When AMO broke away from pharmaceutical manufacturer Allergan in 2002, the Array multifocal lens was its only refractive surgery product. Cataract and eye care items made up the bulk of nearly €365m in annual sales.

Five years on, the picture is quite different. Major acquisitions, including eximer market leader VISX, femtosecond pioneer IntraLase and diagnostic innovator Wavelight Sciences, along with skyrocketing sales of premium intraocular lenses, such as the ReZoom multifocal and Tecnis aspheric, vaulted AMO to the high end of the global refractive surgery market. At the same time, a May voluntary recall of Complete MoisturePLUS, AMO’s multipurpose contact lens care solution, due to an unexplained increase in Acanthamoeba keratitis among users, crimped the firm’s lens care business. AMO began shipping a reformulated Complete product, along with a new lens care regimen that recommends rubbing rather than just rinsing the lens, to Europe in late July and the US in early August. While this put AMO a few weeks ahead of its initial schedule for re-entering the multipurpose solution market, it will likely be months before sales volume recovers.

Three changes were clearly reflected in AMO’s second quarter financial performance. Of total sales of €191m, eye care made up just seven per cent, down from 27 per cent a year earlier. Laser vision correction revenues, on the other hand, jumped to 39 per cent, nearly double the 21 per cent reported for the second quarter of 2006. And cataract and implant sales, including phacoemulsification systems, viscoelastics and IOLs used in both cataract and refractive procedures, grew to 54 per cent of revenues, up from 52 per cent in 2006.

Unusual one-time costs, including acquiring IntraLase and the Complete recall, will result in an overall loss this year, though AMO projects positive returns next year. But revenues are up sharply. At mid-year, AMO projected 2007 revenues to top €731m, and perhaps reach €914m in 2008 — more than double 2002 figures.

This rapid transformation and growth resulted from an aggressive market development strategy designed to create a comprehensive product line supporting visual needs at every stage of life — or, as AMO’s marketing materials put it: “Vision. For life.” Yet its spectacular success has surprised even its prime architect, Jim Mazzo, AMO’s chairman, president and CEO.

“We didn’t think we’d be this strong this soon, especially in the refractive arena. This was the path we chose, but our progress was accelerated by high-profile acquisitions such as VISX and IntraLase. These lasers plus strong refractive and phakic IOL lines, and mechanical microkeratomes give AMO a little over half of the US refractive market, and a growing share of the world market. The goal is to capture 60 per cent to 70 per cent of that market. We are clearly now the number one refractive company,” Mr Mazzo told EuroTimes.

Adding these premier firms would be enough by itself to make AMO a major refractive player. But Mr Mazzo emphasizes that AMO’s growth is more than just acquisition. He believes future success will be driven by generating better visual outcomes by combining a variety of emerging refractive technologies, such as integrating femto-second and wavefront ablation for an all-laser custom refractive treatment. The recent approval by the US FDA of multifocal LASIK to treat presbyopia using this technology illustrates how continuous research and technical refinement can create new market opportunities, Mr Mazzo notes.

AMO is supporting such advances with a research and development budget that has grown from 27m set aside in 2003 to €49m this year. “We have major new products in the pipeline,” Mr Mazzo says.

The firm also has cut costs by consolidating its manufacturing and support operations, and is dedicating significant new resources to helping surgeons build their practices by integrating new refractive technologies.

“When surgeons succeed, we succeed. Our goal is to improve our product line and distribution across the globe by combining acquisitions and organic growth.”

Jim Mazzo, AMO

Contact lens envy

In line with its aggressive acquisition strategy, AMO in July bid on rival Bausch & Lomb after private equity firm W. L. Pincus tendered a $2.7bn all-cash offer for the 154-year-old eye care firm.

“We weren’t looking for the B&L deal; it just came along,” Mr Mazzo says. “We had to take a look.”

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The acquisition offered advantages. With sales of €1.7bn in 2006, B&L is about twice AMO’s size, and the two compete head to head across many categories. However, B&L has several key product lines that would help AMO expand its reach, particularly among younger patients. These include a $55m contact lens business, and dry-eye and over-the-counter pharmaceuticals, Mr Mazzo says. So AMO offered 3.1bn in cash and stock to make the deal.

But facing resistance from some large AMO shareholders, a declining share price, and what Mr Mazzo characterises as an unrealistic deadline set by B&L to gain a signoff by AMO shareholders, AMO withdrew its bid in early August.

“Needless to say we are disappointed with the activity of the special committee of Bausch & Lomb,” which was charged with evaluating the AMO bid, Mr Mazzo said at investors’ conference call in August. “From our standpoint it is over and we are moving on.

Still, AMO wouldn’t mind getting into the contact lens business, Mr Mazzo told EuroTimes.

“If we did it would be through an acquisition. It wouldn’t merit us doing something on our own.” Some analysts speculate that W. L. Pincus might break up B&L, including spinning off the contact lens business. If so, AMO might be interested, Mr Mazzo says.

But he’s not holding his breath. “Right now our focus is on re-launching the eye care business, dry eye for the US market, growing excimer and femtosecond laser sales worldwide, refractive IOLs, and expanding our share of the cataract market. We have enough on our plate.”

Building European market share

AMO’s strategy for increasing market share revolves around educating patients on the concrete benefits of advanced refractive technology. For laser vision correction, that typically means emphasising improved outcomes and quicker recovery with a custom LASIK procedure using a femtosecond laser to cut the flap compared with a standard procedure performed with a microkeratore. For cataract procedures, it involves selling the vision restoration and enhancements available with premium lenses, including multifocal, aspheric and aspheric multifocals, compared with standard monofocal implants.

But for a corporation, market share doesn’t mean much if it doesn’t grow profits. AMO’s strategy for increasing profits relies on charging more for its advanced refractive technologies. For laser vision correction, that typically means charging a per-procedure fee. Indeed, procedure fees and related revenues accounted for 62 per cent of AMO’s sales in the most recent quarter while new system sales made up just 28 per cent, despite record high shipments. For 10Ls, higher profits mostly means charging cataract patients extra for premium implants.

“The strategy is a lifetime of care, emphasising premium refractive procedures priced at their true value,” Mr Mazzo says.

Changing times in Europe

These strategies are working well in the US, where surgeons have always paid per-procedure LASIK fees, and Medicare, the government health plan for seniors, allows billing patients directly for the extra cost of premium lenses and related fitting services. They’re a tougher sell in Europe, where surgeons have traditionally resisted per-procedure fees, and many jurisdictions will not pay for cataract procedures using non-standard 10Ls. But that’s changing, says Mr Mazzo, noting that European sales are growing steadily, reaching 31 per cent of AMO’s total in the second quarter of 2007, up from 29 per cent in 2006.

Much of that increase came from AMO’s success introducing per-procedure fees for CustomVue and IntraLase LASIK.

International LVC procedure sales totalled 11.8m in the second quarter of 2007, up 85 per cent from the same period in 2006. About two-thirds of that was for femtosecond procedures, which were up 98 per cent, compared with 61 per cent for excimer sales. Mr Mazzo says that even in Europe, once surgeons see that they can charge patients more for an all-laser
custom procedure, they are more willing to pay the licensing fees. “Better outcomes also mean you have a lower rate of re-treatment with custom, so that saves the surgeon money and increases patient traffic.”

To help surgeons develop communication, organisational, marketing and sales skills needed to convert more patients to premium procedures, AMO offers practices onsite training and assistance through a group of business development managers (BDMs). They help surgeons and their staff develop consistent messaging and strategies for presenting procedure upgrades and closing sales. Since picking up about 10 part-time BDMs with its acquisition of VISX last year, AMO has expanded the group to about 20 full-time consultants in the US. Mr Mazzo credits them with helping to increase custom procedures from about 40 per cent last year to 62 per cent in the most recent quarter in the US.

AMO recently introduced the BDM concept in northern Europe, and is extending the services to southern countries as well. While exact sales figures are harder to come by in the fragmented European market, Mr Mazzo estimates that custom procedures have gone from close to zero to about 15 per cent to 20 per cent in the last three years. “Once people understand that custom is better, they want it. We expect to reach 80 per cent to 82 per cent in the US. Why couldn’t we do that in Europe, too?”

Similarly, premium IOLs are gaining market share quicker in the US thanks to the Medicare ruling allowing billing patients for the extra cost. The aspheric Tecnis lens now accounts for more than half of AMO’s monofocal sales. “Because it gives better visual quality it is becoming the standard,” Mr Mazzo says.

The multifocal ReZoom is also growing steadily. Together these lenses made up 61 per cent of IOL sales in the second quarter of 2007, up from 33 per cent in the same period a year earlier. Those figures will only increase with introduction this year of the Tecnis multifocal in Europe, and a projected 2009 release in the US.

Regulatory restrictions on billing patients have held back premium IOLs in Europe, where only a handful of countries allow patients to opt for the lenses and retain coverage for cataract removal. AMO is working with competitors, including Alcon; lobbying government-run health plans to adopt balance-billing rules similar to those in the US; with some success. Switzerland and parts of Sweden around Stockholm allow such transactions, which were recently adopted in the German states of Bavaria and Baden-Wurttemberg as well, Mr Mazzo notes. “Premium lenses are not for everyone, but if patients want to get rid of their glasses they should have the opportunity to do it,” Mr Mazzo says. “We aren’t asking the governments to pay for it, and when they realise that, and that it benefits patients, they are more willing to allow it.”

Support for mix-and-match IOLs

AMO is so convinced that multifocal and other premium IOLs have so much to offer patients it is even willing to promote use of competing products. In a strategy that departs sharply from the practice of much previous industry practice, AMO now formally advocates staged implantation of multifocal lenses, mixing lens types when necessary to meet patient needs. The company calls the approach CustomMatch. In general the process goes like this: the surgeon assesses the patient’s suitability and need for vision at various distances based on lifestyle and activities. Then a preliminary recommendation is made for bilateral implantation or mixing lenses such as ReZoom, ReSTOR, Tecnis or Crystalens. After the first lens is implanted a second assessment is made to see how well the patient is adapting to the lens, and if a change in lens should be made for the second eye. Naturally, AMO suggests that its ReZoom should be a top choice for the dominant eye, if not both eyes. But even if the process results in implantation of two non-AMO lenses, Mr Mazzo believes it will benefit his company in the long run anyway. “A watchmaker has very different needs from a tennis player,” Mr Mazzo says. “If we restrict ourselves to recommending just one lens for everyone, we won’t meet patient needs and the entire segment will suffer.”

With better patient outcomes and growing regulatory acceptance, Mr. Mazzo believes that multifocals will sell themselves. He predicts the global premium IOL market will grow to more than €731m within five years.