



## **Chindex International Inc (CHDX) 3Q08 Results Conference Call February 08, 2008**

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### **Participants**

Roberta Lipson, Chief Executive Officer  
Lawrence Pemble, Executive Vice President and Chief Financial Officer

### **Question and Answer Session**

#### **Operator**

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. [OPERATOR INSTRUCTIONS] Our first question is coming from Eugene Teal, a private investor. Please state your question.

#### **Eugene Teal – Private Investor**

Congratulations on a smashing result. I'm a McKinsey consultant and a former CFO of medical robotics company. I find your results to be the extraordinary. The question is how significant is intuitive surgical going to be your future success?

#### **Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Thank you, Mr. Teal. We are really excited about the potential for intuitive in China. Most our sales so far have been in Hong Kong because there was not a need for a separate product registration in that jurisdiction. But, as we mentioned on the call, we've been waiting for the final registration program here in China and we only have one unit installed within the mainland, that's the 301 Hospital, which is the unit that's been designated for investigation purposes for the fixed prudent drug administration approval process. We've seen amazing productivity out of that unit and as you know that intuitive surgical also has a fairly considerable income stream. So, if that's anything – any sign of things to come with future customers, I think it's going to be very rewarding. We've been working on increasing the product awareness in the market here and of course our super user who's already been using the robot in Beijing for the last six months has so much of academic presentation. So we know that there is a substantial pipeline there, we expect it to be a real important product. But that having been said, we don't like to base our results – we try hard to spread it over the portfolio products and it will certainly be important to us but, it will be one among many great products and product lines.

#### **Eugene Teal – Private Investor**

Thank you very much.

#### **Operator**

Thank you. Our next question is coming from Hamed Khorsand with BWS Financial

#### **Hamed Khorsand – BWS Financial**

Good morning. Great quarter. My question is regarding your ordering trends during the quarter. You said that most of it occurred in the period where your accounts [indiscernible] went up. Was there a specific event that caused that? Is there a change in the ordering sequence from your customers?

**Lawrence Pemble – Chindex International Inc – Executive Vice President and Chief Financial Officer**

No, it's not. Actually, I mean we see this quite regularly. We see it's particularly in the capital equipment in the medical products division, obviously, where we see significant fluctuation in merchandise inventory, AR & AP from period to period. We obviously – this was the calendar yearend, it was a great deal of pressure to have our revenue cycle completed by yearend in advance of the holidays and all that kind of things. So, it's quite normal for us to have in a sales environment like that to have an accumulation of orders like the end of the period and the resulting overflow, if you will, into inventory that then gets subsequently shifted in the following quarter and as well as an increase in AR & AP.

**Hamed Khorsand – BWS Financial**

Now, is there any change in the timeline for the two facilities being opened – the hospitals in Beijing and Guangzhou?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

No. I think that we're on course so far, things are moving along nicely. As I mentioned, we're at the beginning of the process and so it's hard to say what will happen over the two something like your development process of those – these two large projects. But, we expect – so far so good, we're moving along well.

**Hamed Khorsand – BWS Financial**

Your increase in patients visiting your hospitals during the quarter. Is that coming from insurance allowances or what's driving that? The patients are coming to you.

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Well, I think that as our brand becomes more and more well-known as the Chinese economy continues to boom and more and more people can afford premium healthcare, we have and we will consider – continue to see our patient numbers grow. There has been no change in the level of reimbursement or the amount of patients that are covered by insurance, except we have – we do see a growing number of local Chinese patients being covered by insurances as insurance products become more available in China. But in general, I think it's just following the trend of the product becoming better known, our hospital brand becoming better known and improved economy here.

**Hamed Khorsand – BWS Financial**

Okay. Thank you

**Operator**

[OPERATOR INSTRUCTIONS] Our next question is coming from Anthony Patron with Max Group.

**Anthony Patron – Max Group**

Thank you for taking my questions and congratulations on the quarter. Just a couple of housekeeping here, what was the impact from foreign currency translation in the quarter?

**Lawrence Pemble – Chindex International Inc – Executive Vice President and Chief Financial Officer**

Foreign currency translation, well, if you look on the segment note, I think you can pull out the FX gain in the quarter was 517,000.

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**Anthony Patron – Max Group**

Okay, great. And in terms of moving onto da Vinci in terms of the registrations there, is that for both generations of da Vinci, OPS and the standard generation?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Right, the process right now – we believe will end up at end of the process with the registration.

**Anthony Patron – Max Group**

Okay. And you previously mentioned timetables on that and you mentioned you could see some impact in mainland China before the end of the year. Would you be expecting – I guess to shift back from regulatory bodies before the second half?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Well, our fiscal year is April 1st and so what we mentioned was that we'll see revenues in the coming fiscal year as a result of the registration. It's – there's a huge backlog at the FFDA right now and it's hard to say exactly when we'll see the paperwork but we did just pass the really important hurdle and there was an expert committee review process, I think it was about a week ago, and we passed that process. And now what's left is really documentary review and pushing the papers through the system and if there were no backlogs that would happen in three weeks. But, we are not sure exactly when we'll see that – those papers through. So and there's no explaining or telling in advance what the delay will be. So, we'll be sure to let you know as soon as we get the approval in our hand.

**Anthony Patron – Max Group**

Sure, sure. And I guess in the way of that, how much would you be preparing I guess the sales force and how much marketing will you be doing upon approval or will you begin that process before?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

So we've already been well into the process of educating the market. There is so much that we can do from an academic standpoint. Our customers have been attending international meetings and hearings all about the great success of the 301 Hospital and also with our users in Hong Kong. So the market is well primed and our sales force is trumping it a bit.

**Anthony Patron – Max Group**

Moving on, Roberta, I was reading the transcript from last quarter and you mentioned or from several quarters ago about Chinese policy and as you pushed there to consolidate the distribution industry which is still fragmented with a lot of small distributors, one of the things you mentioned was the possibility of the government pressuring small players by not renewing licenses. Have you seen this trend develop at all and if not, what kind of changes are you seeing in the marketplace?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Yes, but I don't have some numbers on it. But I really do think it's a process that is happening and I've heard anecdotal things about licenses not being renewed and certainly they've raised the bar for good distribution practices and ISO accreditation etcetera for distributors. So, it's harder and harder for some of the small groups to get approved.

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**Anthony Patron – Max Group**

Okay. And finally on the license agreements, any new developments with additional license agreements and just to follow-up what was the contribution from I guess the existing management agreement in Wuxi?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Still no revenue contribution, they're still waiting for the final local approvals for opening.

**Anthony Patron – Max Group**

Okay, any additional developments with other clinics?

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Moving along on both the Pudong clinic and the Guangzhou clinic with opening in sight for the next quarter, meaning yeah, our Q1 fiscal 2008.

**Anthony Patron – Max Group**

Thank you for taking my questions.

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Pleasure.

**Operator:**

[Operator Instructions] It appears we have no further questions. I'd like to turn the floor back over to management for any closing comments.

**Roberta Lipson – Chindex International Inc – Chief Executive Officer**

Well, I'd like to thank you all for listening and hopefully we can continue to issue sparkling results quarter after quarter. Thanks a lot and Happy Chinese New Year to you all.

**Operator:**

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. We thank you for your participation.

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