth, but we think its efforts should be unsuccessful.

R&D was 24% of sales in 2017 and 27% of sales in 2018. Bulls expect R&D to be 26% of sales in 2019. The company is running multiple clinical trials for its pipeline products, as it looks for another product success.

In June 2019, GKOS acquired DOSE Medical Corp. for \$2.5M, which may bring more R&D expense on to GKOS' income statement. DOSE is a former GKOS R&D subsidiary established in 2010 as a variable interest entity. At the time of GKOS' June 2015 IPO, GKOS paid DOSE \$15M for rights to iDose, and eliminated a \$10.9M intercompany receivable owed by DOSE to GKOS. In April 2017, GKOS paid DOSE \$5.5M plus \$9.5M in potential performance payments in to acquire assets related to an IOP sensor system.

DOSE Medical's board included GKOS' CEO and its Chairman of the Board. Those individuals and others in GKOS management were DOSE shareholders, and so have benefited handsomely from GKOS' acquisitions of DOSE technology. GKOS shareholders have not been so fortunate, since they are paying up for technology assets that may have belonged to the company before DOSE was established in 2010.

9. Insider Selling

GKOS' COO and CFO have recently sold shares. In March 2019, the COO sold 90,000 shares. As of April 2019, he owned 258,757 shares (owned and

currently issuable upon exercise of options). The CFO sold 17,500 shares so far in 2019. As of April 2019, he owned 205,484 shares (owned and currently issuable).

In 2018, GKOS received \$18.7M in cash from the exercise of stock options and \$3.5M from stock purchases under its employee stock plan. It received another \$4.6M in cash from stock option exercises in 1Q19. We wonder if employees are preparing to sell before the benefits from the CyPass recall lap in August 2019.

10. Recent results and Guidance

GKOS reported 1Q19 revenue of \$54M, above consensus of \$50.2M. EPS of (\$0.04) was above consensus of (\$0.12).

The company increased the lower end of its prior 2019 guidance, and now expects US revenue of \$187M-\$192M and international revenue of \$37M-\$39M, for total 2019 revenue of \$225M-\$230M. Gross margins are expected to be in the mid-80s.

11. Financial Assumptions

US iStent Revenue

The table below shows the assumptions that drive our US iStent revenue estimates. We assume the average number of trained surgeons increases 6% in 2019-2021. We assume MIGS use (iStent + Hydrus) per average trained surgeon declines 5% y-y from 42.9 in 2018 to 40.9 in 2019. This continues a 3% y-y decline in 2018, as more lower volume cataract surgeons were included in the average. We assume MIGS use per user stabilizes in 2020 and 2021 as fewer low volume surgeons are added. Declines in 2019-2021 could be exacerbated by iStent/Hydrus physician reimbursement cuts that took effect on 1/1/19 in areas covering 32.9% of Medicare claims volume.

We estimate total MIGS unit volume increases 1% y-y in 2019 and 6%-7% in 2020-2021. We assume Hydrus wins 8% market share in 2019, 10% in 2020, and 13% in 2021. Our iStent unit volume increases 17% y-y in 2019 (driven by share gains from the CyPass withdrawal), 4% y-y in 2020, and 3% y-y in 2021. We assume ASPs increase 6% y-y in 2019 due to the transition to the higher priced iStent inject, and 2% y-y in 2020-2021.

Our estimated US iStent revenue is \$186M in 2019, \$197.8M in 2020, and \$207.8M in 2021 versus the “street’s \$191.1M, \$222.0M, and \$242.0M.

Table 4: OWS US iStent Revenue Model, 2015-2021e

| | 2018a | 2019e | 2020e | 2021e |
|---------------------------|---------|---------|---------|---------|
| Trained Users eop | 3,300 | 3,500 | 3,700 | 3,900 |
| Avg Trained Users | 3,213 | 3,400 | 3,600 | 3,800 |
| iStent units | 109,840 | 128,685 | 134,170 | 138,198 |
| CyPass units | 26,091 | - | - | - |
| Hydrus units | 2,000 | 10,500 | 15,000 | 20,000 |
| Total MIGS units | 137,931 | 139,185 | 149,170 | 158,198 |
| MIGS units/ avg user | 42.9 | 40.9 | 41.4 | 41.6 |
| iStent units/user | 34.2 | 37.8 | 37.3 | 36.4 |
| iStent ASP | \$1,380 | \$1,445 | \$1,474 | \$1,504 |
| US iStent Rev (\$M) | \$151.7 | \$186.0 | \$197.8 | \$207.8 |
| “Street” iStent Rev (\$M) | \$151.7 | \$191.1 | \$222.0 | \$242.0 |

Source: OWS estimates, company reports

| | 2018a | 2019e | 2020e | 2021e |
|---------------------------|-------|-------|-------|-------|
| Trained Users eop | 10% | 6% | 6% | 5% |
| Avg Trained Users | 17% | 6% | 6% | 6% |
| iStent units | 6% | 17% | 4% | 3% |
| CyPass units | 49% | n/m | n/m | n/m |
| Hydrus units | n/m | 425% | 43% | 33% |
| Total MIGS units | 14% | 1% | 7% | 6% |
| MIGS units/ avg user | -3% | -5% | 1% | 0% |
| iStent units/user | -10% | 11% | -2% | -2% |
| iStent ASP | 2% | 5% | 2% | 2% |
| US iStent Revenue | 8% | 23% | 6% | 5% |
| “Street” iStent Rev (\$M) | 8% | 26% | 16% | 9% |

Note that management has told investors that the seasonality of cataract volumes in the US is that about 22% occur in Q1, 25% in Q2 and Q3, and 28% in Q4. Assuming iStent sales are closely tied to total cataract surgeries this would imply a Q-Q increase in US iStent sales in 4Q19 versus our expectation of a 3% Q-Q decline.

We think iStent/cataract surgeries do not have the same seasonality as cataract surgeries alone, since most patients are on Medicare and are not impacted by deductibles that drive many commercially insured patients to delay elective surgeries to year end. According to the NIH, the prevalence of glaucoma for people aged 60-64 is 1.58%. After 64, the prevalence rate of glaucoma increases steadily to 3.93% for people aged 75-79, and 7.89% for those over 80. If there is any seasonality to glaucoma surgeries, we would expect most Medicare patients to avoid surgery in 4Q so as not to disrupt their holiday plans.

We assume international iStent revenue of \$39.3M in 2019 and \$45M in 2020, in line with “street” estimates. We assume slightly lower revenue in 2021 (\$51M vs the “street’s” \$53M) on expected competition from iStar’s MINIject and Hydrus.

Our estimates for revenue from other products are in line with the “street.” Other product revenue is inconsequential until 2021. However, this revenue estimate is highly speculative since it depends on product approvals for products that have yet to even be submitted for FDA approval.

Gross and Operating Margin

Our gross margin expectations of about 86.5% are in line with the “street.” We expect SG&A and R&D as a percent of sales to remain elevated in 2020-2021, with breakeven in 2H21. The “street” expects operating margin to be breakeven in 2020 and 6% in 2021.

12. Valuation

“Street” analysts use EV/sales to value GKOS shares, which currently trade at 9.8x 2020 sales. This is at the high end of its EV/forward sales trading range of 4.2x-10.6x, and well above other ophthalmic peers such as COO (6.5x), ALC (3.2x), STAA (6.6x) and Carl Zeiss (5.2x). We apply a 6.5x multiple to our 2020 sales to arrive at our \$43 fair value estimate.

13. Risks

The risks to achieving our price target include increased iStent training of cataract surgeons and more iStent use per trained surgeon. International sales could also increase more than we and the “street” expect. Investor optimism for products in GKOS’ pipeline could increase with favorable clinical data, helping shares maintain their rich valuation.

M&A is always a risk, but we think the company’s premium valuation makes a take-out unlikely. Moreover, the most obvious acquirer, Alcon, already has over \$2B in debt following the spin-out from Novartis, and seem unlikely to take out such a big acquisition with a core product (iStent) management has said is not particularly effective. Allergan also has a significant eye care division, but now will be part of Abbvie.

GKOS has a clean balance sheet, and could borrow to make acquisitions. Its development pipeline is already quite full and R&D spending is very high and

going higher after the DOSE Medical acquisition, so it may not have the appetite for more development spending.

GKOS could buy already marketed ophthalmic products for its sales reps to pitch, helping top line growth. In 2018, it hired an experience ophthalmic business development executive. Management has suggested her focus would be on in-licensing drugs to add to the iDose drug delivery platform rather than making acquisitions of marketed products.

14. Financial Projections

1. Quarterly Projections

| | 1Q19a | 2Q19e | 3Q19e | 4Q19e | 1Q20e | 2Q20e | 3Q20e | 4Q20e |
|-------------------------|--------|--------|--------|--------|--------|--------|-------|--------|
| US iStent | 44.2 | 46.7 | 48.2 | 46.9 | 46.0 | 50.8 | 51.6 | 49.4 |
| Int'l iStent | 9.8 | 9.0 | 9.5 | 11.0 | 10.5 | 11.0 | 11.5 | 12.0 |
| iDose | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| iStent Supra | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 1.5 | 2.1 |
| iStent Infinite | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 1.6 |
| Total Other Product | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 2.5 | 3.7 |
| Net Sales | 54.0 | 55.7 | 57.7 | 57.9 | 56.5 | 62.8 | 65.6 | 65.1 |
| Cost of Sales ex amort | 7.1 | 7.5 | 7.8 | 7.8 | 7.6 | 8.5 | 8.9 | 8.8 |
| SGA | 34.9 | 36.0 | 37.0 | 38.0 | 38.5 | 39.5 | 39.5 | 40.0 |
| R&D | 13.9 | 14.0 | 15.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |
| Tot Op Expense | 48.9 | 50.0 | 52.0 | 55.0 | 55.5 | 56.5 | 56.5 | 57.0 |
| Operating Income | (1.9) | (1.8) | (2.1) | (5.0) | (6.6) | (2.2) | 0.3 | (0.7) |
| Interest Income | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Interest/other exp, net | (0.1) | (0.1) | (0.1) | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Income | (1.2) | (1.4) | (1.7) | (4.5) | (6.1) | (1.7) | 0.8 | (0.2) |
| Taxes | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | (1.3) | (1.4) | (1.7) | (4.5) | (6.1) | (1.7) | 0.8 | (0.2) |
| EPS | (0.04) | (0.04) | (0.04) | (0.12) | (0.16) | (0.04) | 0.02 | (0.00) |
| S/O | 36.2 | 36.6 | 36.9 | 37.3 | 37.4 | 37.8 | 38.1 | 38.5 |

| Y-Y chng | 1Q19a | 2Q19e | 3Q19e | 4Q19e | 1Q20e | 2Q20e | 3Q20e | 4Q20e |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| US iStent | 32% | 29% | 32% | 3% | 4% | 9% | 7% | 5% |
| Int'l iStent | 51% | 31% | 27% | 26% | 7% | 22% | 21% | 9% |
| iDose | n/m |
| iStent Supra | n/m |
| iStent Infinite | n/m |
| Total Other Product | n/m |
| Net Sales | 35% | 29% | 31% | 7% | 5% | 13% | 14% | 13% |
| Cost of Sales ex amort | 46% | 43% | 52% | 16% | 7% | 13% | 14% | 13% |
| SGA | 29% | 26% | 17% | 18% | 10% | 10% | 7% | 5% |
| R&D | 28% | 11% | 14% | 31% | 22% | 21% | 13% | 0% |
| Tot Op Expense | 28% | 21% | 16% | 22% | 14% | 13% | 9% | 4% |
| Operating Income | n/m |
| Interest Income | -23% | -2% | -14% | -26% | -37% | 0% | 0% | 0% |
| Interest/other exp, net | n/m |
| Pretax Income | -55% | -74% | -75% | 296% | 403% | 21% | 146% | -96% |
| Taxes | n/m |
| Net Income | n/m | -75% | -75% | 354% | 358% | 21% | 146% | -96% |
| EPS | n/m |
| S/O | 4% | 5% | 4% | 3% | 3% | 3% | 3% | 3% |

| % Total Sales | 1Q19a | 2Q19e | 3Q19e | 4Q19e | 1Q20e | 2Q20e | 3Q20e | 4Q20e |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| US iStent | 82% | 84% | 84% | 81% | 81% | 81% | 79% | 76% |
| Int'l iStent | 18% | 16% | 16% | 19% | 19% | 18% | 18% | 18% |
| iDose | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| iStent Supra | 0% | 0% | 0% | 0% | 0% | 2% | 2% | 3% |
| iStent Infinite | 0% | 0% | 0% | 0% | 0% | 0% | 2% | 2% |
| Total Other Product | 0% | 0% | 0% | 0% | 0% | 2% | 4% | 6% |
| Net Sales | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Cost of Sales ex amort | 13% | 14% | 14% | 14% | 14% | 14% | 14% | 14% |
| SGA | 65% | 65% | 64% | 66% | 68% | 63% | 60% | 61% |
| R&D | 26% | 25% | 26% | 29% | 30% | 27% | 26% | 26% |
| Tot Op Expense | 90% | 90% | 90% | 95% | 98% | 90% | 86% | 88% |
| Operating Income | -4% | -3% | -4% | -9% | -12% | -3% | 0% | -1% |
| Interest Income | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Interest/other exp, net | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Pretax Income | -2% | -2% | -3% | -8% | -11% | -3% | 1% | 0% |
| Taxes | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Net Income | -2% | -2% | -3% | -8% | -11% | -3% | 1% | 0% |

2. Annual Projections

| | 2018a | 2019e | 2020e | 2021e |
|-------------------------|--------|--------|--------|-------|
| US iStent | 151.7 | 186.0 | 197.8 | 207.8 |
| Int'l iStent | 29.6 | 39.3 | 45.0 | 51.0 |
| iDose | 0.0 | 0.0 | 0.0 | 5.9 |
| iStent Supra | 0.0 | 0.0 | 4.6 | 11.6 |
| iStent Infinite | 0.0 | 0.0 | 2.6 | 10.5 |
| Total Other Product | 0.0 | 0.0 | 7.2 | 28.0 |
| Net Sales | 181.3 | 225.3 | 250.0 | 286.8 |
| Cost of Sales ex amort | 22.0 | 30.2 | 33.8 | 38.7 |
| Amort in COGS | 3.1 | 0.0 | 0.0 | 0.0 |
| Cost of Sales | 25.1 | 30.2 | 33.8 | 38.7 |
| SGA | 119.5 | 145.3 | 157.5 | 177.0 |
| R&D | 49.7 | 59.9 | 68.0 | 70.0 |
| Tot Op Exp | 169.2 | 205.9 | 225.5 | 247.0 |
| Operating Income | (13.0) | (10.8) | (9.2) | 1.1 |
| Interest Income | 2.8 | 2.3 | 2.0 | 2.0 |
| Interest/other exp, net | (2.2) | (0.3) | 0.0 | 0.0 |
| Pretax Income | (12.4) | (8.8) | (7.2) | 3.1 |
| Taxes | 0.6 | 0.1 | 0.0 | 0.7 |
| Net Income | (12.9) | (8.9) | (7.2) | 2.4 |
| EPS | (0.37) | (0.24) | (0.19) | 0.06 |
| S/O | 35.3 | 36.8 | 38.0 | 39.2 |

| Y-Y chng | 2018a | 2019e | 2020e | 2021e |
|-----------------------------|-------|-------|-------|-------|
| US iStent | 8% | 23% | 6% | 5% |
| Int'l iStent | 61% | 33% | 14% | 13% |
| iDose | n/m | n/m | n/m | n/m |
| iStent Supra | n/m | n/m | n/m | 152% |
| iStent Infinite | n/m | n/m | n/m | 304% |
| Total Other Product | n/m | n/m | n/m | 289% |
| Net Sales | 14% | 24% | 11% | 15% |
| Cost of Sales ex amort | 26% | 38% | 12% | 15% |
| Amort in COGS | -14% | n/m | n/m | n/m |
| Cost of Sales | 19% | 21% | 12% | 15% |
| SGA | 24% | 22% | 8% | 12% |
| Research and development | 28% | 21% | 13% | 3% |
| Total Op Expense | 20% | 22% | 10% | 10% |
| Operating Income | n/m | -17% | -14% | -112% |
| Interest Income | 20% | -18% | -13% | 0% |
| Interest/other expense, net | n/m | n/m | n/m | n/m |
| Pretax Income | n/m | n/m | n/m | n/m |
| Taxes | 556% | -80% | -100% | n/m |
| Net Income | n/m | -31% | -19% | -133% |
| EPS | n/m | -34% | -21% | -132% |
| S/O | -2% | 4% | 3% | 3% |

| % Total Sales | 2018a | 2019e | 2020e | 2021e |
|---------------------------------|-------|-------|-------|-------|
| US iStent | 84% | 83% | 79% | 72% |
| Int'l iStent | 16% | 17% | 18% | 18% |
| iDose | 0% | 0% | 0% | 2% |
| iStent Supra | 0% | 0% | 2% | 4% |
| iStent Infinite | 0% | 0% | 1% | 4% |
| Total Other Product | 0% | 0% | 3% | 10% |
| Net Sales | 100% | 100% | 100% | 100% |
| Cost of Sales ex amort | 12% | 13% | 14% | 14% |
| Amort in COGS | 2% | 0% | 0% | 0% |
| Cost of Sales | 14% | 13% | 14% | 14% |
| SGA | 66% | 65% | 63% | 62% |
| Research and development | 27% | 27% | 27% | 24% |
| Total Op Expense | 93% | 91% | 90% | 86% |
| Operating Income | -7% | -5% | -4% | 0% |
| Loss on deconsolidation of DOSE | 0% | 0% | 0% | 0% |
| Interest Income | 2% | 1% | 1% | 1% |
| Interest/other expense, net | -1% | 0% | 0% | 0% |
| Pretax Income | -7% | -4% | -3% | 1% |
| Taxes | 0% | 0% | 0% | 0% |
| Net Income | -7% | -4% | -3% | 1% |

15. Financial Metrics

| | | | | |
|---|----------------|--------------|--------------|--------------|
| (\$M) | <u>3/31/19</u> | | | |
| Debt | 0.0 | | | |
| Equity | 185.5 | | | |
| Tangible book | 185.5 | | | |
| Market value | 2,825.5 | | | |
| Cash | 145.3 | | | |
| EV | 2,680.2 | | | |
| | <u>2018a</u> | <u>2019e</u> | <u>2020e</u> | <u>2021e</u> |
| EBITDA | (6.7) | (5.6) | (3.6) | 7.1 |
| Capex | (10.3) | (4.0) | (4.0) | (4.0) |
| Surplus FCF (Net inc + depr/amort - capex) | (17.0) | (7.8) | (5.6) | 4.4 |
| EV/EBITDA | n/m | n/m | n/m | 378 |