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# EDITED TRANSCRIPT

ELGX - Q3 2015 Endologix Inc Earnings Call

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**Chris Chavez** *TriVascular - Chairman, CEO, & President*

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## PRESENTATION

### Operator

Greetings and welcome to the Endologix, Inc. third-quarter 2015 earnings and TriVascular merger conference call.

(Operator Instructions)

I would now like to turn the conference over to your host, Zack Kubow of the Ruth Group. Thank you. You may now begin.

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**Zack Kubow** - *Endologix, Inc. - IR, The Ruth Group*

Thanks, operator, and thanks, everyone, for participating in today's call. Joining me from the Company are John McDermott, Chief Executive Officer; and Vaseem Mahboob, Chief Financial Officer. Also on the call is Chris Chavez, President and Chief Executive Officer of TriVascular.

This call is also being broadcast live over the internet at [www.Endologix.com](http://www.Endologix.com) and a replay of the call will be available on the Company's website for one year. The webcast of the call includes presentation slides and if you are dialed into the call by phone, I encourage you to also open the webcast at this time in order to view the accompanying slides.

Before we begin, I would like to caution listeners that comments made by Management during this conference call will include forward looking statements within the meaning of federal securities laws. These forward-looking statements involve material risks and uncertainties. For a discussion of risk factors, I encourage you to review the Endologix annual report on Form 10-K and subsequent reports as filed with the Securities and Exchange Commission.

Furthermore, the content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast, October 26, 2015. Endologix undertakes no obligation to revise or update any statements to reflect events or circumstances after the date of this call.

With that said, I'd like to turn the call over to John McDermott.



**John McDermott** - *Endologix, Inc. - CEO*

Thank you, Zack, and good afternoon, everybody. It's an exciting day for us to announce the merger with TriVascular plus review our third-quarter 2015 financial results and business progress.

Turning to slide 2 is our Safe Harbor statements for this conference call and presentation. We encourage you to review this information along with the risk factors discussions contained in our Form 10-K for the fiscal year ended December 31, 2014, and our other filings with the Securities and Exchange Commission.

Before jumping into the merger, I'd like to turn the call over to Vaseem Mahboob, our new Chief Financial Officer. Vaseem will provide a brief overview of our third-quarter financial results and recent progress in the business. We're extremely happy to have Vaseem join the leadership team and believe his deep experience leading the financial operations of large global healthcare businesses will be important as we execute on our growth strategy for the combined company.

Vaseem?

**Vaseem Mahboob** - *Endologix, Inc. - CFO*

Thanks, John. Thank you, John, and good afternoon, everyone. It's my pleasure to be joining the call today, and I look forward to meeting with many of you in person in the coming months.

When I got the call about Endologix and completed my diligence, I was excited about the Company's innovative technology platforms, significant global growth potential, and a strong management team. I believe the proposed merger with TriVascular will only strengthen the Company in all of these areas and I look forward to working with my new colleagues to execute our growth plans.

Turning now to the third-quarter results, total revenue was \$38.2 million, up 7% on a constant currency basis compared to the third-quarter 2014. US revenue was \$26.9 million, down slightly compared to the third-quarter 2014. This decrease was solely due to the temporary postponement of the continued access protocol in our US Nellix IDE clinical study. Excluding the impact of the CAP, our US sales grew 1% over the third quarter in 2014, which was in line with our expectations.

International revenue was \$11.3 million, up 26% on a constant currency basis, including European revenue growth of 32% on a constant currency basis to \$7.8 million. Importantly, we saw continued growth with Nellix sales reaching 663 systems for the quarter, which is up 34% from 2014. Of the 663 Nellix systems sold in the quarter, only 25 were in the US due to the CAP postponement reflecting a 45% increase internationally.

In addition to solid financial results in the third quarter, we were also pleased to receive FDA approval for an additional 50 patients for the Nellix CAP which we expect to begin re-enrolling before the end of the year. Combined with the recent FDA approval of AFX2, we have two positive growth drivers in the US heading into 2016. Outside of the US, we received approval for Nellix in Argentina and anticipate first shipment to our distribution partner around the end of this year in support of a controlled launch in 2016.

We ended the third quarter with a total cash, cash equivalents, and marketable securities of \$68.3 million, and today announced a proposed offering of convertible notes that will further bolster the cash resources of the combined company.

Turning now to guidance, based on our results to date, we are reaffirming our previously issued revenue guidance for 2015. However, it is possible the announcement of the merger with TriVascular may result in some temporary disruption to our business. For 2016, we expect to issue guidance in conjunction with our fourth quarter call, which will be in February 2016.

With that, I will hand the call back to John.

**John McDermott** - *Endologix, Inc. - CEO*

Thanks, Vaseem.

Turning to slide 4, we have outlined the key benefits of the merger across three areas: growth, technology, and synergies. From a growth perspective, the combined sales forces in the US and Europe give us much better coverage in an expanded customer base. We will leverage this expanding team of experienced professionals across our existing portfolios plus drive incremental growth from the multiple anticipated new product launches over the next 24 months. Together we will provide the broadest product offering in AAA and be the only company that enables physicians to pick the best device platform for each individual patient.

On a technology front, the combination of Endologix and TriVascular brings together two innovation leaders with complementary technologies for addressing aortic disorders. Our three unique platforms represent the broadest approved indications for use in endovascular AAA and we've got the clinical data to back it up. In addition to the products and the clinical data, the two companies together have a very deep patent portfolio of 370 issued and pending patents around the world to protect our proprietary technologies.

While the main focus of the merger is driving growth, we expect the combined company will realize significant synergies from the added scale, leveraging best-in-class technology, and strong commercial capabilities. We estimate there are over \$30 million in synergies that will be realized in 2017 and expect the combined business to be accretive to earnings in 2018.

On slide 5, we have outlined the pro forma revenue performance of the combined company from 2009 to 2014. Over this period, we have grown revenue by more than 3.5 times from \$52 million to \$180 million representing a compound annual growth rate of 28%. You can see from the slide the positive trends and momentum of each of the companies, which provide some insight into the consolidated growth potential.

Our expectation is that we can grow the combined business in mid-teens in 2016 minus some impact for integration and then achieve 20% growth in 2017 and beyond based upon the launch of Nellix in the US, the strength of our combined product portfolio, and our expanded global sales organization. The reason each company has been able to grow at rates well above the market is our differentiated technology platforms and the benefits they provide AAA patients.

On slide 6, you can see each of the devices and how they complement each other to provide physicians with the most comprehensive treatment options from a single company. On the left side, we highlight our two EVAR platforms, the TriVascular Ovation and Endologix AFX systems.

At this time, I'd like to invite Chris Chavez, Chairman, CEO, and President of TriVascular, to highlight the key aspects of the Ovation platform. Chris?

**Chris Chavez** - *TriVascular - Chairman, CEO, & President*

Thank you, John, and good afternoon, everyone. This is an important day for TriVascular and for its technology. With extraordinary and committed talent, TriVascular has created the Ovation platform and demonstrated its clinical effectiveness with a large and growing body of impressive clinical evidence.

The Ovation platform has many advantages that include a 14 French ultra-low profile catheter delivery system, flexible PTFE limbs, and a conformable polymer feel sealing ring that creates a custom seal to protect the aortic neck from dilation. This low-profile design and differentiated sealing ring technology will allow physicians to treat a broad range of straightforward and complex anatomies including patients with narrow and tortuous access vessels, short hostile necks, and reverse tapered necks. With the lowest profile FDA approved delivery system, the Ovation system is ideally suited for percutaneous procedures allowing physicians to offer their patients a minimally invasive approach to their procedure.

From the very beginning, TriVascular's mission has been to make EVAR better, safer, less invasive, and available to more patients. This merger further enables the fulfillment of our mission. The merger will dramatically accelerate our ability to realize the true marketing clinical potential of

the Ovation platform by making the technology available sooner to more patients worldwide through a much larger combined sales and service organization.

Before turning the call back to John, I want to strongly state my enthusiasm and support for this merger. Our two companies share a strong culture of innovation in the treatment of aortic disorders, and together we will be well positioned to benefit from a larger sales organization, a broader product portfolio and pipeline. And the ability to provide physicians with an impressive range of innovative technologies to allow them to expand treatment to a significantly larger patient population.

We look forward to working with the Endologix team to complete the merger and integration, and I firmly believe the result will be a stronger company with enhanced growth potential. I will now turn the call back to you, John.

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**John McDermott** - *Endologix, Inc. - CEO*

Thank you, Chris. Turning now to Endologix AFX system.

AFX provides the clinical benefits of anatomical fixation which allows physicians to preserve the aortic bifurcation for future crossover interventions. AFX is also widely recognized as a great device for patients with tight distal aorta in patients with a lot of thrombus in the aneurysm neck.

On the right side, you can see the Endologix Nellix device, which is the first and only EVAS system on the market. Nellix is the only product that completely seals the entire aneurysm sac which enables the treatment of a wide range of anatomies while providing the lowest reported overall endoleak rates. We believe Nellix is uniquely positioned to open up the complex AAA market segment including patients with iliac aneurysms in a variety of complex anatomies. Together, Ovation, AFX, and Nellix enable physicians to treat the most patients within the approved indication for use and represent a powerful combination of technologies from a single company.

As we think about the significant opportunity to drive adoption to these three platforms over the next several years, one of the key factors will be clinical evidence. As outlined on slide 7, the combined company is expected to have nearly 2,700 patients enrolled in prospective clinical trials by the end of 2015. And that number is forecasted to reach almost 4,300 patients over the next few years.

These combined studies include everything from premarket trials to post market real-world registries and LEOPARD, the only head-to-head EVAR study. LIFE is a multi-center post market registry of Ovation patients using a fast track protocol, and LUCY is a first of its kind study leveraging the low-profile design of Ovation to evaluate EVAR in the underserved female population.

Lastly, we plan to start a complex aneurysm study next year using the Nellix together with aortic branch devices. This level of clinical evidence should provide the combined company with the unique ability to demonstrate clinical utility and cost effectiveness across the broad product offering resulting in sustainable competitive advantage.

The combined company will have a more diverse revenue base as outlined on slide 9. Our pro forma revenues for the trailing 12 months ended September 30, 2015, was \$190 million comprised of 68% AFX, 19% Ovation, and 13% Nellix. On a geographic basis, 70% of the combined revenue is from the US with the balance from international markets.

What is interesting about this slide is that our two biggest anticipated growth drivers are Nellix and Ovation, which today represents just over 30% of the combined revenue. We see a lot of growth potential in the future and a nicely diversified revenue mix.

Another key benefit of the proposed merger is the expansion of our global sales force. The combined teams represent a world-class organization with broad endovascular AAA experience and customer relationships.

In the US, the combined team represents over 160 sales representatives and clinical specialists and another 55 in Europe. This will provide significant growth and cross-selling opportunities in 2016 and position us extremely well as we plan for the Nellix launch in the US at the end of 2016. Similarly,

we have complementary sales infrastructure and resources in international markets and our global combined coverage will include 44 countries across five continents.

In addition to a larger well-trained sales force, the combined company will have more customers. In the US, Endologix currently has 787 active hospital accounts, and TriVascular brings an additional 273 representing an increase of 35%. Clearly, there will be some overlapping accounts but the net increase will provide a broader customer base for cross-selling the expanded product offering and driving deeper penetration.

Turning to slide 10, we have strong cadence of new product launches planned over the next 24 months and beyond. In the US, TriVascular is starting to introduce Ovation iX, and Endologix is planning to launch AFX2 at the beginning of next year. This will be followed in late 2016 by the controlled US introduction of Nellix.

In Europe, Ovation iX and AFX2 are expected to be introduced in the first quarter of 2016, and the next generation of Nellix is scheduled for the second quarter 2016. In Asia, we anticipate AFX approval in Japan by the end of this year, and Ovation in 2016, followed by Nellix in 2017.

For the large China market, our current plans are to focus on commercializing Nellix in the 2018 time frame, but there is also considerable interest in both AFX and Ovation in China. In Latin America, we just received the regulatory approval for Nellix in Argentina, and Ovation has received approval in Brazil and Argentina. AFX is already registered in most of the Latin America markets so the combined company should be very well positioned to market all three products in Latin America over the next few years.

Longer term, the TriVascular pipeline also includes Ovation Alto, which is designed to further expand the indications into complex anatomies including patients with very short aortic necks. Also within TriVascular's pipeline are devices to treat thoracic aneurysms and dissections as well as other vascular conditions. The Endologix longer-term pipeline is focused on leveraging the Nellix platform for the treatment of complex anatomies including aneurysms that extend up into the renal arteries. Together, the combined business has a very strong near and long-term new product pipeline that is expected to fuel our growth over the next several years.

On slide 11, we have outlined the key terms of the proposed transaction. Based upon our closing price on Friday, October 23, TriVascular shareholders will receive approximately \$211 million in Endologix stock and cash comprised of approximately 13.56 million Endologix shares and approximately \$24 million in cash. Post close, TriVascular shareholders will own 16.2% of the combined company.

As of June 30, 2015, the combined cash balance between the two companies is approximately \$123 million, and today we announced a \$150 million convertible note financing that we will use to pay down TriVascular's higher cost debt after the transaction closes and for general corporate purposes.

The transaction is subject to customary closing conditions and TriVascular shareholder approval. Based upon our current estimates, we anticipate a closing during the first quarter of 2016.

Slide 12 summarizes the key benefits of the transaction. The combination of Endologix and TriVascular brings together two innovation leaders with complementary technology platforms addressing aortic disorders.

The combined company is expected to have increased revenue growth, which we estimate to be in the mid teens in 2016 less the impact of integration. And then increasing to 20% in 2017 and beyond driven by the launch of Nellix in the US and the strength of the combined product portfolio. The new company will also have the broadest AAA product portfolio in the industry providing physicians and hospitals with the ability to get a wide range of endovascular stent grafts for treating their abdominal aortic patients from a single company.

Next is a larger global sales force with deep endovascular AAA experience and strong customer relationships. There's also a tremendous amount of clinical evidence supporting the expanded product line, and we expect to have over 4,000 patients enrolled in prospective clinical studies by the end of 2017. Lastly, there are meaningful synergies in combining the two businesses, which we expect to reach \$30 million in 2017 and leading to EBITDA accretive in 2018.

We believe this merger creates a powerful new business with a unique value proposition and significant growth potential. Our goal is to increase shareholder value, and we look forward to updating you on our progress at several investor conferences in the coming months. This includes the Credit Suisse Healthcare Conference, Stephens Investment Conference, Stifel Healthcare Conference, and Canaccord Medical Technology Forum, all in November, and the Piper Jaffray Healthcare Conference and Oppenheimer Healthcare Conferences in December. In addition, we will host our annual investor meeting on November 19 in New York in conjunction with the VEITH Symposium.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Brooks West, Piper Jaffray.

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

John and Chris, congratulations to you both.

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### John McDermott - Endologix, Inc. - CEO

Thanks, Brooks.

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

John, it looks like you beat our Nellix number pretty handily. Can you talk about -- you seem to have been your own biggest gating factor in controlling that launch. Can you give us a little bit more granularity in terms of, are you taking your foot off the brakes a little bit and can you also speak to the number of accounts and something on the underlying demand for Nellix? And then I have one follow up.

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### John McDermott - Endologix, Inc. - CEO

Yes, I would say, Brooks, nothing has really changed with Nellix in terms of our commercial approach. In fact, we have tried to continue to be diligent in the training process and gradually bring in more physicians up in certification, so there really hasn't been any change. I wouldn't say we are backing off on our requirements at all. In terms of the number of accounts, we are still on target to reach 200 accounts, maybe slightly better than that by the end of this year. So everything is progressing as we would expect.

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

I guess a question for both John, you, and Chris, you guys have been selling against each other for some time. I am curious now that you are putting the bags together and you look at how you're able to compete against Medtronic, Cook, and Gore, can you give us a little bit of an idea of how the new combined bag matches up against some of the larger market share leaders?

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**John McDermott** - *Endologix, Inc. - CEO*

I can take a swing at that. Actually, if we could go back on the slides real quick. I think, Brooks, the -- look at the slide with the three products. Can we go back here? Let me see if I can page our deck back for the rest of the listeners because what's very compelling is we got more familiar with the product pipeline, it's just how nicely the products complement each other.

As you know already, the Ovation platform is the lowest profile device. It's got some great characteristics treating patients with difficult access, tortuosity. Tortuosity actually has not been a strength of ours either for AFX or Nellix, for that matter. The devices with the sealing ring capabilities, also very good for treating complex necks. And then you jump over to AFX which preserves the bifurcation. You can see how this is very complementary, the only device that can do that. Great for tight distal aortas and uniquely across the category, good for patients with thrombus lined aorta. And then of course Nellix has got its own complete sealing system, ability to treat large iliac aneurysms, which neither of the two devices can do above 25 millimeters, also capable of treating complex anatomies and it has got extremely low endoleak rate. It's really fantastic how the products line up and support each other.

To answer the question, very directly, the way we will compete with the larger companies is we will just have a more comprehensive suite of products to treat each individual patient. I think that's going to give us a competitive advantage. Chris, I don't know if you want to add to that. I'm sorry I went on a little bit.

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**Chris Chavez** - *TriVascular - Chairman, CEO, & President*

John, I think you've covered it. If I were answering it, may be the same answer but from a different angle. I would just start by stating that this market today is dramatically underserved. There's just a very long list of patients that do not have access to EVAR on label, and generally they don't have access because often there is challenging access anatomy, narrow tortuous access vessels, but the issue of hostile neck anatomy is real. So when I step back and I look at the combined portfolio, first in the core business where let's just say where everybody competes, the combined portfolio brings a lot of advantages. First of all, it gives physicians a choice where they can look objectively to see what is better for their patients in this core area. Some of the obvious advantages the portfolio will bring to the table is low profile and the ability to treat even core anatomy with a platform that preserves and protects the aortic neck.

Once you get into the hostile neck anatomy, which is truly underserved, new technology is needed. A new way to treat patients, so I think EVAS, the Nellix platform, and the Ovation platform really change the paradigm in terms of how you treat this hostile anatomy. So I think what you will see is a tremendous amount of clinical evidence that validates and supports the idea that these technologies cannot only treat these patients, but that they offer a durable solution.

When you put all of this together, the ability to go into a physician, to an account, and offer a basket of technology that can address their broad needs through one company. I think it becomes very compelling. And then on top of that when you add the idea that there is a big pipeline behind it and a company committed to research, again it's quite compelling.

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

Thanks, guys. Congratulations again on the merger.

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**Operator**

Chris Pasquale, JPMorgan.

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**Chris Pasquale** - JPMorgan - Analyst

John, I want to start with that \$30 million synergy target. When I do the math, that represents about 14% of the two companies combined SG&A and R&D spend to date. That's a pretty big number. Can you talk a little bit more about the components of that target and how you get there?

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**Vaseem Mahboob** - Endologix, Inc. - CFO

I can take this. It's Vaseem here. The synergies, we have a funnel that's about \$35 million, and I think the three big components to that are \$20 on sales and marketing, which is essentially combining the two sales forces and we have hired a third-party agency to help us with understanding the geography in the US, the territory allocation and the productivity around the sales. We think there's about \$20 million of savings, so synergy opportunity just within the sales and marketing bucket.

We also have \$8 million opportunity on G&A essentially leveraging the footprint that we have on the analogic side but also not having the cost to serve two public companies and have a footprint associated with that. And then the last one here on R&D, we think there's another \$7 million opportunity. And now having said that, I don't want to caveat that whether we are now going to have 100% yield on the entire funnel, so we feel pretty comfortable with the \$30 million synergy target within those three areas.

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**Chris Pasquale** - JPMorgan - Analyst

Okay, is this a case where you felt going into the Nellix launch that you were going to need to significantly invest in building out the US sales force and this gets you there more cheaply than you would have if you had to do it by yourself, or is this going to be an opportunistic way to expand the sales force that you might not have done otherwise?

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**John McDermott** - Endologix, Inc. - CEO

It's a good question, Chris. Absent this opportunity, I would have been reluctant to embark on sales force expansion ahead of the Nellix launch because of the disruption but this is a unique opportunity to increase the team with already experienced talented EVAR sales and clinical people. I do think this is a unique situation, and frankly that's what attracted us initially and it was only until we got to know the company and the people better that we really grew to appreciate just the depth of the technology. I have to say that was -- they have done some great work, and we're very excited to take this product into this bigger sales channel. We will have a bigger sales team and they are already going to be EVAR experienced so it does set us up nice for the Nellix launch at the end of 2016.

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**Chris Pasquale** - JPMorgan - Analyst

Thanks. That's helpful. And then just one last detail related one. I didn't see Endologix shareholder approval listed as a contingency for the deal closing. Is that not required? Is it just on the TriVascular side?

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**John McDermott** - Endologix, Inc. - CEO

Yes, it's not required. We're under the 20% threshold for shareholder vote.

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**Operator**

Rick Wise, Stifel.

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

It's actually Matt Blackman here for Rick. John, I was hoping, you gave a little bit of color on your active account numbers and TriVascular's. Do you have any sense of the overlap in accounts and how much will be truly incremental?

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**John McDermott** - *Endologix, Inc. - CEO*

No, we don't. We could do some high level diligence but given the fact that we're competitors, there's obviously lots of ground rules about the level of information we can share, so we don't have that -- we won't have that until after the deal closes.

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

Okay, but I think the point is you get closer to that 1,200 account number that you've talked about in the past being the high volume EVAR centers. Is that the way to think about it?

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**John McDermott** - *Endologix, Inc. - CEO*

Yes, without being able to see the data and having some commercial familiarity with where I have seen TriVascular be successful, I do see a lot of incremental opportunities. Again, we've got to wait until the deal closes to get into the details of that, but I feel like it does broaden our account base and really opens us up to some doctors and some hospitals where we didn't have a presence before.

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

Okay, and then I just want to confirm, you're going to have when this deal closes something like 160 plus reps. My sense is that, that brings you right in line if not maybe a little bit larger than your bigger three competitors. Any sense of where your other three competitors are in terms of sales force sizes and what this does to you on a relative basis?

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**John McDermott** - *Endologix, Inc. - CEO*

Yes, at 160, we would be comparable in size I think with Medtronic and our estimates of Gore and Cook are a little bit harder to get a hold of but they are in the 120 to 140 range. As Vaseem pointed out, what we will do after the deal closes is engage in an effort to really optimize the sales organization. What is the right number of sales reps and clinical specialists to really provide a high level of service and support to customers as well as support our growth ambitions.

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

Two quick last ones, probably a little unfair to ask you about this so early after the deal but you've sort of talked in the past, I guess this is really using Europe as a proxy that Nellix is 80%, AFX is sort of 20% of the mix, and sort of project that forward now with Ovation. Does that AFX Ovation portion get bigger you think as a combined entity?

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**John McDermott** - *Endologix, Inc. - CEO*

The question is does the AFX Ovation portion get bigger?

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

Yes. You're at 80% now Nellix, 20% AFX. I'm just wondering if that's the other side of the equation now it gets bigger; you've got two products in there. I assume so but just curious of what the mix looking out several years in your mind's eye, what the mix of Nellix versus the rest of the portfolio might look like.

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**John McDermott** - *Endologix, Inc. - CEO*

I've got to tell you again, I'm very impressed with what we've seen so far with Ovation. I think it's going to grow into a meaningful piece of business. That's what is so exciting about it. We know with Nellix we've got a game changer and Ovation has also got tremendous potential and complements Nellix very well, so I think those are going to be the two growers. But there is also a very loyal base of business for AFX, so I don't expect that to be dramatically cannibalized. I would like to think that this portfolio is going to expand, probably still lean toward Nellix once it has been commercial for a few years but I think we will have a nice diverse product offering and diversity in the revenue mix.

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**Matt Blackman** - *Stifel Nicolaus & Company - Analyst*

Okay. All right. Thanks, again, and congratulations, Chris.

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**Operator**

Joanne Wuensch, BMO Capital Markets.

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**Joanne Wuensch** - *BMO Capital Markets - Analyst*

Thank you, and congratulations to both of you. Two questions, one [I thought a charge] a thoracic offering for 2020. Am I reading that correctly because I know at least from the Endologix side, that's something that has always been a little bit out there.

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**John McDermott** - *Endologix, Inc. - CEO*

Yes, let me speak to that, Joanne. That's an estimate. Ovation, not Ovation but, excuse me, TriVascular had developed a thoracic platform in the past and actually got an IDE approved for it and done a couple patients. But just had to make resource prioritization decisions and pursued of course the Ovation infrarenal abdominal device. We've always been excited, as you know, about entering the thoracic market because it's adjacent and it's largely the same customer. We are very excited about getting that program active again. They have got a bunch of talented engineers and great ideas to refresh that system that was originally developed a couple of years ago, so that will be a development program in 2016 and 2017 and then we'll go through some clinical activities that the 2020 for European approval is just our best estimate today. We'll get better estimates as we get into the program and after the deal closes, but it's an exciting incremental opportunity. We think the market is somewhere between \$400 million and \$500 million.

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**Joanne Wuensch** - *BMO Capital Markets - Analyst*

My second question is, if I heard you correctly in 2016, you're looking for pro forma mid teens net of dissynergies. It's a two part question, first did I hear that correctly, and second, what do you expect in terms of dissynergies?

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**John McDermott** - *Endologix, Inc. - CEO*

What we think is we combine the two organizations. Our forecast get us growing in the mid teens in 2016 before any impact of the integration. Specifically, we think there will be some integration. There's clearly going to be some sales force training. We're going to lose some days in the

field and some dealer transitions. Our current early estimate for dissynergies in 2016 is \$7 million to \$12 million. That's just an estimate. We have done some work to put some detail behind that and we hope to offset that with the launches of Ovation iX and AFX2 but for right now; maybe we're being a little conservative. We think that's good until the deal closes and we get our hands on the numbers and then we will provide our full-year official guidance on our Q4 call in February.

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**Operator**

(Operator Instructions)

Jason Mills, Canaccord Genuity.

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**Jeff Frelick** - *Canaccord Genuity - Analyst*

This is Jeff filling in for Jason. John, I appreciate your comments regarding the strategic rationale for the acquisition but I was wondering what the TriVascular acquisition implies about your expectations for Nellix in the EVAR market.

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**John McDermott** - *Endologix, Inc. - CEO*

What it implies? It really changes nothing. We feel like we have got a very good business and this makes it a great business. Nothing with Nellix has changed other than now we have got another complementary product. Nellix is a game changer, and we think it's got market leading potential but that said, it is a paradigm shift from traditional EVAR and not all doctors are going to adopt it overnight. It's also still relatively new in its evolution. We expect to keep improving the platform over time.

That said, Nellix grew 45% internationally in the quarter, so we remain very confident in the platform and its potential. I just think that Ovation really rounds out the product line and if a doc isn't ready for EVAS then we've got the best in class EVAR systems to offer him.

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**Jeff Frelick** - *Canaccord Genuity - Analyst*

Great, and I was wondering if you could talk about the differing margin profiles for the companies? How do you view gross margins for the combined companies over the next 2 to 3 years?

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**John McDermott** - *Endologix, Inc. - CEO*

It's a great question. There is a mix right now. TriVascular has got a world class facility in Santa Rosa, and we can't wait to turn up the volume there. Our gross margins will improve over time. They have also got some great technology that we would like to apply to our products, which we think can provide gross margin enhancement. Our goal is in the near term to be in the high 60s, low 70s targeting 70, then gradually increase that longer term over time based upon our ability to integrate some more of their technologies into our current product mix.

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**Operator**

Steven Lichtman, Oppenheimer.

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**Steven Lichtman** - *Oppenheimer & Co. - Analyst*

Just a few questions. First, I know we focused on the US sales force side. TriVascular adds how many internationally for you and does this lower the need for you to build up more in Europe?



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**John McDermott** - *Endologix, Inc. - CEO*

Yes, they have 12 professionals right now, Steve, that support cases and customers in Europe, and we are excited to put the organizations together and see what the best structure is going to be. But yes, is the answer to the back part of your question which is, we don't think that we need to keep hiring unless we find out through the consolidation that we have still got some geographies that are uncovered. Absent that, we feel like we'll have a nice size team to leverage and capture share.

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**Steven Lichtman** - *Oppenheimer & Co. - Analyst*

On the CAP, a nice quick turnaround and restart here in terms of approval. How many patients are you anticipating, John, in the next CAP?

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**John McDermott** - *Endologix, Inc. - CEO*

Well, they gave us approval for another 50. We've been working with them on their data requirements for the adjunctive devices that we've talked about in the past. Clearly, they don't see any safety issues and just want us to supply this information so we're going to be working on that but they have given us the green light to add another 50.

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**Steven Lichtman** - *Oppenheimer & Co. - Analyst*

Lastly, you guys mentioned obviously iterations of both of your products hitting in early part of 2016. Can you remind us where you think the incremental benefits are going to be for AFX2, and I'm not as familiar with iX. If you could maybe, Chris, if you could walk us through a little bit of what the next gen there will be.

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**John McDermott** - *Endologix, Inc. - CEO*

Chris, why don't you jump into iX and then I will follow you with AFX2.

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**Chris Chavez** - *TriVascular - Chairman, CEO, & President*

Very good, John. For everybody's benefit, the product range for Ovation has evolved from Ovation to Ovation Prime and now to the Ovation iX system. This is really absorbing what we have learned from the market. Customers have provided a lot of feedback on what they like about our product and what they think could be improvements to it. Absorbing that information, we made some pretty significant improvements. In essence, Ovation iX means even lower profile. It includes integral sheaths that basically enhance ease of use.

We have expanded the size ranges for our Ovation iX limbs. With respect to our aortic body, we put in what I call on demand cannulation assist. In essence, one of the challenges for physicians in doing Ovation is -- well, actually any of our procedure, is trying to cannulate the contralateral limb and we've inserted some proprietary technology that really makes this very easy for physicians. All of this together brings some very significant improvements to the platform. All of that captured in the Ovation iX system, and we are in the process of launching those now. In fact, we'll be showcasing them in both VIVA and VEITH in the next couple of months. And right behind that is the Ovation Alto system which brings even more power to the platform. Go ahead, John.

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**John McDermott** - *Endologix, Inc. - CEO*

Thanks, Chris. Steve, again, AFX2 is really based upon physician input a simplified version of the current AFX. So we took physician feedback and redesigned the delivery system to make it easier, faster, more visible, more intuitive. Also lowered the contralateral sheath so now the contralateral limb can be done through a seven French introducer which is by far obviously the lowest profile for contralateral access on the marketplace. Just



an easier to use, more intuitive system and similar to TriVascular, we will be featuring AFX2 at VEITH, not so much at VIVA but more at VEITH at the end of this year, and then rolling it into our sales meeting and launching it strongly in the first quarter.

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**Operator**

(Operator Instructions)

Chris Cooley, Stephens.

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**Chris Cooley - Stephens Inc. - Analyst**

Congratulations to you both. Maybe just to start, John, you've historically talked about share gains when EVAS becomes commercial here in the United States, much more so than cannibalization of your own EVAR offering. Can you just help us think conceptually now with a greater focus on a broader EVAR portfolio, how we think about that evolution in the mix between EVAS and EVAR as it plays out in 2017 and 2018?

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**John McDermott - Endologix, Inc. - CEO**

Chris, right now in the US, our estimated procedural market share is 13% to 14% and I believe the TriVascular procedural share is in the 3% to 4% range, so on a combined basis we're still less than 20%. There is just a tremendous amount of share capture potential. Again, for the question that was asked earlier how will that shake out in terms of mix? It's difficult to say because until we get all three products in the market and the sales force trained on all three and offering that kind of suite to physicians, I don't know for sure. But I do expect that both Ovation and Nellix will ultimately carry a higher percentage of the total mix.

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**Chris Cooley - Stephens Inc. - Analyst**

Maybe it's a bit premature on this one as well and then I'll get back in queue, but in the most recent quarter you took a little over \$4 million in charges on inventory related items and you also had the AFX2 new delivery system teed up to launch in the 1Q. With the merchant of the portfolio is what I would assume to be a little bit heavier weighting on some select EVAS, I'm sorry EVAR offerings, should we think about additional charges or maybe delays in just the staging of that rollout for AFX2, as it wants [to do] both I should say here in the 1Q?

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**Vaseem Mahboob - Endologix, Inc. - CFO**

This is Vaseem. I think the 2Q charge that we took already factored in the \$1.2 million charge for the phase in/phase out for AFX2 and [endografts] so we don't expect any more charges for the new phase in.

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**Chris Cooley - Stephens Inc. - Analyst**

Just to be clear, though. I understood that part. But, you're bringing on a much broader portfolio in the EVAR side now and I'm just curious how that affects the inventory in the way you are thinking about obsolescence in that regard?

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**John McDermott - Endologix, Inc. - CEO**

Yes, Chris, I think -- we've we talked about it a little bit but again, haven't been able to get too deep into all of the details just given the nature of the companies being competitors. At this point I think the real question is what's the level of intensity that we launch iX. We've already provided for and have a plan for AFX2. Chris, you can jump in here but their plan independently was to kind of feather it in and we'll just have to decide together if we want to accelerate that activity, if we're going to train up a new sales team, do we want to switch them more aggressively onto iX.

Honestly, we haven't made that decision yet. There's some potential for that but the business decision isn't made yet. We are going to have our hands full. It's one of those enviable positions to have a larger well-trained sales force with two concurrent product launches. It's going to be an exciting first half of the year for us.

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**Operator**

I will now turn the call back over to John McDermott for closing comments.

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**John McDermott - Endologix, Inc. - CEO**

Thanks, everybody, for calling in today and your interest in Endologix and TriVascular. We look forward to updating you at the upcoming conferences and have a good evening.

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**Operator**

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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