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ATRC - Q3 2016 AtriCure Inc Earnings Call

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PRESENTATION

Operator

Good afternoon and welcome to AtriCure's third-quarter 2016 earnings conference call. My name is Stephanie and I will be your coordinator for today's call. (Operator Instructions). As a reminder, this call is being recorded for replay purposes.

I would now like to turn the call over to Lynn Lewis from the Gilmartin Group for a few introductory comments.

Lynn Lewis - *Gilmartin Group - IR*

Thank you, Stephanie. By now you should have received a copy of the earnings press release. If you have not received a copy, please call 513-755-4136 to have one emailed to you.

Before we begin today, let me remind you that the Company's remarks include forward-looking statements. Forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond AtriCure's control, including risks and uncertainties described from time to time in AtriCure's SEC filings. AtriCure's results may differ materially from those projected. AtriCure undertakes no obligation to publicly update any forward-looking statement.

Additionally, we refer to non-GAAP financial metrics; specifically, adjusted EBITDA. A reconciliation of any non-GAAP measures to the most directly comparable GAAP measures is included in our press release, which is available on our website.

With that, I would like to turn the call over to Mike Carrel, President and Chief Executive Officer. Mike?

Mike Carrel - *AtriCure, Inc. - President and CEO*

Thank you, Lynn. Good afternoon, everyone, and thank you for joining us. We are pleased to report solid third-quarter results, and we are reiterating our revenue guidance of 20% to 22% growth for 2016. Third-quarter revenues reached $38.3 million, up 22% over the last year. Growth was led by sales in the US, which were up 24% and driven by all areas of the business. International revenue was up 15% for the quarter with a key contribution from Japan. And gross margins continued to be strong at 72%.

Turning to the business trends, both our product and clinical pipeline remain healthy. The AtriClip product line remains our fastest growing franchise, and we continue to see strong and growing interest in managing the left atrial appendage. The recent released AtriClip PRO2 is gaining traction and broadening our opportunity in this underpenetrated market, as well as contributing to incrementally higher ASPs. Our recently launched cryoFORM probe also continues to be well received as it helps us to access more cases and gain market share. We expect both products to continue to contribute more meaningfully as we move into 2017.

Sales of the EPi-Sense product line, the platform we acquired from nContact, continued to grow sequentially despite the typically late summer slowdown. We remain confident that this strategic acquisition will further accelerate our MIS growth, and will help drive increased collaboration between cardiac surgeons and [DPs].

Throughout the third quarter we continued to be keenly focused on making sure that recently added accounts were fully trained and up to speed in order to drive consistent adoption. Additionally, we are steadily building a high-quality team of minimally invasive managers, or MIMs, to complement our existing salesforce. As these individuals ramp up, they can increasingly work in concert alongside our regional sales managers.

In the third quarter, we continued expansion on the West Coast and added MIMs in multiple areas. With MIM support, these accounts are starting to do cases and are gearing up for possible involvement in clinical trials next year. We are just scratching the surface here, and expect EPi-Sense to be more -- more significantly contribute to revenue as we enter new sites, build deeper relationships with EPs, and leverage our fully optimized salesforce.

On the sales and marketing front, we have made significant progress on our commercial infrastructure as a whole. We now have nine MIMs to focus on minimally invasive education and training of customers. Based on the accelerating momentum we are seeing, we are confident that we have made the right moves and added the right people, and we expect to see continued benefits over the coming months.

With our commercial team intact and focused, the open portion of our business is primed for continued double-digit growth. We are the only company that is positioned to address the many patients who are still not treated at all, or are undertreated in all categories -- MVRs, AVRs and CABGs. Increasing activity at the medical society level is driving the potential to upgrade guidelines and generate more clinical data, which ensures the clinician community is aware of the benefits of treatment and the downsides of leaving Afib alone, concomitant with these diseases.

On the clinical front, we are making steady progress with CONVERGE, which is the first head-to-head study to evaluate the convergent procedure versus catheter ablation in patients with persistent Afib. We expect the trial results to support FDA approval of EPi-Sense devices specifically for the treatment of persistent Afib. We have 51 patients enrolled to date. Over the summer, we prepared several new sites which will be coming online late in the fourth quarter, and improve the pace of enrollment in 2017.

Moving to DEEP AF, our trial for the staged dual epicardial/endocardial procedure for the treatment of Afib, we continue to work collaboratively with the FDA to incorporate risk mitigation protocols for the trial, and still expect these to be largely complete by the end of the year. As a reminder, we are targeting to enroll 220 patients in DEEP AF. And when we suspended the trial, we had 41 patients enrolled.

We are making steady progress on our non-IDE trial in Europe, CEASE AF, which compares DEEP-like procedure to standard catheter ablation. CEASE AF currently has 34 patients enrolled.

We also have 100 patients currently enrolled in our ATLAS trial, which evaluates the prophylactic treatment of the left atrial appendage for patients at risk of perioperative Afib. And as noted on the last call, we began enrollment during Q2 in the FROST trial to evaluate the effectiveness of cryoanalgesia for pain management in cardiac procedures involving a thoracotomy. All three sites are enrolling, and we now have 13 patients enrolled.

We continue to expect our investment in obtaining sound clinical data to further differentiate us as a Company, and extend our leadership position in the treatment of Afib for many years to come.

I will now turn the call over to Andy Wade, our Chief Financial Officer.

Andy Wade - *AtriCure, Inc. - SVP and CFO*

Thanks, Mike. For the third quarter of 2016, revenue increased 22% on a GAAP basis to $38.3 million. Revenue from product sales in the US was $30.6 million, an increase of 24% from the third quarter of 2015. Revenue from open chest ablation-related product sales in the US increased by approximately $1.7 million to $14.8 million, representing growth of 13%.

US sales of products used in minimally invasive procedures increased approximately $2.5 million to $7.5 million, up 50%, and influenced significantly by the nContact acquisition. We continue to be pleased with the solid impact of the nContact acquisition through the first three quarters. As Mike mentioned earlier and on previous calls, development of our clinical data in support of MIS ablation for treatment of Afib through trials such as CONVERGE and DEEP AF is critical to growing this market and business over the longer term.

Efforts to move EPi-Sense and related products into our existing customers has continued to ramp through the year as the training of our team and interested physicians takes hold. US sales of the AtriClip system during the third quarter of 2016 were $7.7 million as compared to $5.9 million for the third quarter of 2015, an increase of 30%.

International revenue grew 15% on both a GAAP and constant currency basis as compared to the third quarter of 2015, to $7.8 million. Performance was solid across Asia with some slower growth in select EU markets. Gross margin for the third quarter of 2016 was 71.7% as compared with 71.5% for the third quarter of 2015. Positive impacts on gross margin included the suspended medical device tax and the impact of EPi-Sense products. Pressure on gross margins included moving into a larger and more modern facility to support our growth, along with an uptick in depreciation related to continued generator placement across our customer base.

Operating expenses increased 18% or approximately $5.2 million from $28.6 million for the third quarter of 2015 to $33.8 million for the third quarter of 2016. Research and development expenses, which include clinical and regulatory activities, were $8.3 million for the third quarter of 2016 or 22% of sales, an increase of $1.8 million over the third quarter of 2015. The increase was driven primarily by product development efforts and spending for our CONVERGE trial, which was absorbed as part of the nContact acquisition.

SG&A increased approximately $3.4 million from the third quarter of 2015 to a total of $25.5 million or 67% of sales. The increase was primarily due to the changes in our sales, marketing, and training organizations to both bolster the nContact acquisition and our continued level of growth and procedures.

Our adjusted EBITDA loss was approximately $1 million this quarter compared to a $2.2 million adjusted EBITDA loss for the third quarter of 2015. Our net loss per share was $0.21 for the third quarter of 2016 compared to $0.22 for the third quarter of 2015. We ended the quarter with approximately $47.4 million in cash, cash equivalents, and investments. We continue to believe that our balance sheet is strong, and that we have more than enough cash to reach cash flow generation.

Lastly, we are updating our guidance for 2016. We continue to anticipate current top-line growth of approximately 20% to 22%. This represents approximately $156 million to $158 million in annual worldwide revenue. We continue to anticipate gross margin to be 71% to 72% for the year, based on current trends and investments to support our progress and expansion. We expect R&D to be 23% to 24% of sales with the largest driver of the increase over prior-year due to the absorption of the CONVERGE trial from the nContact acquisition, along with continued R&D pipeline development.

We expect SG&A to be roughly 69% to 70% of sales in 2016, which is less than the 2015 rate. The overall increase in SG&A expense is driven by continued investment in our worldwide sales team, as well as training and education expenses.

We now expect adjusted EBITDA for 2016 to be a loss of approximately $12 million to $14 million, a slight improvement from previous expectations. The heavier loss compared to 2015 is driven primarily by the acquisition of nContact in late 2015, including PMA clinical trial expenses and enhancement to the sales and education teams to support the MIS portion of our business. In terms of EPS, this adjusted EBITDA range translates into a loss of between $1.10 and $1.16.

At this point, I would like to turn the call back to Mike for closing comments.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Thank you, Andy. Before closing, I want to take a quick moment to acknowledge the many employees at AtriCure who have been personally affected by Afib. We showcased some of these stories as part of our social media campaign throughout September as part of Afib Awareness Month. We have historically used this month to help generate interest and awareness about the work that AtriCure and others do to educate physicians and improve patient lives.

Continuing on the momentum that we have built over the last few years, we utilized all six of our social media profiles to tell a story about Afib and AtriCure's role in furthering solutions to solve this global Afib epidemic. We are deeply committed to this endeavor and remain steadfast in our efforts.

With that, and in closing of our third-quarter comments, we remain confident of our fundamentals, and our business outlook remains strong. With our commercial infrastructure gaining leverage, new products starting to contribute, and EPi-Sense product line building momentum, we are well-positioned to execute on delivering and expanding our portfolio of innovative solutions for Afib.

On top of our progress this quarter, our world-class engineering and R&D teams are continuing to innovate, and we have additional new products slated for launch for next year. I continue to be excited about our growth prospects, and we remain confident in our path towards adjusted EBITDA profitability in 2018.

With that, we will now open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rick Wise, Stifel.

Drew Ranieri - *Stifel Nicolaus - Analyst*

It's Drew Ranieri on for Rick. I just wanted to touch on your international business first. It continues to be strong. You talked about Asia being a strong point in the quarter, offset by some EU areas. But can you just spend a little bit more time on what you are seeing, specifically on the weakness? Are these isolated events that are going to pass, or is there anything structurally happening in Europe that you are seeing?

Mike Carrel - *AtriCure, Inc. - President and CEO*

Nothing structurally happening in Europe. We had a very strong quarter in Japan, as I mentioned in my comments, Drew. And as we look to Europe, it was just a slower summer month than normal. And we think that we will begin to pick that back up. We've got a good team in place. We had a really good Q1 and Q2, if you recall. We are a little better than expected in Europe. And we just think it was a slower summer overall, but nothing structural changed from that standpoint.

Drew Ranieri - *Stifel Nicolaus - Analyst*

And I know that you have been working getting fellowships done with the societies, and furthering surgeon education. But can you just talk about some of the progress you are making with the societies in getting AF treatment into guidelines as level 1 evidence? What has to happen with these societies? What continues to need to be done? And may be just an update on timing of when you believe it could happen.

Mike Carrel - *AtriCure, Inc. - President and CEO*

I don't have any specific update on the timing. We are working very closely with all the major societies -- HRS, AATS, STS, ACC. We've provided grants for various different meta-analysis and others to look at the data and to show that actually people live longer if you treat the Afib at the time that you are actually treating some of the other diseases. And so we have been working very closely with data. It's very promising on that front.

We do anticipate that some data will come out over the next 12 to 18 months. Some changes might occur. But it's really in the societies' hands, and we don't have any specifics as to when that's going to happen. But we are confident that it will eventually happen.

Drew Ranieri - *Stifel Nicolaus - Analyst*

And then just lastly on gross margins, they came in a bit better than we expected. Is there any reason to think that GMs shouldn't sequentially improve going into the fourth quarter?

Andy Wade - *AtriCure, Inc. - SVP and CFO*

No. We held guidance, Drew, just knowing it was going to be somewhere in that same area. So there's nothing -- I wouldn't anticipate big improvements or big detriments, either. So just kind of steady as she goes.

Drew Ranieri - *Stifel Nicolaus - Analyst*

Great. Thanks, guys. I'll hop back in queue.

Operator

Jason Mills, Canaccord Genuity. Jason, your line is open.

Danielle Antalffy, Leerink Partners.

Danielle Antalffy - *Leerink Partners - Analyst*

Congrats on a nice, I would call it, maybe a turnaround quarter. I don't know; tell me if I'm wrong, if it's too early to say that. But Mike, I was hoping you could comment on the aortic valve portion of the business. So we now -- I know it's early, but six weeks of an intermediate-risk TAVR launch. And you did hear one of the major surgical valve players earlier this week say they did see some impact on the surgical valve side of things. So I was wondering if you could comment on what you guys have been seeing. But, even more importantly, how the market is segmented for you in aortic valve surgery, and why TAVR isn't likely to be a major impact, even despite the intermediate risk indication.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Well, the big thing is -- and like you said, there was obviously some announcements from some people out in the space that were actually selling the valves where they saw flatness, which is pretty much what we have been anticipating. And we have been anticipating that for over a year now, where you would see flatness to down with pressure on the overall AVR market. And so that's something that we've anticipated overall.

Our focus is really on the underpenetration. Less than 25% of the patients that actually have their open chest procedures today with the AVRs are still not getting treated. So a lot of the work that we're doing continues to be around education and training to help those physicians treat, treat better, treat more; get the complete Cox maze IV done so that these patients can do better -- and they do do better -- and getting data along those lines.

So we are really focused on that 75% of the patient population that isn't getting treated right now. And so we are not seeing a tremendous impact from what you are talking about yet. Again, we anticipate that we are going to see some. Just -- that's built into the numbers and the thoughts we've had for the last couple of years. But that's our focus right now is really on the undertreatment paradigm that's out there right now.

Danielle Antalffy - *Leerink Partners - Analyst*

Okay, that makes sense. And if I could follow up there, I had a conversation with one physician, actually a surgeon, who noted that when their heart team gets a patient that has aortic stenosis, if that patient does have AF, they are sent to surgery. Is that not the way the dynamic works? If a patient has AF, is that not a sort of -- is that an automatic, okay, you have to go get surgery? Or could that patient still get a TAVR? I guess that's what I'm trying to understand.

Mike Carrel - *AtriCure, Inc. - President and CEO*

I think that -- but it's a great question, because in the 25% that are getting treated today, where you've got surgeons that are committed to Afib and treating Afib; or you've got heart teams that are committed to treating it at that time, and they are already doing it, you are absolutely correct. I think that's exactly what's happening, and that they are basically treating it because they know the benefits of treating the Afib at that same time, and they can't do it on the TAVR side.

I think some of the underpenetration piece of it -- as we get more and more people comfortable, getting better at treating it, and seeing the positive results of that, then we will start to see that move from that standpoint. But I do think that in that core base that you've got, you are exactly right, from the surgeon that you talked to.

Now, if you talk to a surgeon that isn't treating the Afib today, then they are likely not quite there yet. And they might maybe prefer them on the TAVR side, as an example.

Danielle Antalffy - *Leerink Partners - Analyst*

Okay, understood. And then I was hoping, just in the context of the open business, if you could talk a little bit about the dynamics you are seeing in CABG and how the cardiac bundle might or might not impact you guys. And that's all I have. Thanks so much.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Yes. We will continue to see progress this quarter. We did, as you saw in the numbers, better than we had done in the previous couple quarters relative to the open growth overall. We are seeing it across all the different categories in terms of the treatment paradigm there.

As it relates to the cardiac bundle relative to CABG, it really is not -- the Afib portion is not part of it. It's actually outside of the bundle. As a result of that, if somebody -- and they want to treat the Afib, they actually are outside the bundle and outside of that pathway, from that standpoint. So we should not be impacted in any meaningful way from that standpoint.

Danielle Antalffy - *Leerink Partners - Analyst*

In some weird way -- if I could just follow up really quickly -- in some weird way, could that actually motivate hospitals to look for and treat the AF in a CABG patient more aggressively than they do today, to [fall] out of the bundle?

Mike Carrel - *AtriCure, Inc. - President and CEO*

There's a possibility that that could happen.

Danielle Antalffy - *Leerink Partners - Analyst*

Yes. Okay, thank you so much.

Operator

John Gillings, JMP Securities.

John Gillings - *JMP Securities - Analyst*

I just wanted to hit on the salesforce a little bit. Maybe you could give us some color on some of the people that you hired to backfill the promotions, a quarter or two ago. How long -- if you could remind us how long they have been in place, and how long it typically takes for someone to get fully ramped up?

Mike Carrel - *AtriCure, Inc. - President and CEO*

So it typically takes about, to get kind of comfortable, six months; to get to be fully ramped up, about a year; and to really be what I'll call a superstar, you are out there 2 to 3 years, as you grow your territory, build the relationships, and really build penetration in that area. So it takes some time.

Now, they've got an advantage. They were going into areas that actually had good penetration, and they had had good reps but they were falling behind. So give or take, it could go faster from some of those areas. But we hired most of those, earlier part of the year, kind of in the April to June time frame. They are all getting up online and we feel like they are making some great progress across the board.

John Gillings - *JMP Securities - Analyst*

Okay. So we could still potentially see some tailwind from those guys developing for a while. That's good to know.

And then in terms of the guys that got promoted to be sales managers, it sounds like you had some real rock stars who were doing $3 million, $4 million in business, in some cases. Maybe you can help us understand what their role is like today; how much time they are able to spend out in the field with the new guys, versus some of the other tasks that they have to perform.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Well, the way that we are structured, we have 11 area directors. They were promoted to an area director position. Our area directors are in the field all the time. They are pretty much in the field 95% of the time. They are with their teams. They are helping train, educate, work with their teams on the surgical plays. They just happen -- instead of being in one area, they are actually managing the case loads of the entire region, and balancing those resources. But they are typically in the field almost 100% of the time today, and helping train and bring along those people in our culture and our selling process.

John Gillings - *JMP Securities - Analyst*

Okay, and then --

Mike Carrel - *AtriCure, Inc. - President and CEO*

They are not doing a lot of spreadsheet work or a lot of administrative work on that part. They are pretty much in the field helping cover cases, helping manage that team and train them, and get them up and ready for that. But very little on what I would call spreadsheet management.

John Gillings - *JMP Securities - Analyst*

Okay, great. Yes, that's what I was hoping to hear, so I appreciate that. And then with the MIM, minimally invasive managers, I think you said you had nine. Previously I think you said you were shooting for 14 by the end of the year. Is that still the goal we are looking at?

Mike Carrel - *AtriCure, Inc. - President and CEO*

Yes, we are shooting for 14. We probably won't quite get to 14 by the end of the year, but we are hiring into that area. What we are trying to do now is just make sure those that we hire are really getting up to speed quickly, learning the products that we have, and helping build and bridge those relationships between cardiology and the surgical community, as well. So we are very happy with the team we've got on board. I am really impressed. I have been going around the country over the last three weeks meeting with all the different teams, and have really, quite frankly, been blown away by the talent that we have been able to recruit into that position.

John Gillings - *JMP Securities - Analyst*

Okay, fantastic. And then just one last one -- you had previously mentioned that some of the EPi-Sense training had been part of the distraction that had previously been experienced by the salesforce, and that you were in the process of pushing the brunt of that onto your educational team. Can you give us an update on where things are in that process? Is that something that's still a distraction to the sales team, or is that ironed out and normalized now? Just where things are there.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Yes. On the EPi-Sense side, what is happening is our team got really focused. It was a great product. And people got really excited about that part of the market, and so they started to take people to that training. And they were, in a lot of ways, taking their eyes off of the open side of our business a little bit. And they've got to do a delicate balance of doing both. And now we've got our team focused really well on the open, staying focused there. Hiring these MIMs is absolutely critical. And then also getting people through the training, and not trying to do everybody at once but win one account at a time. And I'd say the team is refocused, doing a really, really nice job, and really setting ourselves up for 2017 and 2018 in a big way.

Operator

Jason Mills, Canaccord Genuity.

Jason Mills - *Canaccord Genuity - Analyst*

I apologize if this is redundant. But I wanted to follow on a question I heard from the last questioner with respect to the salesforce. Specifically, you have talked about with -- specifically with nContact, their lack of representation on a relative basis on the West Coast. And I wanted to ask you about progress there, as CONVERGE continues to march forward and nContact becomes, down the line, a more important part of your portfolio. And I guess more in general, your progress with respect to account expansion on the minimally invasive side, as well as the left atrial appendage. And again, I apologize if you've covered a little bit of this.

Mike Carrel - *AtriCure, Inc. - President and CEO*

No; actually, I haven't covered that at all. So I'll start with the West Coast expansion. We've got three MIMs that have actually been hired into the West Coast. They are doing very, very well. We are starting to actually get cases going in many different areas. It takes anywhere from 6 to 12 months to get a site up and running and going. And 12 months is really when you start to see some cases. Because they have got to try out the cases, make sure that they are working, make sure they are getting good ablation lines that they are comfortable with and tested by the EPE, building that relationship between the EP and the surgeon. It just takes time for them to technically get there, learn from how they are doing it.

And we are in the process, at many different sites out West, where they are actually making the type of progress right now. Many of them have been trained and gone through that, so the surgeon understands how to use the product. And now it's about actually getting some patients and utilizing the technology. And so we're definitely making some really good progress there and feel really good. Again, we have got three MIMs out on the West Coast now. And they are just -- as I mentioned before, these people are incredibly talented, and we are learning a lot from them. They have got deep EP backgrounds, and they are bringing a lot to the table for us. I think that hit on the questions.

On the clip side of things, we are starting to see, in many of these cases, more and more people wanting to manage the appendage at the same time. And so we are starting to see some of those come down where people were actually managing it at the same time they are doing the convergent procedure. So we feel good about that. I think that that's going to continue to increase over time as we enter into next year and beyond, where you are going to do it concomitantly because people want to get it done at the same time. And it's a really simple and easy thing to do.

Jason Mills - *Canaccord Genuity - Analyst*

On that point, Mike, are they doing that appendage through a different avenue? To my knowledge, you have not introduced the sub-diaphragmatic delivery system for -- [to go with] PRO2 as of yet. Maybe you could update us on that.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Yes, we have not; we are obviously working on that type of product longer-term. That's not in anything in the next -- in the near term, into next year, by any means. But we are definitely working on it. We've got projects internally on it. Right now, what they're doing is they are basically -- they've got to make a separate incision to do it during that time. But they -- a lot of the surgeons -- it's a pretty simple and easy thing to add on concomitantly with the ablation. But they do have to make a separate incision today.

Jason Mills - *Canaccord Genuity - Analyst*

Yes. Understood, understood. The last thing for me is a more 20,000-foot question. And [I'll] bring in some recent events. Obviously, I'm sure you know there is a company that just went public in the States that effectively has perhaps the next-generation technology for diagnosis of Afib. Down

the line, we are going to be using patch products, I'm guessing, to diagnose the asymptomatic Afib. And obviously, the investor reaction to that, essentially in Afib company, was quite good.

I'm wondering what you think the disconnect here is. Because there seems to be, as I hear, a lot of discussion about -- when investors ask me about your market, there seems to be a negative connotation associated with them, potentially, the TAMs declining; yet assigning fairly robust assertions to companies that are seeking to expand the Afib market, which I think they could possibly do, just by better diagnosis.

Where is the disconnect, in your mind, just thinking about your market, Afib, and where it's going ultimately, and what that means for AtriCure in terms of procedure growth?

Mike Carrel - *AtriCure, Inc. - President and CEO*

It's tough for me to understand or to really make a comment on what the disconnect is, relative to that. We are obviously selling a product for treatment. They are selling a diagnostic product. And maybe there's something along those lines. But it's difficult for me to gauge that, one way or the other. The iRhythm product is a great product. We actually use it in our clinical trials. And we think they've got a great product on the market. And you are right; they are going to, likely, increase the number of diagnoses that are out there over time, which we think will benefit us as well, long-term.

But I don't have a sound answer to the disconnect, per se, other than they are really in the diagnostic market, and we are in the treatment arm of it. And maybe we are a just a little bit more mature, from that standpoint, in terms of our size and scale today. And people are excited about what they are bringing to the future, given their size. That's the best -- you probably know their story better than I do.

Jason Mills - *Canaccord Genuity - Analyst*

I'm not talking about comparing the two companies, per se. But just the fact that what we are thinking about, as that story was being told, was a fairly strong excitement about Afib in general. And it seems to be, as everyone talks about, including them, an underpenetrated, underdiagnosed disease state. It would seem to me that more diagnoses would ultimately benefit all those that are providing therapies. And you are moving, obviously, into minimally invasive, where there's even more opportunity.

So I guess do you foresee the future in terms of procedural volume -- whether it be minimally invasive, surgical, or catheter ablation, which is a market in which you don't play -- all markets, sort of the tide lifting all boats? That was sort of the jist -- the crux of the question.

Mike Carrel - *AtriCure, Inc. - President and CEO*

I definitely see the tide lifting all boats. There's no question about it. When you look at our CONVERGE and our DEEP procedures that we are going after the labeling for, the reason we are excited about those markets is because two-thirds of the patients that are diagnosed with Afib have persistent or long-standing persistent Afib that are not treated effectively with the catheters. And so, as result, the hybrid approach that we are talking about that combines the surgical procedures, whether it's a convergent approach or a DEEP approach, do do a very good job of treating that. We are going to prove it out with our clinical trials. And that market is huge. There's only 4,000 or so of those types of cases that happen every year, and there's 300,000 ablations done every year in the country. So there's massive rooms for a large market.

The key there, though -- as I talked about in my comments -- is we've got to get the clinical data to be the differentiator. And once that clinical data does get proven out, obviously we think the market is a very large market for us.

Jason Mills - *Canaccord Genuity - Analyst*

That's helpful. I'll get back in queue. Thanks, Mike.

Operator

Brooks West, Piper Jaffray.

Brooks West - *Piper Jaffray & Co. - Analyst*

I apologize; I just jumped on the call. Mike, I wanted to circle back on the DEEP trial. Your comments there sounded like your conversations with FDA might be wrapping up around year-end. Just wondering when you might be back to enrolling that trial. And also, on the flip side, given the momentum in the CONVERGE trial, I'm wondering if there's maybe also a thought process around shelving DEEP or maybe deemphasizing that, given some of the momentum you've got in some of the other clinical programs.

Mike Carrel - *AtriCure, Inc. - President and CEO*

I'll start with, actually, the latter question, which is there is definitely no intentions to shelve DEEP. It's an incredibly important trial. It's a big portion of our revenue base today, overall. We think that the treatment is an excellent treatment with excellent results. And so we believe that that trial is a really important piece for us long-term. We think that, in concert with the CONVERGE, it actually provides options for surgeons to give their patients. So they can actually choose various different options, and there's pros and cons to each individual approach. And we really want to be able to have that breadth of offering for people when they are out there for that huge patient population I talked about before.

In terms of the timeline around DEEP, we are being very patient; we are just working with the FDA. I don't want to give an exact timeline of exactly when we will begin to enroll from that standpoint. Right now we are really just focused on working through with them on how to educate both the surgeon and the patient, just to make sure that they are well educated about fistulas and can make sure that they can address them and get back to the hospital as quickly as possible, as we talked about on the last call.

Right now, we are just working through with them at their pace. We are not rushing it, by any means; because, like you said, we do have CONVERGE going on. But we are definitely not shelving DEEP. It's a super-important long-term trial for us.

Brooks West - *Piper Jaffray & Co. - Analyst*

Okay, thanks for that. And then two more for me -- on the appendage side, on the clip side, I'm wondering if you are seeing a halo effect from Watchman. Obviously a different procedure, but that product is doing really well for BSC. I'm wondering if that's -- if you are seeing any halo effect from that on your business.

And then just a financial question for Andy. It's a question I get a lot. If you could bridge us from the current income statement to EBIT profitable in 2018, even just high level, I think that would be helpful for investors to hear. Thanks.

Mike Carrel - *AtriCure, Inc. - President and CEO*

I'll start on the appendage side. We've talked about on this call before that the Watchman and the discussion around the left atrial appendage definitely has an impact, because people believe that managing the appendage is the right thing to do. And we do get benefit from that as more and more people talk about managing it, and the benefits of managing it. I don't know if you want to call that a pure halo effect; but, to some degree, you basically get it from that standpoint.

And I'll let Andy address the bridging point.

Andy Wade - *AtriCure, Inc. - SVP and CFO*

Sure. So, Brooks, the bridge to get there is really twofold. One is we do continue to expect margins, our gross margins to improve over the next couple of years, with slight tick-ups as we leverage that operations organization. And then really it's just leveraging the OpEx structure over the next couple of years, as our salesforce continues to be more and more productive and the investments we have made over the last couple of years start to pay off. So it's really no more complicated than that to get us to EBITDA positive.

Brooks West - *Piper Jaffray & Co. - Analyst*

And is that -- Andy, thanks for that -- is that exiting the year at EBITDA positive, or is it a full-year [thought]?

Mike Carrel - *AtriCure, Inc. - President and CEO*

For 2018, it's a full year.

Andy Wade - *AtriCure, Inc. - SVP and CFO*

Yes.

Brooks West - *Piper Jaffray & Co. - Analyst*

Full year. Okay, guys. Thanks so much.

Operator

Suraj Kalia, Northland Securities.

Suraj Kalia - *Northland Securities - Analyst*

Congrats on the quarter. Mike, a lot of questions have been asked. One of the things -- let me come at it a little differently. Can you give us some color on what percent of your open cases are less than 65 years of age versus greater than 65 years of age?

Mike Carrel - *AtriCure, Inc. - President and CEO*

I don't have that data at my fingertips. A vast majority of the patients that are getting treated are over 65 years of age. But a specific percentage would be -- we don't have that data; and unfortunately, it's difficult to actually collect it. I'm just trying to get data from STS and other places to find out -- are those patients actually getting treated, and how are they getting treated, let alone getting some of the ages on that.

Now, that being said, if you actually looked at our trial and you look at the post-approval study trial, you can look at the average age is in the upper 60s. So we know the data on the clinical trial that we did specifically.

Suraj Kalia - *Northland Securities - Analyst*

And in terms of mitigating factors for DEEP AF, are you at liberty to talk about for what risk factors are you looking at mitigating, in your discussions with the FDA? Or is it too early to talk about it?

Mike Carrel - *AtriCure, Inc. - President and CEO*

In terms of the -- for the DEEP trial? Is that --?

Suraj Kalia - *Northland Securities - Analyst*

Correct.

Mike Carrel - *AtriCure, Inc. - President and CEO*

It is simply -- most of it is around patient education, relative to making sure that patients are aware that if they feel certain symptoms that they get themselves to the hospital relatively quickly. And it's also making sure that the surgeons, who have typically not had any kind of issues with fistulas like the EPs -- or just, quite frankly, aware of the fact it could happen, because it's so rare that they hadn't been thinking about it. It's just making sure that we've educated all the PIs on the clinical trial to ensure that they understand that this could happen if they are not very careful and they are not thinking about it.

Suraj Kalia - *Northland Securities - Analyst*

Great.

Mike Carrel - *AtriCure, Inc. - President and CEO*

How you language that, how you word that, is really what we are working on, with the FDA on.

Suraj Kalia - *Northland Securities - Analyst*

Fair enough. So Mike, let's say tomorrow you guys reach some level of conclusion with FDA in terms of DEEP AF. 41 patients enrolled so far; or at least, when you put a pause in it, 220 needed. How does that -- with the new protocol, would you all need to reach out to hospitals, advise them? What are the time delays, and how with the enrollment schedule look like? Any color there you can share? Thank you for taking my questions.

Mike Carrel - *AtriCure, Inc. - President and CEO*

No color at this time, because I think it depends. I know we've got all the sites. We are having regular conversations with the PIs and the study coordinators at the different sites to make sure that, once we get that final go-ahead to go back to the IRB process -- it's going to take some time to get them back to the IRB process, which will likely happen next year sometime. And which ones get online first is going to depend on how quickly they can get through it and get it through their IRBs.

Suraj Kalia - *Northland Securities - Analyst*

Fair enough. Thanks for taking my questions, and congrats on the quarter.

Operator

(Operator Instructions). Matt Miksic, UBS.

Matt Miksic - *UBS - Analyst*

We've covered a lot of ground here, but I just want to follow-up on a couple of things. One is around the EPi-Sense and CONVERGE, could you talk about, I guess, the type of patients that you are enrolling there, and whether -- I guess when I look at the folks who could be referred to that study, they may already be in a situation where they've got persistent AF. And I'm just wondering if, in the centers there, you are hearing anything about folks who want the procedure, which is a good thing; and are referred, which is also a good thing; but not wild about being randomized because they are already on their second or third try at catheter, and not wanting to go down that road again. Wondering if you are seeing anything like that, and I have one follow-up.

Mike Carrel - *AtriCure, Inc. - President and CEO*

It's a great question. Just a little bit about the trial, Matt, to give you some context to it. The way the trial is randomized -- these are de novo patients. They can't have had a catheter ablation beforehand. But your question is actually very valid, which is a lot of the -- one of the issues that we had when we purchased nContact and were getting into the trial, which is why we needed new sites, is that many of the sites that were slated to enroll were having strong success in the converge arm, and so they were having difficulty randomizing, as you described. And that's why we have been -- the sites that really are doing most of the enrollment are new sites that we have actually gotten on board over the last year, which is why we are excited to get these next three or four online over the course of the next three months or so, so that we can accelerate enrollment next year. So it's an excellent question.

But to note, right now they are de novo patients. They have not had a catheter ablation beforehand. So actually -- you actually hit on two of the open items that cause enrollment to not be incredibly brisk is you've got to have a de novo patient. Because like you said, a lot of these patients have had an ablation before. And, two, you have then got to have somebody -- you have got to make sure that site is ready and willing to randomize. And most of the older sites that were part of the trial -- they are not doing a lot of enrollment at this time, and it's really the new sites that are doing it.

Matt Miksic - *UBS - Analyst*

That's helpful color. Well, so -- and kudos to you on what looks like -- it is clearly a platform that folks are interested in, and where you're getting decent results. So a year into the deal, it looks like it was a good deal.

On the AtriClip side, and just general surgery or open-heart surgery and concomitant use of AtriClip, can you talk a little bit about -- I know you've had some folks, and we get them on the phone and they are pumped up about AtriClip and using it a lot. Can you talk a little bit about how you are doing in terms of expanding adoption across a wider group of folks, and what kind of strategies you are using to do that?

Mike Carrel - *AtriCure, Inc. - President and CEO*

Well, we are continuing to make progress on the adoption across multiple fronts. There's the regular treatment of it. Then we are also doing this ATLAS trial for the prophylactic treatment of patients that don't currently have a fib, but are at risk of getting Afib postoperatively. And as I have mentioned on the call, we've got 100 patients already enrolled. We've got sites lining up and wanting to be a part of that trial, top sites from throughout the country. So we are really excited to get that up.

We can get up to 20 sites to enroll. Right now we've got six of those sites that have gone through the IRB. And we are looking for 2,000 patients to actually enroll into the trial over the course of the next 18 or so months. So we are super-excited as we get more and more people online to really look at the data; and then figure out, from that data, how to really influence what our next trial is going to be, and what kind of labeling change we might be able to go back to the FDA with, at some point in time.

In terms of just the general concomitant treatment, it's every day. Our team is treat, treat, treat; make sure you are taking care of the appendage. It's part of the maze procedure to take care of the appendage when you are doing it. And so we are just in there making sure they are taking care of the appendage, whether they are using the clip or they are doing something else.

Right now it's, first and foremost, treat the patient appropriately; get the Cox maze score done when you've got a concomitant treatment. How do we grow that? And then over time, as they begin to use or try out the clip, more and more people are getting comfortable with it. And then I think that one of the questions that Brooks asked earlier, which is, is there a halo effect -- I think that just by the sheer nature of having somebody else out there talking about managing the appendage, people are getting more comfortable putting our device on, from that standpoint, as well.

Matt Miksic - *UBS - Analyst*

Great. Thanks for the color.

Operator

And that concludes the Q&A session. I will now turn to call back over to Mike Carrel for closing remarks.

Mike Carrel - *AtriCure, Inc. - President and CEO*

Great. Well, again, thank you, everyone, for joining us today. And we look forward to talking with you further on the conference call at the end of the fourth quarter. Have a great day.

Operator

Ladies and gentlemen, that does conclude today's conference. You may all disconnect. Everyone have a great day.
