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ATRC - Q4 2017 AtriCure Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to AtriCure's fourth quarter and year-end 2017 earnings conference 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 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 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 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. As we reflect on 2017, our team made significant progress toward the goals we set for the year. We grew the top line 13%, marking our fifth straight year of double-digit revenue growth, impacted over 60,000 patients worldwide, reached enrollment of over 100 patients in the CONVERGE trial, surpassed 125,000 AtriClip milestones, with over 34,000 in -- sold in 2017 alone, and we launched the AtriClip PRO V device as a platform for current and future growth.

We also added significant leadership to our Board of Directors, with the addition of Kris Johnson and Reggie Groves. And we strengthened our executive team, with the addition of Sam Privitera as Chief Technology Officer and Vini Doraiswamy as the Head of Clinical, Regulatory and Scientific Affairs.

As a cornerstone to our success, we continue to focus on 3 critical pillars, which are education, clinical science and innovation. We have created a strong foundation and culture that fosters a patient-first mindset and drives towards this success. We begin 2018 with a platform in place to continue expanding our minimally invasive presence through our enrollment efforts in CONVERGE and DEEP clinical trials and growth in the AtriClip franchise.

We are simultaneously solidifying our base in the open market, which remains largely under penetrated. Thus, our revenue guidance for 2018 is 9% to 12% growth. We also expect to realize adjusted EBITDA profitability for full year 2018.

Now turning to the specifics of the quarterly performance. During the fourth quarter of 2017, we posted revenues totaling $46.1 million, representing year-over-year growth of approximately 12%. We continue to work to drive broad, consistent growth by improving adoption of surgical ablation in a concomitant setting through our company-sponsored education programs as well as partnerships with key societies, which we believe contributed to our 13% revenue growth rate for the year. The updates to the Society for Thoracic Surgeons, or STS, and the Heart Rhythm Society, or HRS, guidelines are spurring energized discussions and enthusiasm in the provider community, which was evident at the STS Annual Meeting in Fort Lauderdale last month. STS kicked off the -- kicked off with the Chamberlain paper for adult cardiac surgery, which concluded that surgical ablation unequivocally improves long-term survival of patients. As surgeons and cardiologists increasingly recognize the clinical, safety and societal benefits of surgical ablation, we expect the guidelines and papers like this to influence care and support growing procedure volumes in the coming years.

Several of our conversations at STS centered on our recently launched AtriClip, the PRO V. Early experience and feedback from clinicians using the PRO V has been overwhelmingly positive. Recall that the PRO V is another significant step toward a comprehensive strategy for minimally invasive management of the left atrial appendage. It offers an open-ended design, combined with a tip-first closure mechanism to enable easier navigation and placement when operating in MIS procedures.

Since our U.S. launch late last year, we believe PRO V has been additive to our product portfolio, with surgeons expanding the use of the AtriClip. To date, we have successfully placed over 250 PRO V devices, and expect the contribution from PRO V to increase in 2018 as it progresses. As we look to our pipeline, this platform will serve as a foundation for future innovation with increasingly less invasive applications.

On a related topic, we announced last week that we received clearance to sell FLEX V, our next generation open chest AtriClip, leveraging the same V clip technology used in the PRO V. The FLEX V is an exciting product with a lower profile and easier to use delivery system, which allows surgeons to apply it in tight spaces. It is the first device of the AtriClip family that offer a clip deployment trigger release, and we believe that it will help us grow adoption in open surgeries for the foreseeable future.

Additionally, building on the V clip platform, we expect to launch a sub-xiphoid version of the AtriClip, the PRO X, in early 2019. The PRO X will be combined with the current Convergent procedure, and provide benefit of managing the LAA by deploying through the same sub-xiphoid incision. The clinician community attention to better management of the LAA is being fostered by the society guideline updates, and is underpinned by compelling clinical results and peer-reviewed publications.

In January, the Journal of The American Medical Association, or JAMA, published results of a clinical study conducted by Dr. Daniel Friedman, evaluating the effectiveness of surgical LAA occlusion in reducing the risk of thromboembolic events. The retrospective study examined over 10,500 Medicare recipients in Afib undergoing cardiac surgery. The conclusion was that surgical LAA occlusion, compared with no LAA surgical occlusion, was significantly associated with a lower risk of readmission for thromboembolic events at 3 years.

In turning to our focus on clinical science, we continue to make important progress on our clinical programs. CONVERGE remains a top priority. We now have 25 sites enrolling and have over 108 patients enrolled. During 2017, we significantly increased the number of sites versus 2016, and achieved patient enrollment, during 2017, equal to all previous years combined. We also added 2 international sites. With this momentum in our new and existing sites, we believe we are on track to complete enrollment for the full 153 patients by mid-2018.

We are also nearing enrollment completion of our company-sponsored FROST study, which we expect in the second half of 2018. Recall that FROST evaluates whether our cryoICE probe provides superior postoperative and long-term pain relief, along with return to normal function as compared to current pain management patients undergoing unilateral thoracotomy cardiac procedures. The study plans to evaluate lung function, pain, opiate consumption and duration of hospital stay. We expect to have a data readout later this year.

Anecdotally, we continue to hear that when surgeons adopt cryoanalgesia therapy into practice, they can potentially change the standard of care for pain management in cardiac and thoracic surgery. With the opioid epidemic at an all-time high in the United States, there is a strong focus on finding alternative ways to manage pain in both acute and chronic settings. Studies show that once a patient is exposed to an opioid, they are at a 5x greater increased risk of developing long-term addiction to the medication.

Cryoanalgesia therapy has the potential to significantly reduce the need for opiates. The FROST study brings us one step closer to evaluating this therapy to the standard of care.

Turning to the DEEP trial, we have started reenrolling patients, and have now completed our first several cases since receiving approval from the FDA to move forward. We are excited as DEEP provides another alternative for minimally invasive approaches, and we look forward to providing updates as the trial advances.

And finally, before closing, we recently announced that Dick Johnston, our current Board Chairman and Liz Krell, are planning to retire from the Board of Directors at the Annual Meeting in May of this year. Dick's direction as our long-standing Chairman has been critical in navigating the company to our position today. He has been instrumental in the success of AtriCure from the early days of the company's inception, through a successful public offering, to bringing me on as the CEO and helping reshape the company over the past 5 years together as well as recruiting new board members. Liz has also been at the forefront of our regulatory and clinical strategies, providing expertise in risk assessment and healthcare compliance. On behalf of AtriCure and our entire board, I thank them both for their truly profound service and guidance.

Scott Drake has been named Board Chairman following Dick's retirement. Scott has been a board member for the past 4.5 years and his proven executive experience, achieving sustainable revenue growth and driving operational improvements, has been invaluable to our organization throughout this time. I am delighted that AtriCure can further benefit from Scott's leadership in his new role as Board Chairman. I will now turn the call over to Andy Wade, our Chief Financial Officer, and then return with closing comments.

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

Thanks, Mike. For the fourth quarter of 2017, worldwide revenue increased 12% to $46.1 million. On a constant currency basis, worldwide revenue increased 11%. Revenue from product sales in the U.S. was $36.2 million, an increase of 11% from the fourth quarter of 2016. Revenue from open-chest ablation-related products in the U.S. increased to $16.7 million representing growth of 14%. U.S. sales of ablation products used in minimally invasive procedures were down 6% to $8.4 million as a result of reduced volumes from several key legacy customers, which were primarily impacted by wildfires as discussed on our last call. In addition, sales of EPi-Sense were lighter than expected this quarter, following 3 strong quarters in 2017.

U.S. sales of the AtriClip system during the fourth quarter of 2017 were $10.6 million as compared to $8.4 million for the fourth quarter of 2016, an increase of 27%. Growth was strong for both MIS and open AtriClip products. Early results were good for our PRO V device launched late in the third quarter.

International revenue of $9.9 million was up 16% or 10% on a constant currency basis as compared to the fourth quarter of 2016. Growth was particularly strong in European distributor markets, China, Australia and Canada.

Gross margin for the fourth quarter of 2017 was 71% as compared with 70.2% for the fourth quarter of 2016. A primary driver of the improvement was lower obsolescence charges, offset partially by changes in geographic mix. Pricing continues to remain relatively steady across both our product lines and geographies.

Our adjusted EBITDA loss was approximately $300,000 compared to a $1.4 million adjusted EBITDA loss for the fourth quarter of 2016. Our operating loss for the quarter was $2.1 million compared to the operating loss for the fourth quarter of 2016 of $7.7 million.

Our loss per share was $0.08 for the fourth quarter of 2017 compared to a $0.27 loss per share for the fourth quarter of 2016. Note that a $4.1 million noncash credit to operating expenses was recorded in Q4 2017 related to the change in a contingent consideration liability. Without this credit, the Q4 2017 loss per share was approximately $0.20. For Q4 2016, we recorded a $1 million noncash charge related to this liability. When this change is excluded from our 2016 results, the loss per share for Q4 2016 was $0.24.

Excluding the impact of the noncash adjustments to the contingent consideration liability, operating expenses increased approximately $3.3 million, from $35.6 million for the fourth quarter of 2016 to $38.9 million for the fourth quarter of 2017.

Research and development expenses, which include clinical and regulatory activities, were $7.7 million for the fourth quarter of 2017 or 17% of sales, a decrease of $2.1 million from the fourth quarter of 2016. The decrease was driven primarily by heavy spend in 2016 for development efforts around a new RF generator along with consulting related to the company's compliance and quality systems and regulatory submission costs.

SG&A expenses, excluding the noncash adjustment previously described, increased approximately $5.4 million from the fourth quarter of 2016 to a total of $31.2 million or 68% of sales. The increase was primarily driven by continued investment in the commercial organization worldwide along with expansion of training activity.

For the full year 2017, worldwide revenue was $174.7 million, an increase of approximately 13% or $19.6 million over 2016. On a constant currency basis, growth was over 12%.

For the U.S, sales grew 13% to $138.4 million. U.S. open-chest ablation revenue grew 11% to $64.5 million. U.S. sales of ablation-related products used in minimally invasive cases increased 10% from 2016 to $34.4 million, which was heavily influenced by EPi-Sense products but offset by pressure in legacy MIS accounts.

U.S. sales of AtriClip products grew 23% to $37.3 million, driven by strong performance in both open and MIS Atriclip products.

International revenue grew 11%, or 10% on a constant currency basis, to $36.3 million. Performance was consistent across Europe and Asia for 2017.

Gross margin was 72.2% for 2017 compared to 71.6% for 2016.

Loss per share for 2017 was $0.83 compared to $1.05 for 2016. And our adjusted EBITDA loss was $5.3 million for 2017 compared to $9.2 million for 2016. Our adjusted EBITDA loss for -- for both 2017 and '16 excluded noncash adjustments related to the contingent consideration liability. Without these adjustments, the 2017 loss per share would have been $0.96, and the 2016 loss per share would have been $1.02.

We ended the year with approximately $34.4 million in cash, cash equivalents and investments. We also recently closed the refinancing of our credit facility with Silicon Valley Bank, replacing our existing $25 million term loan with a $40 million term loan. In addition, we increased our revolving line of credit availability to $20 million. The refinancing was done as part of normal capital structure evaluation and provides an interest-only period on the term loan for up to 24 months, which more closely aligns with our plans to generate positive cash flow.

Lastly, we are reiterating our guidance for 2018. We anticipate top line growth of approximately 9% to 12% year-over-year or worldwide revenues of approximately $190 million to $196 million on a GAAP basis.

While we are not providing quarterly revenue guidance detail for modeling purposes, we anticipate revenue growth to be slightly higher for Q3 given the 2017 hurricane impact in the third quarter, with relatively consistent growth rates for the other quarters.

We anticipate gross margin to be approximately 72.5% to 73.5% for the year, with the bottom end of this range representing a slight increase from the 2017 reported gross margin. We are still targeting long-term gross margins of 75%.

We expect R&D expenses to be 17% to 19% of sales, a slight decrease compared to 2017. Investment in this area include: the CONVERGE and DEEP trials, new and developing clinical science activity, along with R&D pipeline development.

We expect SG&A expenses to be approximately 67% to 69% of sales in 2018. The increase in SG&A expense is again driven by thoughtful investment in our worldwide sales team as well as training and education expenses.

We expect adjusted EBITDA for 2018 to be positive, a significant improvement from the adjusted EBITDA loss reported for 2017. This translates into a loss per share between $0.84 and $0.94.

As we reported for 2017 and years prior, we anticipate adjusted EBITDA results will improve as the year progresses. Therefore, while we expect full year adjusted EBITDA to be positive, we typically experience heavy expenses earlier in the year and expect to generate an adjusted EBITDA loss in the first quarter of 2018 of approximately $2.5 million to $3 million. This adjusted EBITDA loss for the first quarter of 2018 translates to a loss per share in the range of $0.29 to $0.33. Again, we expect steady improvement to earnings throughout the year to deliver positive adjusted EBITDA for the full year 2018.

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

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

Thank you, Andy. Throughout 2017, we made substantial advancements in our business with considerable progress on CONVERGE, robust growth in EPi-Sense and exciting new AtriClip MIS platform with our PRO V launch. As we enter 2018, we expect continued traction and rising momentum as the year progresses with several milestones in our sights. Specifically, we are endeavoring to serve over 65,000 patients and train over 300 physicians worldwide. We also endeavor to complete the enrollment of CONVERGE and advance FROST and DEEP, launch 3 new products throughout the year, develop the open and MIS markets and solidify our business and in the process, reach adjusted EBITDA profitability for the year. We are successfully building a portfolio of products with excellent clinical data, that expands our reach and benefits patients worldwide and creates significant shareholder value. These accomplishments position AtriCure for long-term success. With that, we will now open up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question for today comes from the line of Danielle Antalffy with Leerink Partners.

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

Just a question on the 2018 outlook and guidance. Mike, could you talk a little bit about the puts and takes to the 9% to 12%. I mean, obviously, you had a stronger quarter in Q4 than that? What's going to -- what's driving the deceleration versus Q4? And maybe talk about some of the tailwind. How you're thinking about the impact of guidelines to the Open business. Is that something that can accelerate growth in the Open business? Or is it really just more incremental than a true growth accelerator?

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

Sure. As we mentioned, Danielle, we feel really good about the -- the number will be in the range of our sixth straight year in a row of double-digit revenue growth in 2018 and also going after achieving the bottom line profitability. Obviously, there is always upside in numbers. But we're not

going to bank on it per se. But there's a lot of great things happening in our business, we've got the guidelines behind us, lots of great conversations, and you're seeing the impact of that in the numbers. And we anticipate that to play through into the year into 2018 and for many more years to go. On top of that, obviously, coming out with the new products that, we've got both PRO V coming out at the end of last year, FLEX V coming out here and actually can start selling it in the month of March. So we do anticipate some upside when it comes to all those as well. But quite frankly, we feel really comfortable with the number that we've got on a global overall basis. And that's kind of where we are for the year at this point.

Operator

Our next question comes from the line of Jason Mills with Canaccord Genuity.

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

So, I guess, I'd like to start following up on Danielle's question, Mike. International, while it's a fraction of your U.S. business, there are pockets of real upside opportunities, it seems to me, Japan being one of them. Also -- so could you talk about that. In addition to that, what's implicit in your guidance for U.S. MIS growth? Obviously, that -- as you predicted, was somewhat volatile through 2017. You've said that will remain volatile, to some extent, until you get a labeling indication. But can you put a finer point to that, specific to the year 2018? And I have one more follow-up, if possible.

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

Sure. I'll start on the international side. So on the international side, Japan is a great market for us. We had very strong growth this past year. Now with Clip and Cryo beginning to become standard of care over in Japan, we do anticipate to have another good solid year out of that market. In addition to that, we had a really strong year in Australia and South Korea, where we almost doubled our business. It was on small numbers. But we saw some very good progress in those markets. And we anticipate to see some significant progress there as well. As we look into the -- into Europe, in particular, EPi-Sense is really beginning to take hold in Italy and the U.K. We've not really had that product -- we had it approved over there, but we actually weren't -- didn't have a lot of traction until just recently. So I anticipate there's definitely some good growth that could come in those 2 markets relative to that. We've also got -- and our management team has really been in place now for about 1.5 years in Europe, and have got the utmost in confidence with the team we've put together. They now understand our products, understand our process and understand how to serve the physicians well. And so I think, we're in a really good spot to expand in the Nordic countries and also in Germany as well. As it relates to, kind of, our overall guidance in kind of MIS, without giving any kind of specific granularity to different components, we're really focused on kind of the overall revenue number for the year. And obviously, there's going to be puts and takes as the year goes on. There is, obviously, upside to some degree relative to some of the MIS, as we're up to 173 sites that are now actually using the product or did use the product in 2017. That's up from when we bought them at about 38-or-so sites. So we've made progress now. We've got to kind of make sure that we're within those sites, that are actually continuing to adopt and use that technology. And then as we talked about earlier, some of the legacy -- as DEEP kind of gets up and running, the excitement builds around that. We do think that there's going to be some momentum. But on a quarterly basis, it's kind of tough to predict that per se. That's why we've kind of given you the overall number.

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

That's helpful color. Thanks for the update on the CONVERGE account status, Mike. That was another question I had. As a follow-up, perhaps you could just take it up to a 20,000-foot view, and give us your latest assessment of the market? It just -- it seems -- as we do our research, and I'm sure my colleagues on the phone see it similarly, that if you look at surgical, open for sure and even to some extent, MIS ablation -- or Afib ablation, the competitive landscape doesn't seem to be getting much more difficult. And so I would love your assessment with respect to the competitive landscape, what you're seeing? And maybe level set as we enter a new year with respect to penetration rate projections that you see across the 3 aspects of your business. You've gone over that in various presentations the past. And I think it's important for investors to understand the level of penetration at which you currently stand, sort of juxtaposed to the competitive landscape, which doesn't seem like it's getting tougher, which is a good place for you to be. So maybe you could help us out there.

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

I think the biggest competitive components in most of our -- in particular, I will start with the Open side of the business. The biggest competition there is really going after just treatment. Making sure that physicians are treating the Afib at the same time they're treating the rest of the surgical procedure. And there is so much data that's out there right now, those are the tailwinds. I mean, it's not just the guidelines. But as I mentioned during my remarks, I talked about the Chamberlain paper. You're still talking about only 30% penetrated across the board and less than 10% in CABG patients. And these are surgeons that now are getting the data. They can't say, oh, there's no data out there to show that there's benefit. There's data to show that these patients live longer. And it is paper after paper that is coming out. They're now beginning to really kind of digest that. They want to get more training, they want to learn, they want to learn how to do it right. And so I think that, that really portends to a long-term future, where we're going to be able to actually go after that space. As we look at the Clip market, you saw we had 34,000 clips that were sold in 2017. That's a 29% or so unit increase that we had. Just a great growth rate across the board. Again, I think there's just more and more papers coming out. As I mentioned the JAMA paper and others that showed the benefits of managing the appendage. And you've got lots of endo -- kind of the WATCHMANs of the world that're out there that are being used or the Amulets in these clinical trials that are out there, that show managing appendage helps, and it's a good thing to do. And the data is out there that shows the clip works. It occludes the appendage. And it absolutely takes it out. And so we're pretty happy with what we're seeing relative to that. And again, that market is huge. I think I heard on Boston's call that they were saying it was 1% penetrated in the market that they're going after. And we're less than 20% penetrated when you look at just the open-heart procedures that are out there today. So again, still a lot of room for growth, especially as we get our products to the point of the V clips that I'm talking about, where it's a much lower profile product. So they're much more comfortable putting this on at the base of the appendage and getting a better closure rate. And then as it relates to MIS, I mean, there's just -- there's millions of patients out there that are in a persistent, long-standing persistent market. And many of those patients have no treatment options today, they've got no viable option. And so the clinical trials are absolutely critical towards, obviously, getting evidence and being able to push it out even harder with DEEP and with CONVERGE. But we see those as just many, many years to come relative to the MIS space. And I can go into more details if you'd like, but that hopefully gives you enough color?

Operator

And our next question comes from the line of Rick Wise with Stifel.

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

This is Drew Ranieri on for Rick. Just a 2-part question on your clinical trials. Mike, to reach the mid-2018 full enrollment for CONVERGE, you mentioned the patient enrollment will need to accelerate. So is this the sub-xiphoid approach that's going to be driving that? Or the additional sites that are coming on board? Just what are the keys to kind of getting CONVERGE finished on time? And it sounds like you're making great progress on FROST and DEEP getting back on track. But could you just also review where you stand with the ATLAS and CEASE trials?

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

Sure. As it relates to CONVERGE, it's mostly the sites. We're now up to 25 sites enrolling and those sites -- we anticipate 2 more to come on board. They probably won't contribute that much to it. But the sites we've got now are really kind of getting into their clinical practice. And so we anticipate that we'll have strong enrollment here. We had decent enrollment for the beginning part of the year. And now there's a good, rich pipeline of patients coming down right now. So it's mostly the new sites. And actually existing sites have been around for a while, really getting excited to kind of see the end game here and trying to contribute towards it. And so we're putting on a full-court press on that and having lots of success, we think, in getting more patients into the pipeline and again feeling comfortable with the dates there. As it relates to ATLAS, we're at over 500 patients in the ATLAS trial at this point. We're actually now looking at -- we'll probably wind up being at about 550 to 600 or so. We're beginning to look at the data relative to that. And will likely begin to pivot towards using that data to evaluate what a better long-term trial is going to look like. Because if you recall, when we did the ATLAS trial, it was really done to kind of hypothesis -- generate some hypothesis around kind of where we could go with a full-blown IV trial over the next several years. I think we've got enough data that we need to kind of look at it over the next 3

to 6 months. And then from there, really put together a real long-term trial to make a difference on that front. So we feel good about the enrollment there. It's been way ahead of plan relative to the numbers. And we feel like we're going to have enough data from that. We really want to move toward a more pivotal trial at some point in time. As it relates to CEASE, we're up to about 89 patients. And so we're close to the trial kind of getting in the mid-150s or so range. And we're still evaluating kind of where we go with that. But we're making some good progress there.

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

Okay, great. And I'm sorry if I missed this. But just go to the STS guidelines, so it's been about 1 year since they've come out. Can you just talk a bit more about how surgeon perspectives have evolved over the past year for treating AF? And how those conversations relate to just training course demand?

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

Yes. This year's STS. I mean, I think it's indicative. The #1 paper -- the Chamberlain paper was about surgical ablation. And it was about the treatment, and the fact that it actually improves these peoples' lives, and they live longer if you do the surgical ablation at the time of other cardiac surgeries. And so I think that, right there, it kind of tells you and sets the tone for what STS was all about. There were lots of conversations there. And we've got demand, and we're sold out on our courses right now. We're adding new sites to do kind of on-site looks. So people can fly in and actually watch several cases in a row. So they can see a CABG case, a mitral valve case and an aorta case. And we're adding new sites to be able to do that as well. But the demand is there right now. And it's pretty much sold out for the foreseeable future.

Operator

And our next question comes from the line of Matt O'Brien with Piper Jaffray.

Kevin Michael Farshchi - *Piper Jaffray Companies, Research Division - Research Analyst*

This is Kevin on for Matt today. Wanted to start with the PRO V product. I know it's pretty early, and we heard that the feedback was overwhelmingly positive. Can you just point us specifically to what you've been hearing from clinicians thus far? And then secondly, we heard the number of 250 that you've already placed. How many would you expect that to run this year? And then given the higher price point, how the company just overall have used the contribution of that product to the Clip business in that growth profile this year?

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

So I'll start with the first. I mean, the reason the clinicians love this product is it allows them to get into much tighter spaces, the maneuverability of it, the way that it articulates. It's 1/3 of the size of the other clip device that we had. So in terms of actually getting access, it's just that much easier to get into those tight spaces. And so they're able to do procedures they otherwise were not comfortable with doing. So for example, if they had to go over the appendage, you know it was too difficult to go over the appendage with the hoop, now they can kind of go right at the base and not have to kind of attack it that way. That is a big advantage when you're in those tight spaces like that. It also allows them to feel much more comfortable getting to the base of the appendage. And so that kind of small nature of it and maneuverability, the open-ended nature of it so they can kind of go at it at the base, similar to the way that they've used other products that way, makes it just something that they're very comfortable with. And they're very comfortable using it in places they weren't using it before. In terms of the numbers, we're not going to give our projections for our numbers for the year. We look at this -- the PRO V is one where it is a much higher price point. We're not going after massive volumes relative to it at this point in time. We're really kind of going after it for, kind of, those unique cases. And then over time, it might migrate into some of those other cases. But we're taking it at the higher price point, because we think there's a lot of value there. And if people want to, kind of, take the PRO2 (sic) [Pro V] and wind up using it instead of the PRO2, they can, but it's obviously at a higher cost.

Kevin Michael Farshchi - *Piper Jaffray Companies, Research Division - Research Analyst*

That's very helpful. And lastly with SG&A kind of expected to go up some, can you just provide us with an update on the size of the sales force? Do you have plans to continue expanding whether direct and clinical reps? How does that kind of shake out for the year and think about that number?

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

Yes. Sure. So we're sitting today. When you break down kind of our sales force today, we've got 11 areas throughout the country. Within those 11 areas, we have about 55 or so direct RSMs. Actually I think, it's 53 but we'll grow it to kind of 55 to 57 or so this year. So adding a few more on that, kind of, regional, kind of, managing the geographies. We're then at about 15 or so in the minimally invasive. That number will grow to 17 to 20 or so as the year progresses and as they get better, and we're able to split up the territories there. And on the clinicals, we're sitting at about 50, and we'll grow that to the upper-50s by the end of the year as well. The clinicals are really focused on case coverage and the clinical support of the cases.

And then in addition to that, I should mention that we're in the process of adding several, what I'll call kind of, clinical specialists that are focused on the cryoanalgesia space, and we'll add 4 of them throughout 2018.

Operator

And our next question comes from the line of Suraj Kalia with Northland Securities.

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

So, Mike, couple of questions from my side. EPi-Sense, can you walk us through the sequential step down and, if any, impact on gross margins. The reimbursement for EPi-Sense is pretty good. So I'm trying to get some color on how was this a blip? Or should we have any read-throughs for FY '18?

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

We just really had a really strong Q3. I mean Q3 was -- on the EPi-Sense side of our business, we were much better than expected in the third quarter. And maybe we were too good. We had a lot of new sites kind of get up and running. And so that kind of added an impact to some degree on kind of what we saw in the fourth quarter relative to that. But no read-throughs per se, no impacts on gross margins as you mentioned. And we still feel very good about the EPi-Sense product line for the full year of 2018.

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

Got it. And finally, Mike. In terms of ATLAS, and forgive me if I misheard this, in my -- as I was writing my notes, you said 500 patients enrolled, and maybe at 550 or so patients there is an interim analysis and then look at how the trial design should be. Maybe I misheard it, but, Mike, in case I heard it right, help me understand ATLAS. It's a 2:1 randomized AtriClip and drug therapy. The primary endpoint is, if I remember correctly, just complication rates. Why would a trial redesign, even from a patient perspective, any additional color there would be greatly appreciated.

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

So maybe I misspoke, it's not a trial redesign. So right now, that is a -- it's a company-sponsored trial that was done for generating data so that we could get a feel for what was the impact of putting a clip on prophylactically on patients that did not have Afib. And you're right, it is randomized 2:1. And so what we're doing is, we're looking at that data, and then we're looking at the spend relative to where can we get the most out of our -- the dollars spent towards a long-term trial. And what does that trial look like. And we're going to use the information we gathered from this to

really think about how do we look at an IDE trial in the coming years. So this is more of a -- I mean the trial that's being done on these nonAfib patients. And we're really looking at what's the right clip trial for the longer term?

Operator

And our next question comes from the line of Mike Matson with Needham & Company.

David Joshua Saxon - *Needham & Company, LLC, Research Division - Associate*

This is David Saxon on for Mike. So my first question, can you comment on the pricing of the AtriClip FLEX V. And kind of what you're expecting if you might see some sort of price premium versus prior open AtriClip devices?

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

Yes, we do expect the price premium. We're not giving the specific number out. But we do expect a significant or reasonable price premium over the existing clip that's out there today, just because of the engineering unit is a lot value added, that V clip is -- it's taken us almost 4 years to develop and test and put out there. Plus the new handle in the way that the deployment works, just some exceptional engineering by our team. And so we will be getting -- or charging more for that.

David Joshua Saxon - *Needham & Company, LLC, Research Division - Associate*

Okay, great. And then just a follow-up on the training comments you made. I guess, how quickly do you think you can kind of ramp up your capacity? Is that a 2018 event? Or more into 2019?

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

It's not as much about ramping up capacity per se. But it's about providing different options for different people for training. So it's getting more intimate with them at various different level, supporting societies and the various different training courses that they're running in conjunction with what we're doing. We do about one per month, which is about the cadence we can do with the faculty that we've got. We're trying to get new faculty on board that might be able to increase that, specifically focused on the CABG area. But I anticipate really -- we're really trying to leverage the societies and the academic centers as well to do kind of short courses and things like that also that can add value and can be additive to the approach that we've done ourselves.

Operator

And that concludes our question-and-answer session for today. I would like to turn the call back over to Mike Carrel for any closing comments.

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

Great. Thank you, everybody, for joining today. And we look forward to a very strong 2018. Have a great evening.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a good day.