

Making Waves of Its Own

After a successful year, WaveLight, Inc., has once again proved it is a company that can achieve significant growth despite competition, consolidation, and a sluggish market, prompting competing entities to take interest.

BY SARA E. SMITH, EXECUTIVE EDITOR

The last few years have significantly shaped the landscape of the refractive surgery market. While most surgeons are reporting flat LASIK/PRK volumes, sales of presbyopia-correcting IOLs have been rising since the Centers for Medicare & Medicaid Services ruled that surgeons could “up-charge” for refractive cataract surgery. Also during this period, Advanced Medical Optics, Inc. (Santa Ana, CA), went on a buying spree to acquire Visx, IntraLase, and Wavefront Sciences, effectively turning itself into a corporate leader in the refractive surgery market. Meanwhile, Alcon Laboratories, Inc. (Fort Worth, TX), Advanced Medical Optics’ top threat, voluntarily recalled its next-generation wavefront-guided platform. Amidst all of this activity, WaveLight, Inc. was quietly reorganizing and restrategizing under the leadership of its new CEO, Wolfgang Tolle.

When WaveLight entered the crowded US excimer laser market in 2003, most spectators were dubious that the new niche company could penetrate an already jam-packed excimer laser market. Despite scrutiny, WaveLight enjoyed significant growth in its first year, achieving a 20% market share of all newly installed laser platforms. The company continued growing for the next 2 years, but hit a snag in 2006. WaveLight did not attain its revenue projections, and the company’s former president, as well as a few high-profile sales and business development staff members, exited the company. This shake-up resulted in WaveLight’s executives initiating a restructuring plan.

Mr. Tolle, a technology turnaround expert, joined the company in August 2006. In the first 9 months of fiscal year 2006/2007, WaveLight experienced a 45% increase in US revenues (in US dollars) to \$22.3 million, up from \$15.4 million for the same period 1 year earlier. According to Mr. Tolle, WaveLight anticipates that this financial

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performance will continue and that the company will finish this fiscal year quite strongly. As of press time, 2006/2007 fiscal year-end results were not available.

In an interview with *Cataract & Refractive Surgery Today*, Mr. Tolle and Luca Sergio, WaveLight’s Vice President of Marketing, discussed how an emphasis on customer service and a commitment to continuing innovation were the key ingredients to its renewed success in the US refractive surgery arena. In particular, WaveLight’s success in the US this year and the fact that it produces a high-quality product has attracted interest from well-known ophthalmic industry players.

TENDER OFFER

In recent news, Alcon Laboratories, Inc., announced a tender offer for WaveLight’s parent company, WaveLight AG (Erlangen, Germany), signing what WaveLight termed a *business combination agreement*. At press time, the WaveLight Executive Committee had endorsed the offer and recommended that WaveLight’s shareholders tender its shares to Alcon Laboratories, Inc. “Our executive committee has examined the details of the tender offer from Alcon and has determined that it is in the best interests of our shareholders to accept this deal,” Mr. Tolle explained to *CRSToday*.

Alcon’s increased offer price of €15 per share is a 50% premium over the initially announced offer price of €10 per share.

Before Alcon's offer, Carl Zeiss Meditec AG (Jena, Germany) acquired a 5% shareholding in WaveLight and stated its intent to consider a voluntary takeover.

THE WAVELIGHT RECIPE

Leadership

Mr. Tolle's passion for the past 20 years has been the development and turnaround of technology companies, and, in particular, European companies looking to develop a strong presence in the US. "When I joined WaveLight in August 2006, I focused on building a team of individuals that brings tremendous experience to the company," Mr. Tolle told *CRSToday*. "Our team of executives at WaveLight, Inc., probably have more than 100 years of business execution experience combined. That is a lot of gray hair [ie, knowledge and skill] being brought to the WaveLight table." For instance, Mr. Sergio is responsible for developing a strategic direction for WaveLight's products, driving competitive penetration, overseeing future clinical trials, and creating a "snazzy, Americanized marketing scheme," Mr. Tolle explained, which is a bit different from the former conservative approach that is characteristic of WaveLight AG.

Furthermore, the US company has built a successful sales team that is focused on strengthening its relationship with its customers. "We have restructured the sales team," Mr. Tolle said. "You can see in our 9-month financial results that the sales team, led by Blake Michaels, Vice President of Sales, is very effective." He further explained that Chief Financial Officer Ken Nelson, with years of experience in mergers and acquisitions, was hired to improve the company's financial systems.

Familiarity With Customers

One key to success is its closeness with its customers. "I literally lived on airplanes for 6 months, because I wanted to go out and listen to our customers and hear their concerns," Mr. Tolle explained. "As a result, I realized we needed to be more customer focused." To address this issue, WaveLight consolidated its clinical training and technical service teams under one roof and now calls this group *customer service*, which is led by Beth Martinko, Vice President. Since that consolidation, the company has targeted new customers through business development, including military and national accounts under the stewardship of Ric Tiplady, Vice President of Business Development.

Mr. Sergio added, "We learned from our customers that there was concern about our ongoing financial viability. As a result, we chose an open policy of sincere communication, sharing what we could, acknowledging

the difficulty the company faced, and celebrating many successes along the way—all with the intention of deepening our partnership with our customers." Mr. Tolle added, "An intimate understanding of our customers' needs and concerns was in many ways the key to success, because if we can make our customers successful, we as a company will be successful." For example, WaveLight executives believe wavefront-optimized LASIK (using the Allegretto Wave [WaveLight AG]) is superior to wavefront-guided LASIK for the majority of clinicians' patients (except for the small portion of patients who have preexisting higher-order aberrations above a certain level). "Once we received FDA approval for the wavefront-guided procedure earlier this year, we felt it was important that our pricing approach remain consistent with our clinical approach," Mr. Sergio explained. "We kept our procedural fee at \$150, whether a clinician performs wavefront-optimized or wavefront-guided LASIK."

Continuing Innovation

WaveLight continues to advance its laser vision technology with an FDA approval for treating mixed astigmatism, as well as a second LASIK platform—the 400-Hz Allegretto Wave Eye-Q—which provides the fastest treatments in the US today, according to Mr. Tolle. The essence of the company, from its very beginning more than 11 years ago, is technological innovation. Mr. Tolle elucidated that WaveLight's goal is not necessarily to be the biggest company in the industry, but to be the best, and he expects everything else will fall into place subsequently. "We may not be the biggest company, but we want to be the best in our customers' eyes."

Furthermore, Mr. Tolle added, "We garnered six FDA approvals and clearances within the past 12 months, which advanced the versatility of our technology platforms."

CHANGING FOCUS

About 1 year ago, WaveLight faced numerous questions from its customer base, prospects, and partners about the company's finances. WaveLight had enjoyed rapid growth and customer adoption of its technology in the US during its first 2 years, according to Mr. Tolle.

"WaveLight was 3 years old in the US and, in my view, it still remained in a start-up phase in the sense that it had yet to institute the management, structure, and processes that would take it to the next level of growth," he said. WaveLight's customer base was excited by the wavefront-optimized technology, but at the same time, they also had concerns in terms of the direction and strength of the company. In addition, the company experienced a staff turnover, which included

some high-profile departures (some of which went to competing companies). Mr. Tolle set about better organizing Wavelight's activities in the US while distilling the American and German cultures within the company. "I felt we needed to Americanize our approach and become much more focused on the US customer and market, which meant internal changes had to occur." Mr. Tolle, a 20-year resident of the US, encouraged a truly Americanized philosophy.

Mr. Sergio agreed with Mr. Tolle's way of thinking and stated that an understanding of the subtleties of a cross-cultural environment was necessary. "You just couldn't place somebody into a role and then expect them to perform without this kind of a cultural appreciation of the framework within which we work," he said.

The aforementioned challenges are reasonably normal for a company at WaveLight's stage of evolution, Mr. Tolle stated. "We needed to move forward with these fundamental issues and change the business and establish it differently, independent of any competition."

"We know what we need to do during the next 3 years," Mr. Sergio added. "During this interesting period for Wavelight, we have one message for our customers: It's business as usual."

LOOKING AHEAD

WaveLight will remain focused on the growth that it initiated during the last year, continuing to emphasize technological and clinical innovation while deepening its partnership with its customer base. As of press time, WaveLight's 12-month financial results were not available, but Mr. Tolle is confident that those numbers are comparable to, if not better than, the company's 9-month results.

Both Mr. Tolle and Mr. Sergio anticipate the introduction of new treatment modalities, products, and services during the next few years to provide customers a more complete and premium laser vision correction experience. In addition, they explained that WaveLight has other technological applications available outside the US that it will consider developing commercially for this market. "As seen over the past 11 years, when WaveLight comes out with a product, it has always been an absolute marvel of technology," Mr. Tolle added.

FUTURE OF THE LASER VISION MARKET

Mr. Tolle said that the laser vision industry is here to stay. "People predict a flat market, and I think we have shown, as a company, that that is not necessarily true," he stated. "Even within a space like this you can have tremendous success. I think people underestimate the business." He explained that although the market is confusing for the consumer, LASIK is a very safe procedure that produces tremendous outcomes without any pain. For these reasons, Mr. Tolle believes that LASIK will continue to offer patients the opportunity for improved sight.

WaveLight's technology has elevated the standard of care within the laser vision market in terms of its clinical outcomes, Mr. Sergio said. The company expects to heighten the standard further with the innovations currently in its pipeline. "As a result, WaveLight will grow in the healthiest way possible," Mr. Sergio predicted, "by paying close attention to the needs of the patient."

Mr. Tolle concluded, "My definition of a pioneer is the one with the arrows in his back. WaveLight took some arrows in the back while charging ahead in leading the industry. It comes with the territory of being a leader, and we fully intend to lead in the future." ■

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