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ATRC - Q1 2018 AtriCure Inc Earnings Call

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## PRESENTATION

**Operator**

Good afternoon, and welcome to AtriCure's First Quarter 2018 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.

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**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?

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

Thanks, Lynn. Good afternoon, everyone, and thank you for joining us. We are off to a solid start in 2018. Total revenue for the quarter was $47 million reflecting growth of 14% over the first quarter of last year. Our top line performance was largely driven by the strength of our U.S. open and appendage management products, with our appendage management franchise continuing to demonstrate significant and meaningful growth.

We are reiterating our 2018 revenue expectations for year-over-year growth of 9% to 12%.

In addition to strong first quarter sales, we had solid enrollment in the CONVERGE trial, and we're confident in our ability to complete enrollment in this important clinical trial in the very near future.

Turning to our product pipeline and platforms, we are continuing to build our portfolio with products that expand our reach and impact worldwide. This is particularly evident in our appendage management franchise, formerly referred to as the AtriClip franchise.

Recent launches of the AtriClip PRO V and FLEX V products have driven expansion into new accounts, and importantly, they have maintained strong pricing due to the incremental value they bring to clinicians.

Since its launch last year, the AtriClip PRO V device has been highly additive to our product portfolio. As you may recall, the AtriClip PRO V offers an open-ended design combined with a tip-first closure mechanism to enable easier navigation and placement when operating in a minimally invasive procedure. It is also 1/3 of the height profile of the original AtriClip device. So it is easier to visualize during placement. Experience and feedback continues to be overwhelmingly positive, with the AtriClip PRO V going into many new accounts in the first quarter. We expect increasing contribution from AtriClip PRO V as the year progresses.

Further building on the AtriClip platform, we received FDA clearance of the AtriClip FLEX V device in February and subsequently launched in early March. The AtriClip FLEX V is our next-generation open-chest AtriClip device, which leverages the same technology we developed for the AtriClip PRO V. This includes a lower profile implant, an easier-to-use delivery system and a trigger release deployment mechanism, the first of its kind in the AtriClip family. We believe that the AtriClip FLEX V device will help us grow adoption of the left atrial appendage management in our open procedures. In a few short weeks, we have already seen many new customers adopt the AtriClip FLEX V.

As we look to our pipeline, the V-shaped AtriClip platform is the foundation of our development efforts and future innovation, which utilize increasingly less invasive applications for the left atrial appendage management.

We continue to make significant advancements in this area and anticipate launching the AtriClip PRO X device for sub-xiphoid applications in early 2019. The AtriClip PRO X device will provide the benefit of excluding the LAA through the same sub-xiphoid incisions used to perform the convergent ablation procedure.

In the area of clinical science, we also continue to make important and meaningful progress. The CONVERGE trial remains our top priority. We are currently at 124 patients enrolled across 25 sites, and we are confident in our ability to complete enrollment of the full 153 patients in line with our midyear goal. We also expect to complete enrollment in the FROST trial, in the second half of the year. We have started reenrolling patients in DEEP, and we continue to work collaboratively with the FDA to obtain final clearance to move forward for full enrollment of the trial.

As most of you know, we remain well positioned as a leader in the market to address the many Afib patients, who too often go untreated in a concomitant setting. We expect the meaningful activities of education and training and the data from leading medical institutions and societies will ultimately influence care and support growing procedural volumes.

The clinician community is increasingly recognizing the benefits of surgical ablation and the downside of nontreatment, and we are well positioned to take advantage of these market tailwinds.

On the training and educational front, we have training sessions planned throughout -- through 2018, both in the U.S. and Europe. Even after many years, we are encouraged by the strong interest in our courses. They quickly fill up and have prompted the addition of significantly more hands-on programs. We remain committed to working towards improving adoption of surgical ablation in a concomitant setting.

You may have seen the save-the-date notice for upcoming analysts meeting on the morning of June 26 to discuss in more detail our product pipeline, our clinical trial progress and the trends driving our business. 3 leading physicians will offer their perspective on broad market opportunity with specific focus areas.

Dr. Marc Gillinov, a thought leader in the industry, is the Chairman of the Department of Thoracic and Cardiovascular Surgery at Cleveland Clinic and Surgical Director of the Center for Atrial Fibrillation at Cleveland Clinic. He will cover broad trends in cardiac surgery, the treatment paradigm for open procedures and the recent guidelines, including why treatment is important during concomitant cardiac surgery. Dr. Gillinov has an extensive experience with our appendage management products as well as other products and he will share his thoughts on the importance of treating the left atrial appendage.

Dr. David DeLurgio is an electrophysiologist at Emory and our principal investigator for the CONVERGE trial. Dr. DeLurgio will cover why EP and surgeon collaboration drives better care and why a team approach to Afib is important. As a CONVERGE trial PI, he is uniquely positioned to provide deeper insights into our clinical trial and what it means for care over the long term.

And finally, Dr. Marc Gerdisch is the chief of cardiovascular and thoracic surgery and co-director of the Heart Valve Center and Atrial Fibrillation program at Franciscan St. Francis Health. Dr. Gerdisch has been a key physician trainer for more than 3 years and has also been a lead investigator and the highest enroller in both our AtriClip PRO V and ATLAS studies as well as our postapproval study to ablate. He will share his experience as a trainer and his views on how collaborative approach can provide greater access to the care for Afib patients.

We are looking forward to an insightful and productive morning, and we hope that you can join us either in person or via webcast.

With that, I will now turn the call over to Andy Wade, our Chief Financial Officer, then we'll return for closing comments.

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

Thank you, Mike. For the first quarter of 2018, revenue increased 13.9% on a GAAP basis to $47 million. On a constant currency basis, worldwide revenue increased 12%.

Revenue from product sales in the U.S. was $38.4 million, an increase of 15.5% from the first quarter of 2017.

Revenue from open-chest ablation-related products in the U.S. increased by approximately $1.9 million to $17.6 million, representing growth of 11.9%, driven by both RF and cryo product sales growth.

U.S. sales of products used in minimally invasive procedures was $8.6 million in the first quarter, up 4%. EPi-Sense product growth was a little slower than expected as new accounts get up to speed and learn to drive consistent collaboration between EPs and surgeons. The legacy MIS business stabilized in the first quarter.

U.S. sales of appendage management products during the first quarter of 2018 were $11.8 million as compared to $8.7 million for the first quarter of 2017, an increase of 35.6%. This increase was driven mostly by volume, as we sold more than 10,000 clips in a single quarter for the first time.

We remain confident in strong and sustained growth rates for both open and MIS appendage management products.

Before turning to our international business, and as you may have noticed in Mike's commentary, we have begun referring to our AtriClip franchise as appendage management, as we believe it is a more accurate description of our products.

International revenue grew to $8.6 million, up 6.9% on a GAAP basis and down 2.5% on a constant currency basis as compared to the first quarter of 2017.

While we had strong performances from Japan, Italy, the U.K., and the Nordic countries, we had no sales through the distributor in China this quarter. We have touched on the distributor relationship in China on previous calls and continue to work to improve our position in this market. We are confident that our business in China will return to normalized levels for the remainder of the year.

Gross margin for the first quarter of 2018 was 73.4% as compared with 72.7% for the first quarter of 2017, due primarily to robust U.S. sales.

Operating expenses increased 10.8% or approximately $4.3 million from $39.7 million for the first quarter of 2017 to $43.9 million for the first quarter of 2018.

Research and development expenses, which include clinical and regulatory activities were $9.1 million for the first quarter of 2018 or 19% of sales, a $500,000 decrease from the first quarter of 2017. Both clinical trial and product development spend was relatively consistent between years, while outside consulting decreased.

SG&A expenses increased approximately $4.8 million from the first quarter of 2017 to a total of $34.9 million or 74% of sales. The increase was primarily due to personnel additions in our domestic and international sales organizations as well as a significant increase in legal expenses, primarily related to the DOJ investigation disclosed in our 10-K filed in late February.

Our adjusted EBITDA loss was approximately $3.3 million this quarter compared to a $3.7 million adjusted EBITDA loss for the first quarter of 2017.

Our net loss per share was $0.31 for the first quarter of 2018 compared to $0.32 for the first quarter of 2017.

We ended the quarter with approximately $36 million in cash, cash equivalents and investments. As a reminder, our cash burn is seasonally higher in the first quarter due to year-end variable compensation payouts, heavy trade show spend and internal training meetings.

As discussed on our last call, we closed on an updated credit facility with Silicon Valley Bank in February, resulting in approximately $15 million in additional cash. We continue to believe that our current cash and investments, along with the access to additional borrowings under the credit facility will bridge our operations to becoming cash flow positive.

Lastly, we are reiterating our guidance for 2018. We anticipate top line growth of approximately 9% to 12% year-over-year or approximately $190 million to $196 million on a GAAP basis. We anticipate gross margin to be approximately 72.5% to 73.5% for the year based on current trends and investments to support our growth. The bottom end of this range represents a slight increase from the 2017 reported gross margin. We are still targeting long-term gross margins of 75%.

We expect R&D to be 17% to 19% of sales, a slight improvement compared to 2017. Significant investments in this area include the CONVERGE trial, other clinical science activities and R&D pipeline development.

We expect SG&A to be roughly 67% to 69% of sales in 2018. The overall increase in SG&A expense is driven by investment in our worldwide sales team and training and education expenses, along with heavier legal expenses.

We expect adjusted EBITDA for 2018 to be positive, a marked improvement from the adjusted EBITDA loss of $5.3 million reported for 2017. A key watch item that may influence our ability to achieve our adjusted EBITDA goal is legal costs, which accounted for over $1 million of expense this quarter and largely related to the DOJ investigation.

While we anticipate our spend to decrease substantially in the coming quarters, we cannot be sure as to the exact timing of expense, which may be incurred throughout the rest of 2018.

We remain confident in our compliance programs and our commitment to build ethical business practices. We continue to anticipate the adjusted EBITDA loss to be heaviest in the beginning of the year with an expected loss of approximately 0 to $1 million in Q2, which translates to a loss per share in the range of $0.22 to $0.26.

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. In closing, we are extremely pleased with our first quarter performance and our start to 2018. Our mission is simple: we are intent on decreasing the global Afib epidemic and healing the lives of those affected. We are successfully building a portfolio of products with excellent clinical data that expands our reach and benefits patients worldwide.

With that, we will open up the call for questions. Operator?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Matthew O'Brien with Piper Jaffray.

**Matthew Oliver O'Brien** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

I guess just for starters, given the strength that you saw in the business on the top line here in Q1, toughest comp of the year, comps are easy throughout the remainder of the year. Why stick with -- and I know we are early in the year, but why stick with guidance? Or should you just start to -- or should we just be kind of moving from the midpoint of that range or thinking about that, it's more likely kind of the lower end to maybe even the upper end in terms of how we are modeling the top line for the remainder of the year?

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

Yes. I think that the reason is, I mean, it's early in the year. Obviously, we had a great first quarter. We feel very good about it and looking at the year. But I think it's the appropriate thing to do, to kind of keep guidance where it is right now. And we'll kind of see how the second quarter shapes out.

**Matthew Oliver O'Brien** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay, but nothing specifically that is causing you incremental concern at this point?

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

No. Nothing specifically at all. Just first quarter, and felt like it was kind of 1 quarter behind us. Feel really good about the quarter and the trends that we're seeing overall, obviously especially in the clip franchise that we've got and kind of looking forward, but just wanted to feel like let's wait till see what happens in Q2 first before we make that change.

**Matthew Oliver O'Brien** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. And then as the follow-up, and Andy, forgive me, I'm trying to run through the model and did a couple of calls, so haven't gotten there yet. But in looking at the gross margin performance of the business, very strong in the quarter, I'm assuming it was largely clip-related with product benefit that you got there, probably mix benefit that you got there. But for that metric specifically, shouldn't we assume that it's something around this level, if not higher for the rest of the year? And then how do you reconcile the revenue growth -- or sorry, the revenue numbers that you're sticking with and then the EBITDA commentary with that additional legal spend plus some extra sales additions as well?

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

Yes, so let me go back to the margin question, so most of the high-level performance this quarter was really driven by mix, as you said, but I would say it's a little bit differently the U.S. sales being a higher mix of overall sales was the bigger driver there. So that's part of the reason why the guidance on the margin line is the same as what it was initially. I would not assume that that's the new normal as we get a little bit heavier mix in OUS as the rest of the year goes on. That will have a little bit of a different impact on margin. And then what was the last part of your question, Matt, I'm sorry?

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**Matthew Oliver O'Brien** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Yes, sticking with the revenue guidance for the year with some additional spend in SG&A for the legal cost plus some extra heads, just help us reconcile how you are still going to get the EBITDA positive for the full year.

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

Matt, some of it is a little bit how Mike described your question on the revenue side. There is 3 more quarters go here and different moving parts, Matt. So at this point, based on the work that we've done behind the scenes and the trends that we've seen in other areas of spend, we felt comfortable to stick with that break even. Again, the biggest risk item is going to be legal. So as that changes, we will be able to provide a little bit more update as we go forward in the next couple of quarters.

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

I think that's the critical piece, Matt, to add to what Andy said is, right now, obviously, we've done everything we can, complied with the DOJ and gotten back to them and spent a lot of money on the legal fees. We've submitted everything at this point that they've asked for. We're kind of in a waiting period. Depending on the timing of when they come back is dependent upon what that spend level looks like for the rest of the year. And so at this point, and it really -- it comes down to timing. If they come back early rather than later and we're spending more legal, then we will talk about that on the third quarters. We want to caution everybody to be aware of it. But right now, we're in a decent spot, if we don't have much more uptick on the legal spend going forward.

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**Operator**

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

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

Can you hear me okay?

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

Yes.

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

Yes.

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

Super. I wanted to start Mike with -- sorry, with appendage management as you're calling it. It's a more difficult to say than AtriClip. So I need to stick with AtriClip.

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

You can stick with it.

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

That business accelerated, and it doesn't surprise me a whole lot because of the work that we've done. But the level at which you grew that business did surprise me a little bit and hard to model that level going forward. But you sound really bullish about the business. So perhaps you could frame your answer in the context of where you are across the different buckets of your business in terms of penetration, FLEX and open, FLEX and minimally invasive. I would assume FLEX and sub-xiphoid CONVERGE procedure is really, really well. But insofar as can you sort of give us sort of what any in your end in each one of those that may help us frame sort of what is left in an opportunity that seems to be still in the early inning, generally speaking.

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

Yes. I think on a couple of points, so on the open side of our business, we saw robust growth around the clip on volume and units across the board. So it's across each one of the areas that you just described. First on the open side of the business, as the guidelines continue to make their headway kind of into the numbers overall in the open side of the business, more and more people realize that treating the appendage is an important thing to do. In addition to that, we get the benefit overall of other companies that are talking about managing the appendage endocardially as well. So just knowing that that's an important thing to do, you've already got the chest open and you're looking at it, it's becoming much more of a standard of care that they need to manage it. Two, related to that, we haven't sold many FLEX Vs yet on the open side of the business. But we do believe that that's going to have a dramatic impact on the CABG area, where there is almost no penetration. So to give you context like you're asking for, there are over 300,000 patients that go into the OR every year for treatment in cardiac surgery. And last year, we sold 34,000 clips in total, about 27,000 to 28,000 of those clips were open clips and so -- and of those open clips, probably less than 24,000 were in the U.S. So you're talking about very low penetration to overall cardiac surgery. If you look at just the Afib patients in the U.S., of those 300,000 it's anywhere between 80,000 or 90,000 or so patients. So again, lots of room for growth to manage the appendage in that scenario. So we feel like there's obviously kind of a long way to go and the FLEX V is going to help us in the area that's the least penetrated, which is the CABG portion of the business. When you look at the minimally invasive side, the PRO V is really enabling us to get into more complicated cases than we were in before, but we're also seeing growth in the PRO2 as well, which is because it's able to go through the trocar like the PRO Vs, and the 2 of those are continuing to see strong growth in attachment not only to MIS, but like you're mentioning under the CONVERGE ones as well.

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

It's great color. I'm assuming you will go over that in more detail at the analyst meeting, so looking forward to that. As a follow-up to that, in the past, I guess I've been thinking about the ablation business as an opportunity for you to pull through sales of appendage management of AtriClip. It almost feels like maybe now given the success of AtriClip that it could be the opposite as you're developing these products and demand is clearly high, are you pulling through especially in maybe some of the procedures in open like CABG, you mentioned that have a lower penetration? Are you seeing an uptick in interest for physicians to go to training sessions to do CABG and aortic more now that they have what they consider to be a really good product on the clip side?

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

I'd say that it's a really insightful thought. And that your -- yes, that's one of the reasons that people do get excited about coming into the business. I think the guidelines combined with what they see on the clip side, I don't think it's just they come because of the clip per se. I think they're coming because they realize that they need to treat these patients. The data is out there that's showing that these patients -- there's lots of studies that have come out in the last year that show that if you treat or do an ablation during the time of concomitant surgery, your patient has a much higher chance of living over a 1- and 2-year period. The survivability is 42% greater, so significantly better, if you treat the Afib at the time of surgery. And I'd say that's probably driving it more so. But the clip is always kind of used with their first move because it's the easiest thing for them to do. So you're right in the sense that you put the clip on first and then they kind of graduate to the next level of doing more ablation lines after that.

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**Operator**

Our next question comes from the line of David Saxon with Needham & Company.

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

Just wanted to look at the international business for a sec. Do you have any plans to enter into additional countries or regions? And then was there anything specific that happened in China?

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

Yes. So from a country standpoint, the way our strategies are now is that we did actually get clip and cryo into the Japanese market over the last 18 months. Japan, it continues to be a very strong performer for us, the #2 country in the world, and really we're trying to take advantage of those new products there. Australia and South Korea, where we've been there for a long time, we are beginning to get minimally invasive products actually into those markets and procedures being done. So we're seeing really good and strong growth rates there. And the China market, we've had kind of a volatile kind of quarter-to-quarter with our distributor we've had there for over 14 years and so this was -- obviously, we had a good quarter on everything else. Unfortunately, we did not get an order from them this quarter, but we feel very confident in our ability to deliver on good revenue numbers for the remainder of the year. So I think we're in a really good spot for the rest of the year without getting into too many specifics, but it gives you context to that, and it was a good quarter to not get it from our standpoint. In terms of other markets that we are going into, it's really about taking our existing products into most of the countries we're in. We sell in 50 countries today, pretty much most major countries in Europe and in Asia, and so we're really focused in those areas of the world, and it's about just getting new products. So for example, in Europe, we're very focused on trying to get the V products because we don't have CE mark on those products yet, and we're working through the regulatory process to get those in market as fast as possible.

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

Excellent. Thanks for the color. And then just from a modeling perspective, with the term loan from Silicon Valley Bank, I think last quarter you guided to 3.8 in interest expense. Do that still hold? And then how should we think of interest expense in 2019 and 2020?

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

Yes, the comments would still remain the same. So -- and we will be in interest-only for quite a while. So you're okay thinking about that consistently in 2018, 2019 and then obviously, we will start payback as you start to get into 2020 and then interest expense will come down sort of pro rata with that.

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**Operator**

Our next question comes from the line of Danielle Antalffy with Leerink Partners.

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

Mike, I wondered I was hoping if you could comment a little bit on the open business. You had a pretty strong quarter and this was off a pretty tough comp. So I just wanted to see if you could talk a little bit about, do you feel that business is now sustainably back on track and I don't want to be too dramatic about it, I guess, but last quarter, you had -- it looks like growth was basically in line with what we saw last quarter. In the prior 12 months, you had some volatility in Q3 of last year and Q4 of 2016. So just wondering if it feels like that business is kind of back on this double-digit growth trajectory or call it high single-digit to 10% growth trajectory. Anything you can say there not trying to give us guidance specifically for the business.

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

So -- and without giving specific guidance, like you said, I mean, we are not going to kind of tag ourselves to a number per se, but the business is very strong. More and more people are treating now. We feel that the guidelines and the work we've done on the educational and training front have really kind of dovetailed and worked really well together. More people are doing more ablations, treating these patients better. They're completing the training and going off and sticking to doing it long term. So I do think that if you look at things over an annualized basis, I think you'll see consistency year-over-year, and I anticipate that we'll have a really good and strong year in the open business this year as well.

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

And when you -- see you've talked a little bit in the past about the training programs and that seems to be a good or seemingly good leading indicator, at least about the interest around the open ablation procedure itself. What's the make-up of the attendees of those programs? I mean, is it largely at this point, existing users that are coming back for deeper training and education on some of the less penetrated procedures like CABG and aortic? Or are these new to open ablation altogether? What are you seeing there? Are you tracking new folks? Or is it...

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

It's both. I mean, it's an excellent question. And we do track both in terms to the courses. There are people who want to come back for 2, 3 courses. They learn a little bit, they get certain part of the way there, but want to kind of hear some more or talk again about what they heard a year ago and kind of be refreshed on it, build more relationships with other surgeons who are doing it and hear other experiences. So it's about 50-50 of new versus existing people. They are usually from existing sites, and we sell into pretty much every cardiac surgery center in the country. So it's usually new people at those sites. Not necessarily a new site per se. And a lot of them, like you are mentioning, are people that maybe they're really focused and do heavily CABG surgery. So therefore, that's a really big focus of ours. One of the big attractions right now that we are doing is that we pretty much have cadavers at every one of these training courses and people wind up staying an extra day to kind of get hands-on training. And we've been -- that's been incredibly successful, especially as people move into the CABG arena, they're not as comfortable or not as used to kind of going behind the heart like they have to do, to do all the ablations that they need to do with this. And so it's really -- and that's been a big draw and pull for everybody. And we've seen that both in the U.S. and also on the international scale as well.

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**Operator**

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

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

It's Drew on for Rick. I Just wanted to start, the long-awaited CABANA trial is going to be presented at HRS soon and just granted, it's not an apples-to-apple study, not the same AF population and it's different technology, but are there any readouts for AtriCure from Cabana? I mean what are your general thoughts on the potential impact for AF? And could this potentially have like the positive impact similar to what WATCHMAN might have done for just how clinicians do treating the appendage? And is there anything else may be that we should sensitive to coming out of HRS?

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

Yes, I think that's going to be the talk of HRS. I think you're absolutely correct. In fact, I just spent some time with Dr. Marrouche from the University in Utah recently who is one of the authors on it, and just -- I think that's going to be the talk. I do think they will have positive effects on the treatment for sure. And I think that it kind of dovetails. I don't know if that's one trial per se, but it's another piece that adds to all the data that's out there already on concomitant surgery to get people actually treat when they're doing concomitant surgery, because these patients live longer. And I think that this is further validation of that. May be like you said with different technologies in a different setting, but I think it's further validation on that side. So it will be a lot of fun at HRS to kind of hear the conversations, kind of hear how EPs and cardiologists are thinking about it. But I do think that you're correct in your assumption that I think it's going to be a lot like the effect of the appendage management, where overall you're just going to have -- patients are going to get treated better because of this.

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

All right. And just with EPi-Sense, I think you mentioned that growth slowed a little bit in the quarter, but then your legacy MIS business stabilized. Can you just talk about the legacy MIS business? Was it just the stabilization driven by easier comps? Or was there any real positive underlying trends that were driving the stabilization?

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

I mean most of that really just had to do with -- if you recall back in the third and fourth quarter of last year between the hurricane and the fires out west that had a negative impact on some of the growth rates relative to that. And as we talked about on the fourth quarter call, both earlier in the year, we anticipated a lot of that to begin to come back over time. It wasn't going to come back overnight, and that's what you're seeing in the legacy MIS. We're not getting a lot of net new accounts per se. It's just existing accounts kind of coming back.

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**Operator**

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

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

So Mike, can you guys hear me all right?

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

Yes.

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

Okay. My apologies if some of this has already been answered. Mike, just hollering in between earnings calls. A bunch of questions on AtriClip, Mike. So I just went back and looked at some numbers, Mike. From Q1 to Q4 in 2016, you just saw roughly a 22% jump in the quarterly run rate for U.S. AtriClip. And I'll just stick with AtriClip for now, the terminology. I looked at 2017, it's the same run rate. Question #1, do you see any reason why 2018 your quarterly run rate should be different? I respect the fact that you haven't given guidance per se. What I'm curious about is, are you looking at growing wider or deeper in accounts? Would there be any shift in utilization? Any color you can provide there would be greatly appreciated.

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

I mean, the only comment I can say there is that the AtriClip franchise continues to be strong for several different reasons. Again, I think that the guidelines have really brought people to training courses. You got the appendage management discussions that are just more broadly being adopted worldwide. And I think that has had a positive impact without giving specific guidance for that franchise. In addition to that, on top of what we just mentioned, we've also continued to innovate in that area. So we've had new products to bring to market that have been in the pipeline for many, many years and so they are starting to kind of come out into the market. The V clip had been under development for over 4 years, 5 years and finally came to market, first the PRO V and now the FLEX V. So I think the combination of the market in general and the macro environment helping us relative to that, plus new product introductions that we have, being able to attack the appendage from different spaces in different areas is really what's driving the overall growth there. In terms of getting it, I'm not going to say we're going to be consistently in the areas that we've been over the last 8 quarters. I'm not necessarily going to commit to that. But I can say that we do feel comfortable that it's going to be continued strong growth overall in the AtriClip franchise.

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

Got it. And Mike, just trying to again look at it from a different angle. 34,000 clips were sold in FY '17, 10,000 in Q1 '18. If I just use a ballpark of, let's say, 40,000 to 50,000 clips in FY '18 because these are sold. Mike, can you give us some color on the normalized ratio of clips implanted versus sold? I guess what I'm trying to understand is there any...

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

It's almost one to one. I mean, obviously, we're not giving a number for -- the overall number for the year. You're right on the total number of units we sold, are about that in the first quarter. But we don't get stocking order on the clip. It's typically people buy packages of them to make sure they cover sizes, but then it's a utilization base. So as they use them, if they use a bunch of 40s, they wind up ordering a bunch of 40s to kind of replace the ones that they just used in their inventory, but we are in most hospitals today, and we will continue to open up new hospitals. I wouldn't say -- we are not in every hospital with the clip that we are with our ablation devices. But we do have a lot of hospitals that utilize it, and it's pretty much what you see sold is pretty much what's used.

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

Got it. And finally, Mike, and maybe you all have already mentioned this, at what point do you all expect the issues with the Chinese distributor, and I don't know if you talked about the Russia issue. But when do you think China settles down or normalizes from a business perspective? Any color would be great.

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

As I mentioned a little bit earlier about the China issue is that I feel like we're going to have a good strong back half of the year here. Or from now going forward, I feel like we're in a very good position. And so I think we'll be more normalized as the year kind of closes out.

**Operator**

I'm showing no further questions in queue at this time. I would like to turn the call back to Mr. Carrel for closing remarks.

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

Great. Well, again, thank you, everyone, for participating in the call today, and we look forward to seeing many of you, hopefully at the Analyst and Investor Day on June 26 in New York. Have a wonderful evening.

**Operator**

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