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ATRC - Q2 2017 AtriCure Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the AtriCure's Second Quarter 2017 Earnings Conference Call. My name is Latoya, and I'll be your coordinator for the call today. (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 C. Pieper - *Westwicke Partners, LLC - MD*

Thank you. 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 e-mailed to you.

Before we begin today, let 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 statements. Additionally, we refer to non-GAAP financial measures, specifically revenue reported on a constant currency basis and adjusted EBITDA. A reconciliation of these non-GAAP financial measures with the most directly comparable GAAP measures is included in our press release, which is available on our website.

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

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Thanks, Lynn. Good afternoon, everyone, and thank you for joining us today. Our second quarter results reflect a strong and balanced performance across our business segments as well as progress on multiple clinical and strategic initiatives. Revenues were \$45.2 million, up 14% over last year, showing continued momentum in the AtriCure franchise, solid performance in our Open business and our focus on the minimally invasive market.



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We are advancing our clinical trial program, gaining traction with CONVERGE, ATLAS and other key studies and we are strengthening our team. Our strong results in the first quarter continued into the second quarter. As such, we are raising the low end of our expected revenue range for 2017. We now expect our 2017 revenue to be in the range of 14% to 15% growth year-over-year. We continue to expect adjusted EBITDA profitability in 2018.

A key to our continued growth is bringing on great talent. And we are pleased to announce that Sam Privitera has recently joined AtriCure in the role of Chief Technology Officer. Sam will report directly to me and will provide leadership to our research and technology, product development, operations and quality functions. He has almost 30 years of leadership experience with Johnson & Johnson, AtriCure and C.R. Bard. Sam was most recently at Bard as Vice President of Research and Development, leading the R&D teams of 4 divisions, where he helped grow the business from \$700 million to over \$1.1 billion in 6 years. Prior to Bard, Sam was in AtriCure, where he was instrumental in the development of the Synergy bipolar and cryoablation platforms and the original AtriClip products, work that resulted in more than 100 patent applications and is the foundation for several of our key franchises today. Sam not only brings a wealth of experience in R&D, but also has a deep understanding of medical device company operations. Having these 2 critical functions under one leadership structure is something that we believe will enhance our growth and innovation as we focus on building great products to serve our customers and our patients worldwide.

On the sales and marketing front, we continue to build out our minimally invasive managers or MIMs to complement our existing sales force in both the U.S. and Europe. We are at 13 and on track to end the year with 14 MIMs. And overall, the team is developing nicely, working in concert alongside the regional sales managers and ablation specialists to drive consistent messaging and growth. We anticipate sustained benefits over the coming months from our strengthened commercial team.

On the clinical front, CONVERGE continues to be a top priority. We now have 21 sites enrolling and recently enrolled our 74th patient. We are working diligently to expand the number of sites and our investing significant resources in patient recruitment activities. We continue to expect an acceleration of enrollment through the year as these initiatives take hold.

ATLAS, our study to evaluate LAA closure for the -- using the AtriClip in patients who are at risk for developing postop Afib, enrolled almost 100 patients in the quarter, bringing the total enrollment to over 300. ATLAS is a prospective multicenter randomized study of 2,000 patients at up to 30 sites. The study evaluates patients without a documented history of Afib who are undergoing a structural heart procedure and are at high risk of developing postop Afib and thromboembolic and hemorrhagic events. There are currently 17 active sites and several more expected this year.

Now let's turn to our quarterly performance, beginning with our U.S. Open business. We are, again, encouraged by our results this quarter and continue to drive towards stable performance in this vastly underpenetrated market, where we have the only FDA-approved device.

We have several activities underway centered on improving adoption of surgical ablation in a concomitant setting, and we continue to expect steady growth this year. Through partnerships with the AATS and several other key societies, we have completed several training programs, including significant time at the mitral valve conclave and ISMICS, and there is a new AATS Afib course in November.

Additionally, we've expanded our advanced courses and training sessions are at full capacity for the year. Finally, we are hearing quite a bit of enthusiasm from our surgeon customers about the recently announced updates to the STS and HRS guidelines. Surgeons and cardiologists are recognizing the clinical, safety and societal benefits of surgical ablation.

While adoption will take time, we believe the updated guidelines are starting to influence care. We expect tailwinds from these and other medical society recommendations continue into the coming years.

Moving to our U.S. AtriClip and MIS businesses. Second quarters were marked by increasing traction of new products. This was partially offset by quarterly fluctuations in some physician practices, from which we expect to rebound in the second quarter. The AtriClip product line remains our fastest-growing franchise, with the AtriClip PRO2 driving meaningful growth through both strong volumes and higher ASPs.



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For MIS, the Epi-Sense product line, again, drove growth in the quarter. We are pleased with our traction into new accounts, and we are increasingly confident that our MIS strategy will drive progressive collaboration between cardiac surgeons and EPs. The focus continues to be on both new accounts and deeper penetration into our existing base of customers and driving increased utilization.

As we've discussed before, we are just scratching the surface here and expect Epi-Sense to generate momentum through the rest of the year, which will be sustained into the future.

Broadly speaking, both our product development and clinical pipeline remain very healthy. We expect to roll out AtriClip PRO V, an even more versatile clip for minimally invasive approaches, later this year. We believe that the AtriClip PRO V, coupled with further product pipeline developments in 2018, will support strong trends in the AtriClip franchise well beyond this year.

Internationally, sales were strong in the second quarter. Performance in Europe was steady while strength in Japan was modestly offset by flat sales in China. We are continuing to ramp up our expanded product offerings in Japan. And in the second quarter, we had our first clip placements and training of the team. We expect continued improvements in growth in the Japanese market in coming years.

Q2 represents solid performance and progress across our business, driven by continued momentum and our strengthening team. We are focused on building a portfolio of products that address and expand our opportunities for open and minimally invasive approaches globally. With this, we are seeing early success in broadening our reach and impact worldwide while driving towards greater predictability. As we have seen, growth of individual product lines may vary quarter-to-quarter. But as the portfolio continues to mature, we are increasingly confident in our ability to achieve our overall growth rate objectives.

I'll now turn the call over to Andy Wade, our Chief Financial Officer, and then I'll wrap it up with closing comments.

M. Andrew Wade - AtriCure, Inc. - CFO and SVP

Thank you, Mike. For the second quarter of 2017, revenue increased 14% on a GAAP basis to \$45.2 million. On a constant currency basis, worldwide revenue increased 14.3%. Revenue from product sales in the U.S. was \$35.5 million, an increase of 15.1% from the second quarter of 2016. The increase in sales to customers in the United States resulted from solid growth across our product lines.

Revenue from open-chest ablation-related product sales in the U.S. increased by approximately \$2.1 million to \$16.8 million, representing growth of 14.1%, driven by our education and training efforts, the impact of our cryoFORM product that launched in the second quarter of 2016, and the early impact of the societal guideline updates in the market. U.S. sales of products used in minimally invasive procedures increase approximately [\$700,000] to \$8.7 million, up 9.2%.

As Mike mentioned, we are seeing solid traction into new accounts, which was partially offset by a slowdown in certain physician practices in the second quarter, which we expect to be short term in nature.

On the Epi-Sense side, we saw year-over-year growth in the quarter. We anticipate that Epi-Sense volume will show good progress moving forward as training efforts continue to impact the business.

U.S. sales of the AtriClip system during the second quarter of 2017 were \$9.5 million as compared to \$7.3 million for the second quarter of 2016, an increase of 28.8%. We remain confident in strong and sustained growth rates for this part of our business. Contribution from the AtriClip PRO2 continues to have a meaningful impact on our business, both in pricing as well as access into more procedures. Open AtriClip growth also remained strong.

International revenue grew 10.2% on a GAAP basis and 11.6% on a constant currency basis as compared to the second quarter of 2016, up to \$9.7 million. Growth was robust in Japan, France, the Benelux region and some of our other smaller OUS markets. Weaker markets included China, the U.K. and Germany.

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Gross margin for the second quarter of 2017 was 72% as compared with 72.6% for the second quarter of 2016. The decrease in margin from prior year as well as performing at low end of our guidance range was driven primarily by the mix of product sales, including a higher volume of generator sales to distributors in Asia and a higher concentration of distributor sales in general.

Operating expenses increased 6.4% or approximately \$2.4 million from \$36.6 million for the second quarter of 2016 to \$38.9 million for the second quarter of 2017.

Research and development expenses, which include clinical and regulatory activities, were \$8.9 million for the second quarter of 2017, or 20% of sales, a slight decrease of approximately \$200,000 from the second quarter of 2016. The decrease was primarily driven by the timing of R&D projects and clinical trial activities.

SG&A expenses increased approximately \$2.6 million from the second quarter of 2016 to a total of \$30 million, or 66% of sales. The increase was primarily due to additions to our domestic and international sales organizations and worldwide training efforts.

Our adjusted EBITDA loss was \$372,000 this quarter compared to a \$2.4 million adjusted EBITDA loss for the second quarter of 2016. Our net loss per share was \$0.21 for the second quarter of 2017 compared to \$0.26 for the second quarter of 2016. We ended the quarter with approximately \$35 million in cash, cash equivalents and investments.

Lastly, we are narrowing our guidance for 2017. We anticipate top line constant currency growth of approximately 14% to 15% year-over-year or approximately \$177 million to \$178 million on a GAAP basis.

From a modeling perspective, we want to reiterate that while we are encouraged by our U.S. Open performance in the first half of the year, we continue to expect fluctuations, with an average of upper single-digit growth for the year.

We continue to expect growth over 20% for U.S. MIS ablation and clip product sales and for international growth to be low to mid-double digits for the year. We still anticipate gross margin to be approximately 72% to 73% for the year, based on current trends and investments to support growth. The bottom end represents a slight increase from 2016 reported gross margin. Items with a positive effect on gross margin include volume leverage and programs to increase efficiency along with slight mix changes driven by heavier EPI-Sense and overall U.S. growth.

Headwinds on gross margin include heavy capital placement in sales, particularly as we penetrate worldwide minimally invasive markets and support new product launches, along with investments in our quality and manufacturing teams. We are still targeting long-term gross margin of 75% and believe this is achievable within the next few years due to increased volumes and efficiency. We expect R&D to be 21% to 22% of sales, a slight improvement compared to 2016.

Significant investments in this area include the CONVERGE trial, other clinical science activity and R&D pipeline development. We expect SG&A to be roughly 66% to 67% of sales in 2017, which is an improvement compared to the 2016 rate. The overall increase in SG&A expense is driven by strategic investments in our worldwide sales team and training and education expenses.

We continue to expect adjusted EBITDA for 2017 to be a loss of approximately \$4 million to \$6 million, a marked improvement from the adjusted EBITDA loss reported for 2016. We acknowledge that the EBITDA loss has been less than we'd expected in the first half of the year. But hiring and project spend has been pushed later in the year, which is why we are keeping our EBITDA loss guidance unchanged. This adjusted EBITDA range translates into a loss per share between \$0.94 and \$1.04.

For Q3, we expect an adjusted EBITDA loss of approximately \$1 million to \$2 million, which translates to a loss per share in the range of \$0.24 and \$0.27. This would imply a small amount of positive EBITDA in the fourth quarter.

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



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Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Thank you, Andy. In closing, the first half of 2017 reflects solid performance driven by our strengthening team. We are successfully building a portfolio of products that expand our reach and impact on patients worldwide, and we are confident that our focus on minimally invasive approaches, pipeline of new products and continued clinical trial progress set AtriCure up for long-term success.

With that, we will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Rick Wise of Stifel.

Andrew Christopher Ranieri - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Drew on for Rick. I just want to start off on the guidelines. Mike, you just talked about the importance of the updated societal guidelines for building awareness and training. So we've seen STS and HRS update their guidelines. And we've spoken before about you working on ACC. Can you just talk about the progress that you're making there? Could that be a 2018 event since HRS came much earlier than expected? And how should we think about just HRS and ACC guidelines influencing referral patterns and just longer-term building relationships with EP ahead of your clinical trial approvals by end of decade -- or around the end of the decade?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes. I mean, the HRS guideline was obviously a big positive for us as they updated their guidelines in May of this year. That's up...

(technical difficulty)

you see has actually endorsed those guidelines even though they haven't put them into their guidelines yet. And the societies are working on making some updates and changes to that. We don't have any date anticipated on that. I mean, it'd be great if it happened next year, at the next ACC. But I mean, I don't know that I've got any [vision] of when that's going to kind of come to fruition. It's great that they've already endorsed the HRS guidelines. If it happens sooner than that, great. But right now, just the HRS and the STS guidelines alone are having a super-positive impact. It's allowing for great conversations with EPs. It's really causing a lot of collaboration between surgeons and EPs out in the field. So it's already having a positive impact from that standpoint.

Andrew Christopher Ranieri - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay, great. And then just a second question on AtriClip and the ATLAS trial. And sorry if my comments are off. But I think you mentioned PRO V coming later this year. And you've talked before about sub-xiphoid clip in late 2018, early 2019. How should we think about these clips? Are they really just expanding the portfolio and pulling up the ASP? Or are they replacing your prior versions? And then on the ATLAS trial, could we expect that maybe PRO V and the sub-xiphoid clip being included in the trial?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Sorry. On the first one, I mean, it's kind of a mix of both in terms of when you look at the AtriClip franchise and the new innovation that we keep coming out with. It's both an expansion into, as Andy was talking about in his, new procedures. But also, some people use them to replace some of the older ones, but it will be to be told on front. Quite frankly, the AtriClip -- the PRO2 has actually done better than expected, and some of that



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has been not just from the new procedures, but also cannibalizing some of the PRO revenue that we had. But obviously, it's at a much higher ASP, which is very good. But the PRO still sells and the PRO still does very, very well in the market. And so we feel really good about the PRO V coming out at the next higher price point, but also it's a much more minimally invasive product. It's also a platform product because it will allow for an Open product that's going to have a similar V clip that we'll likely roll out sometime in 2018. And as we look, like you were saying, sub-x is likely early 2019. In terms of the PRO V or the V clip being part of the ATLAS trial, that is likely not going to be the case. The plan right now is not to have that into the trial. And we'll obviously consider other types of trials in the future for where that might play a role. But right now, we're really focused on just getting the Open Clip kind of done from there because that's really where that's being used.

Andrew Christopher Ranieri - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay, great. And just one last question. You've talked about turning EBITDA positive in 2018 and also getting the DEEP trial maybe enrolling by year-end 2017 again. Is that kind of baked into your 2018 EBITDA positive guidance? And how should we be thinking about that?

M. Andrew Wade - *AtriCure, Inc. - CFO and SVP*

Yes, all that's baked into the guidance for next year.

Operator

The next question is from Jason Mills of Leerink Partners.

Jason Richard Mills - *Canaccord Genuity Limited, Research Division - Analyst*

I'm still at Canaccord, if anyone was wondering. So Mike, congratulations on another good quarter. I wanted to start with just from a high level on the revenue side. You've anniversaried the nContact acquisition. So as we look at the business now as fully organic, I believe this is your fastest growth quarter from an organic perspective, save for the third quarter of last year, going all the way back to 2015. So I guess, generally speaking, how are you feeling about the business now versus sort of back in 2015 when the -- before nContact, when the growth was a little bit higher? But now you've sort of been able to reaccelerate that growth, in part because of nContact, but in part because of AtriClip and others. And now that the business is entirely organic, what do you kind of look out over the next couple of years? Is this a level from which you can accelerate a little further? Or maybe you can talk in generalities there?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes, I mean, we feel really good about the growth rate that we're sitting at right now. And without giving too much guidance beyond this year, obviously, I think we've got lots of great things coming out in the future years. We've got new products on the Clip side of things that could possibly be upside for our growth rates in the future. You can also have, obviously, not just on the Clip side, but on new ablation, we've got a new generator coming out next year with a new Synergy clamp. And then, we've obviously got the clinical trial with CONVERGE that is obviously coming out in the latter part of the decade. So from our standpoint, there's obviously lots of upside, but -- we're going to be cautious about what we're thinking about and not give specific guidance as we look out beyond 2017.

Jason Richard Mills - *Canaccord Genuity Limited, Research Division - Analyst*

Okay, that's helpful. And on the -- sort of looking at the MIS, the ablation business in total. So MIS versus Open. Obviously, over the last couple of quarters, we've seen in the fourth quarter, Open had a rough quarter and now we've got 2 straight quarters where it's bounced back to levels that were frankly higher than where you would thought it would bounce back to at this point in time. Offsetting that, you've cautioned us about the MIS growth rate can bounce around and have some volatility in it. We've seen that, too, over the last couple of quarters. So what's the best way of



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sort of thinking about modeling both of those franchises, specifically in the United States on a go-forward basis, given that volatility in MIS that you talked about in the past, and also perhaps maybe a bit being a little bit ahead of schedule with respect to your Open business?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes. I mean, the best way to think about our business, as I was talking about earlier, is kind of as a portfolio that we're pretty consistently going to be in that kind of the range. We're talking about 14% to 15% as we look out to the end of the year. In Andy's comments, he talked briefly about for the year still being in that kind of high single digits on the Open side. And then the overall -- for Clip and MIS is in that 20% range. So I think we're still comfortable on that side of things, but we're really comfortable just in the overall mix that we've got. And so it might be off a little bit in one of the different product categories. But overall, we're very comfortable and confident on the 14% to 15%.

Jason Richard Mills - *Canaccord Genuity Limited, Research Division - Analyst*

Okay. Just a follow-up on that and then I'll get back in the queue. Just to push you a little on the Open, as you look at the first half, growth in the first half year-over-year was 13%. We've got the fourth quarter comp, which is obviously hope -- I would think you'd hope to do better than mid-single-digit growth against that comp. And so, it sort of lends itself, as you run through the numbers, to a much higher number growth in the back half of the year than mid- to high single-digit growth in Open. So is there anything I'm missing? Is there any sort of trend or sort of difficult comp in the third quarter? Anything that would -- you'd like to call out that would sort of acquiesce to what you're saying?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes, I mean, it's a really fair question, Jason. And we're just being -- we're looking at our business and just being cautious. And we want to make sure that -- we feel really good about that overall 14% to 15% number. And as I mentioned, there might be some fluctuations within some of the categories relative to that. And when there's some downside one way or the other, we know we can hit that 14% to 15%, we're extremely confident in that. I mean, you're right to point out maybe some of the differential on the Open side. But there's nothing specific other than we're just trying to give some general guidelines around kind of how the back half of the year might look.

Operator

The next question is from John Gillings of JMP Securities.

John Trevor Gillings - *JMP Securities LLC, Research Division - VP and Research Analyst*

Guys, can you hear me okay?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes.

John Trevor Gillings - *JMP Securities LLC, Research Division - VP and Research Analyst*

Okay, perfect. So first, I wanted to talk a little bit about CONVERGE. I think you said in the prepared remarks that you have 21 sites enrolling now, and I believe the goal was to get to 30. Can you talk to us about the timing on getting to 30?



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Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

We got 21. We were allowed up to 27 sites in total. And so we anticipate that we'll be at 27 sites by the fourth quarter -- sometime in the fourth quarter, and that will be -- so we've got a pipeline of all the sites that are pretty much going to be coming online. Most of them here in the third quarter, but some of them will come online the early part of the fourth quarter. The 30 is actually what we've got for ATLAS. So there may have been just kind of a miscommunication on that, or I may have misstated it. But the 30 is -- that's the number of sites that we were going for, for ATLAS, and we're at 17 on those sites right now.

John Trevor Gillings - *JMP Securities LLC, Research Division - VP and Research Analyst*

Okay, perfect. I appreciate that. And then in terms of getting those additional sites up and going, who focuses on that? Is that something that the MIMs are involvement with? Is that a different group? Just maybe help us understand what resources you're deploying to get that done.

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes, it's a different group. It's the clinical team that we have. So if you recall earlier this year, we hired a new Head of Clinical and Regulatory, Vini Doraiswamy, and he's really built out and has a team that is focused on patient recruitment, and their team is really focused on getting those sites up and running. And then there's a clinical educational team that's focused on educating and getting them trained so they've got some lead-in cases before they go down in the path of being a part of the trial. But it's all in the clinical piece of our business, completely separate from the MIM team.

John Trevor Gillings - *JMP Securities LLC, Research Division - VP and Research Analyst*

Okay, perfect. And you have 13 MIMs now. I think last time we spoke, it was 11, and you're shooting for 14 for the year. What would have to happen to hire more than the 14? Or do you need to focus on training the ones you brought in recently?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

You know, we'll likely probably go beyond the 14, is my guess, this year. But I think you said it well, which is that we're in the process of bringing these people on board. It takes them time to kind of get up to speed on the business, work really well within the team that they're basically assigned to. And so we want to make sure that we do that appropriately. It also takes time to find the best people that are out there. We found some great talent in this area. And so -- I mean we might accelerate beyond 14. Right now, we're just focused on kind of getting to the number that we thought we needed. But if demand is there and we're getting more and more sites and we can't cover all this, then we will add to that number for sure.

Operator

The next question is from Danielle Antalfy of Leerink Partners.

Danielle Joy Antalfy - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices*

Mike, just as you are hiring these new folks and the MIMs, can you talk about the productivity ramp we should be thinking about? That's my first question. Then I have one follow up.

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Perfect. It depends on where we get the person from in terms of their productivity ramp. But I'd say that it takes about 6 months to really kind of get their feet wet, understand our business, how they fit in, get to know the teams that are out there, another 6 months to really begin to start to



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make some impact. But some people make an impact day 1 with relationships they might bring to the table. And so I'd say when you start to think about real revenue impact, you're talking really close to beyond 1 year where they begin to have like a significant impact on that. They do have an impact on offloading some of the work that's been done. A lot of these MIMs, if you recall, we hired in the -- in our second and third quarter of last year. So they have now been here for about a year and really starting to gain traction in a lot of different ways. So our pipeline is really full. Just -- I mean, the number of sites that have gotten up and running on CONVERGE, we're well over 100 right now and that number continues to increase. The demand is there, there's a lot of training and education that's going on. And we don't see that slowing down in -- anytime in the near future.

Danielle Joy Antalffy - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices*

Okay. And then just as my follow-up to that, if we look at 2018, 2019 time frame and we look at all the potential tails. So rep productivity ramping, it feels like the business is stabilized. You're at right place or near the right place when it comes to reps in each of your different businesses, correct me if I'm wrong there. CONVERGE will come online sometime in the 2019, 2020 time frame. And you've got the guideline impact, which could come into fruition or contribute more meaningfully in 2018 and beyond. Should we be thinking about '18 and '19 as potential sales growth acceleration years? I'm not trying to ask you to give guidance, but just maybe even directionally sort of if you could talk high level about the headwind -- the tailwinds and any potential offsetting headwinds I might not be thinking about.

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Sure. I mean, on the -- on all the positives that you just talked about, those are all completely accurate. We absolutely see a lot of good things coming out with the product pipeline, the clinical pipeline and everything you mentioned about rep productivity, et cetera. In terms of committing to any kind of growth rate as we look into next year or beyond, I'm just not comfortable at this point kind of giving that kind of guidance. We're -- again, we're really comfortable with our numbers this year. I know everybody wants us to begin to do that. I just don't think -- I don't think it's the right thing for any of us on this call to really get too far ahead of ourselves on some of those numbers. Let's see how the back half of the year comes together, which again, we feel really comfortable with. And we'll give more specific guidance as we kind of wrap around into next year.

Danielle Joy Antalffy - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices*

Okay, and just -- you don't foresee any major headwinds coming over the next year that we might not be thinking about? Like I'm just thinking TAVR moving down the [rev] curve, nothing like that? You don't see that as impacting the business, right?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

I mean, there's nothing like that, that I see impacting the business per se. I mean, there's obviously always those things that can hit you that you're not necessarily seeing. But right now, there's nothing like that, that we're seeing. I mean, TAVR coming to the intermediate and into the low-risk area, we're seeing increased growth in our volume overall. The CABG volume is really where we're seeing most of the growth that we're getting. That's really what you're seeing on the Open side is that you've got CABG surgeons that are not doing it, and that's the biggest market, by far, and far overwhelms anything that could ever be pressure on the AVR side of things. So the CABG market is a bit -- is the big focus for us.

Operator

The next question comes from Matt Miksic of UBS.

Vikramjeet Singh Chopra - *UBS Investment Bank, Research Division - Director and Equity Research Associate of Med Tech*

This is Vik in for Matt. So maybe a couple of quick questions from me. I know your focus is on the CONVERGE trial. But can you update us on where you are with the DEEP trial and how the conversations have gone with the FDA? And I have one more follow-up.



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Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

The conversations continue to be very positive with the FDA, and no change in our thoughts that we'll likely get some sort of blessing to go forward in some capacity by the end of the year. And so we've been working very much in collaboration. These things take time, but we are in a good place and anticipate, again, no changes in the time line relative to that going forward.

Vikramjeet Singh Chopra - *UBS Investment Bank, Research Division - Director and Equity Research Associate of Med Tech*

Great. And just one more follow-up if I could. Just maybe a bit more detail on your plans on launching the AtriClip PRO V. Is this more of a Q4 event or a late Q3 event? And how should we think about pricing relative to PRO2?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Sure. PRO V will launch in the fourth quarter of this year. But you won't see much meaningful revenue in that first quarter that it comes online. So really, it's a 2018 event more than anything else in terms of that. The pricing, it will be a higher ASP than the PRO2. It's a more minimally invasive device, it's much -- I mean, it's much smaller profile and we're pretty excited about it on a lot of different fronts, a lot of really sophisticated engineering that went into this by our team. So I'm really proud of what they've been able to put together there. And so we anticipate that that's going to get a much higher price point.

Operator

And the next question is from Mike Matson of Needham & Company.

Unidentified Analyst

This is [David Dax] in for Mike. Just a quick clarification and then another follow-up. For the gross margin guidance, was that a 72% you were looking at?

M. Andrew Wade - *AtriCure, Inc. - CFO and SVP*

The guidance for the year is 72% to 73%, which we've reiterated. And the only comment for the quarter was we came in on the lower end of that range. We had some generator deals, some capital deals in Asia, which was a big driver of that. That was really the comment around margin.

Unidentified Analyst

Okay, great. And then just around hiring Sam, the new CTO. Do you expect any changes to your R&D process or pipeline?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Can you repeat that? I'm sorry, I missed the beginning part of it.

Unidentified Analyst

It's in regard to hiring Sam, the new CTO, do you expect any changes to your R&D pipeline or process?



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Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Obviously, hiring somebody at that talent level, he's going to come in and, hopefully, be able to not only accelerate but help us create even more innovation we've already got today. We've got a fantastic team already in place that has done a wonderful job over the last 4 to 5 years of bringing innovation technology to the forefront. What Sam brings really is a combination of understanding our products, plus he's also done a fantastic job on the innovation side. I'm a really big believer in getting great talent when you can. He's been able to scale businesses from where we are to much larger, which is what he's able to do when he was at Bard. Being able to bring that to the forefront as we get into new markets and new spaces and kind of think several steps ahead is something that Sam is exceptional at. So sure, I absolutely think we'll have some more innovation. It's not going to be next year, likely. It's likely going to be in the kind of '19, '20, '21 time frame, and he's going to be a great addition to the team.

Operator

The next question is from Suraj Kalia of Northland Securities.

Suraj Kalia - *Northland Capital Markets, Research Division - MD and Senior Research Analyst*

Mike, couple of questions from me. Q4, Open was soft and I remember some commentary from you all about reengaging the physicians. Something you all did obviously caused a nice step-up in Q1 and Q2. Mike, are we in a position where you can specifically say, "Okay, this was the gap analysis we identified. This is why things slowed down. This is what we did?" I guess just trying to encapsulate whether -- is it something market-fundamentals related? Or something you were missing? Any color there would be great.

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes. I think it's consistent with what we've talked about in the past, Suraj, where we bought nContact. That definitely was super exciting, but also caused our team to get distracted before we had a full contingent of the MIMs on board, where they were able to go drive and take on a lot of the responsibility on some of the minimally invasive stuff that our RSMs were spending a lot of time on. And that distraction, quite frankly, caused us to not necessarily be in all the cases, be going to training, et cetera. And it's really important for us to be around those cases to make sure that the treatment that's being done is being done right. And by basically kind of having more time under our belts, having more time with the MIMs onboard that can offload some of that workload and be really focused on the minimally invasive side of things, that is the diagnosis of it. It's pretty simple and obviously, we're excited about both those platforms as we look forward. Obviously, in the MIS side, CONVERGE continues to be very strong. The MIM team is coming onboard really, really nicely and Open is in a more solid state, for sure. Now on top of that, we benefited from the guidelines and the ability to open up a conversation relative to that, especially for surgeons that weren't treating before. And so that had some -- that's been some of the impact as well.

Suraj Kalia - *Northland Capital Markets, Research Division - MD and Senior Research Analyst*

Fair enough. And Mike, second question. CONVERGE, did you give an update on the [expectation] -- how -- when are you expecting enrollment completion? Is it still mid of next year?

Michael H. Carrel - *AtriCure, Inc. - CEO, President and Director*

Yes, I mean, our -- that has not changed in terms of the guidance for completion of enrollment. It was a great quarter, especially the back half as these -- we started to kick in, in terms of June and July have been very strong on enrollment. We've got a strong pipeline of patients for August and September already that have already been consented. And so the team has really come together. I couldn't be more proud of the team that's been working on that. The clinical team has really been out in the field pretty much nonstop. I've been out in the field with them quite a bit, talking to these customers and engaging in them and getting these sites up and running. So that's been a big focus of ours. As I mentioned, it's really a



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top priority for the business. And so we anticipate that we'll see an accelerated enrollment in the back half of this year for sure, relative to the first half of the year. We're already at this point in the year, we've enrolled as many patients this year, as we did in all of last year. So now it's a matter of even accelerating it even more.

Operator

The next question is from Matt O'Brien of Piper Jaffray.

Matthew James Bacso - Piper Jaffray Companies, Research Division - Research Analyst

This is Matt in for Matt today. So another question sort of on R&D. At the midpoint of what you guys said, 21% to 22% as a percentage of sales for 2017, that accounts for about a growth rate around 6%. Do you expect that to accelerate meaningfully into 2018 as you guys are continuing your clinical trials? Or is that spread going to be about the same relative to revenue growth?

Michael H. Carrel - AtriCure, Inc. - CEO, President and Director

We haven't really given the exact number in terms of the growth for next year. We'll continue to get leverage off of it next year. Obviously, it'll be EBITDA positive next year overall for the year. We're going to get leverage across every one of our disciplines, whether it's on the top line and cost of goods sold, all the way through R&D and those areas. So we'll get leverage in each one of those areas, a couple of points here, a couple of points there, that will basically drive us the EBITDA profitability for the full year 2018. But we'll give more specifics on that as we finalize some of the nuances of the investment that we've got at the end of the year. Right now, it's kind of -- it's in our long-range plan, but we'll do that finalization in the fourth quarter and roll that the guidance out early 2018.

Operator

(Operator Instructions) There are no further questions in the queue. I would now like to turn the call back over to Mike Carrel for closing remarks.

Michael H. Carrel - AtriCure, Inc. - CEO, President and Director

Great, thank you, everyone, again, for joining us today. After another really strong quarter for us, we're excited about our future and look forward to seeing you out there over the next several months at different conferences. Have a great night.

Operator

Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day, everyone.



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