



Endologix Reports Second Quarter 2019 Financial Results

August 8, 2019

IRVINE, Calif.--(BUSINESS WIRE)--Aug. 8, 2019-- Endologix, Inc. (the "Company") (NASDAQ:ELGX), a developer and marketer of innovative treatments for aortic disorders, today announced financial results for the second quarter ended June 30, 2019.

"We are pleased with our second quarter results, as stronger execution led to a sequential improvement in revenue," commented John Onopchenko, Chief Executive Officer of Endologix, Inc. "Our culture of accountability is yielding tangible results, and our team continues to steadily leverage a growing body of clinical evidence to rebuild credibility in the marketplace. We are excited about the progress we made during the first half of the year against both our near- and long-term targets, providing us confidence in our full-year outlook. We will remain focused on execution as we continue to take meaningful and necessary steps to position the Company for sustainable long-term success."

Financial Results

Global revenue in the second quarter of 2019 was \$36.2 million, a 19.0% decrease from \$44.7 million in the second quarter of 2018. U.S. revenue in the second quarter of 2019 was \$24.0 million, a 19.9% decrease from U.S. revenue of \$30.0 million in the second quarter of 2018. International revenue was \$12.2 million, a 17.1% decrease from International revenue of \$14.8 million in the second quarter of 2018. On a constant currency basis, second quarter 2019 International revenue decreased 14.8% over the second quarter of 2018.

Gross profit was \$23.0 million in the second quarter of 2019, representing a gross margin of 63.4%. This compares to a gross profit of \$29.6 million, or a gross margin of 66.2%, in the second quarter of 2018 as lower sales volumes more than offset operational improvements.

Total operating expenses decreased 27.2% to \$32.9 million in the second quarter of 2019, compared to \$45.1 million in the second quarter of 2018.

Net loss for the second quarter of 2019 was \$27.1 million, or \$(1.50) per share, compared to a net loss of \$23.9 million, or \$(2.83) per share, a year ago. Adjusted Net Loss (non-GAAP, defined below) totaled \$6.6 million, compared to an Adjusted Net Loss of \$15.6 million for the second quarter of 2018. Adjusted EBITDA (non-GAAP, defined below) loss totaled \$5.6 million for the second quarter of 2019, compared to Adjusted EBITDA loss of \$9.3 million for the second quarter of 2018.

Total cash, cash equivalents, and restricted cash were \$52.1 million as of June 30, 2019.

Financial Guidance

The Company reaffirms its previously issued annual guidance and continues to expect 2019 revenue of at least \$140 million. The Company anticipates revenue for the third quarter ending September 30, 2019 in the range of \$35 million to \$37 million. The Company continues to expect 2019 operating expenses in the range of \$130 million to \$140 million.

Conference Call Information

The Company's management will host a conference call today at 4:30 p.m. ET (1:30 p.m. PT) to discuss its second quarter 2019 results.

To participate in the conference call, dial 877-407-9716 (domestic) or +1 201-493-6779 (international) and refer to the passcode 13692632.

This conference call will also be webcast and can be accessed from the "Investors" section of the Company's website at www.endologix.com. The webcast replay of the call will be available at the same site approximately one hour after the end of the call.

A recording of the call will also be available from 7:30 p.m. ET on Thursday, August 8, 2019, until 11:59 p.m. ET on Thursday, August 15, 2019. To hear this recording, dial 844-512-2921 (domestic) or +1 412-317-6671 (international) and enter the passcode 13692632.

About Endologix, Inc.

The Company develops and manufactures minimally invasive treatments for aortic disorders. The Company's focus is in endovascular stent grafts for the treatment of abdominal aortic aneurysms (AAA). AAA is a weakening of the wall of the aorta, the largest artery in the body, resulting in a balloon-like enlargement. Once an AAA develops, it continues to enlarge and, if left untreated, becomes increasingly susceptible to rupture. The overall patient mortality rate for ruptured AAA is approximately 80%, making it a leading cause of death in the U.S. For more information, visit www.endologix.com.

The Nellix[®] EndoVascular Aneurysm Sealing System has obtained CE Mark in the EU and is only approved as an investigational device in the United States. The Ovation Alto[®] System is only approved as an investigational device and is not currently approved in any market.

Cautions Regarding Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified by the use of words such as "anticipate," "expect," "could," "may," "will," "believe," "estimate," "forecast," "goal," "project," "continue," "outlook," "guidance," "future," other words of similar meaning and the use of future dates. Forward-looking statements include all statements other than statements of historical fact contained in this press release, including statements regarding the Company's confidence in its ability to accomplish its goals for the rest of 2019; the Company's leveraging of clinical evidence to rebuild credibility in the marketplace; the Company's focus on execution as it continues to take steps to position itself for sustainable long-term success; and the Company's

Q3 2019 and FY 2019 revenue guidance and its anticipated FY 2019 operating expense, the accuracy of which are necessarily subject to risks and uncertainties that may cause the Company's actual results to differ materially and adversely from the statements contained herein. Some of the potential risks and uncertainties that could cause actual results to differ materially and adversely from anticipated results include continued market acceptance, endorsement and use of the Company's products, the Company's continued compliance with its financial covenants and other operating restrictions under its lending facilities, the Company's ability to access the capital markets on terms acceptable to it or at all, the Company's abilities to service its indebtedness and to satisfy and discharge its indebtedness as such indebtedness comes due, the success of clinical trials relating to the Company's products, product research and development efforts, uncertainty in the process of obtaining and maintaining regulatory approval for the Company's products, the Company's ability to protect its intellectual property rights and proprietary technologies, the Company's ability to retain its key executive, sales and other personnel, and other economic, business, competitive, and regulatory factors. Forward-looking statements represent our management's current expectations and predictions about trends affecting our business and industry and are based on information available as of the time such statements are made. The forward-looking statements contained in this press release speak only as of the date of this press release. The Company undertakes no obligation to update any forward-looking statements contained in this press release to reflect new information, events or circumstances after the date they are made, or to reflect the occurrence of unanticipated events. Please refer to the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K for the year ended December 31, 2018 and subsequent Quarterly Reports on Form 10-Q for more detailed information regarding these risks and uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

Discussion of Non-GAAP Financial Measures

The Company's management believes that the non-GAAP measures of (1) "Adjusted Net Income (Loss)" and (2) "Adjusted EBITDA" enhance an investor's overall understanding of the Company's financial and operating performance and its future prospects by (i) being more reflective of core operating performance and (ii) being more comparable with financial results over various periods. These measures, when used in conjunction with related financial measures calculated in accordance with generally accepted accounting principles in the United States ("GAAP"), provide investors with an additional financial analytical framework that may be useful in assessing the Company's financial condition and results of operations. The Company's management uses these financial measures for strategic decision making, forecasting future financial results, and evaluating current period financial and operating performance. The presentation of non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Furthermore, these measures are not intended to be liquidity measures. Other companies, including other companies in the Company's industry, may not use these measures or may calculate these measures differently than the Company does, limiting their usefulness as comparative measures. The Company intends to calculate these non-GAAP financial measures in a consistent manner from period to period. A reconciliation of each of the non-GAAP financial measures to the most directly comparable GAAP measures has been provided under the heading "Non-GAAP Reconciliations" in the financial statement tables attached to this press release.

Adjusted Net Income (Loss) Definition:

(1) "Adjusted Net Income (Loss)" is a non-GAAP measure defined by the Company as net income (loss) under GAAP, excluding (to the extent relevant in a particular reporting period): (i) restructuring and other transition costs; (ii) contract termination, product withdrawal and business acquisition expenses; (iii) legal settlement costs; (iv) business development expenses, including licensing costs related to research and development activities; (v) inventory step-up amortization; (vi) interest expense; (vii) foreign currency loss (gain); (viii) fair value adjustment to Nellix[®] contingent consideration liability; (ix) fair value adjustment of derivative liabilities; and (x) loss on debt extinguishment.

In the three and six months ended June 30, 2019 and 2018, this GAAP adjustment to net loss specifically represents: (i) the fair value adjustment to Nellix[®] contingent consideration liability; (ii) interest expense; (iii) foreign currency losses; (iv) restructuring and other transition costs; (v) fair value adjustment of derivative liabilities; and (vi) loss on extinguishment of debt.

Adjusted EBITDA Definition:

(2) "Adjusted EBITDA" is a non-GAAP measure defined by the Company as "Adjusted Net Income (Loss)" excluding income tax (benefit) expense, depreciation and amortization expense, and stock-based compensation expense.

ENDOLOGIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue				
U.S.	\$ 24,013	\$ 29,986	\$ 46,798	\$ 59,361

International	12,225	14,754	25,046	27,663
Total Revenue	36,238	44,740	71,844	87,024
Cost of goods sold	13,254	15,136	25,661	29,094
Gross profit	\$ 22,984	\$ 29,604	\$ 46,183	\$ 57,930
Operating expenses:				
Research and development	4,355	6,244	9,142	11,743
Clinical and regulatory affairs	3,647	3,728	7,432	7,299
Marketing and sales	15,920	21,116	32,706	42,841
General and administrative	8,929	14,022	18,345	24,391
Restructuring costs	—	—	419	233
Total operating expenses	32,851	45,110	68,044	86,507
Loss from operations	(9,867)	(15,506)	(21,861)	(28,577)
Other income (expense)	(9,336)	(6,544)	(17,508)	(11,985)
Change in fair value of contingent consideration related to acquisition	(300)	(1,800)	(100)	(700)
Loss on debt extinguishment	(11,756)	—	(11,756)	(2,270)
Change in fair value of derivative liabilities	872	—	(1,151)	—
Total other expense, net	(20,520)	(8,344)	(30,515)	(14,955)
Net loss before income taxes	\$ (30,387)	\$ (23,850)	\$ (52,376)	\$ (43,532)
Income tax benefit (expense)	3,253	(26)	3,214	(111)
Net loss	\$ (27,134)	\$ (23,876)	\$ (49,162)	\$ (43,643)
Other comprehensive income (loss) foreign currency translation	588	(552)	(10)	(679)
Comprehensive loss	\$ (26,546)	\$ (24,428)	\$ (49,172)	\$ (44,322)
Basic and diluted net loss per share	\$ (1.50)	\$ (2.83)	\$ (3.44)	\$ (5.19)
Shares used in computing basic and diluted net loss per share	18,142	8,446	14,280	8,411

Non-GAAP Reconciliations:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net Loss to Adjusted Net Loss:				
Net loss	\$ (27,134)	\$ (23,876)	\$ (49,162)	\$ (43,643)
Fair value adjustment to Nellix contingent consideration liability	300	1,800	100	700
Interest expense	8,857	5,861	17,347	11,665
Foreign currency loss	521	656	122	331
Restructuring and other transition costs	—	—	419	233
Fair value adjustment of derivative liabilities	(872)	—	1,151	—
Loss on extinguishment of debt	11,756	—	11,756	2,270
(1) Adjusted Net Loss	\$ (6,572)	\$ (15,559)	\$ (18,267)	\$ (28,444)

Adjusted Net Loss to Adjusted EBITDA:

Adjusted Net Loss	\$ (6,572)	\$ (15,559)	\$ (18,267)	\$ (28,444)
Income tax (benefit) expense	(3,253)	26	(3,214)	111
Depreciation and amortization expense	1,740	1,939	3,475	3,931
Stock-based compensation expense	2,523	4,265	\$ 4,884	7,286
(2) Adjusted EBITDA	\$ (5,562)	\$ (9,329)	\$ (13,122)	\$ (17,116)

ENDOLOGIX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(In thousands)

June 30, December 31,
2019 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 50,943	\$ 23,531
Restricted cash	1,200	1,200
Accounts receivable, net of allowance for doubtful accounts of \$1,397 and \$802, respectively	21,926	20,651
Other receivables	332	329
Inventories	30,747	30,399
Prepaid expenses and other current assets	2,270	2,821
Total current assets	107,418	78,931
Property and equipment, net	14,495	16,033
Goodwill	120,837	120,848
Other intangible assets, net	74,441	76,163
Deposits and other assets	1,372	1,095
Operating lease right-of-use assets	5,728	—
Total assets	\$ 324,291	\$ 293,070

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 12,454	\$ 10,986
Accrued payroll	13,836	14,627
Accrued expenses and other current liabilities	16,241	13,314
Total current liabilities	42,531	38,927
Deferred income taxes	150	150
Deferred rent	—	8,065
Operating lease liabilities	11,812	—
Derivative liabilities	28,072	4,012
Other liabilities	2,326	1,992
Contingently issuable common stock	2,300	2,200

Debt	165,024	198,078
Total liabilities	252,215	253,424
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 170,000,000 and 170,000,000 shares authorized, respectively, 17,408,863 and 10,387,926 shares issued, respectively, and 17,352,698 and 10,345,367 shares outstanding, respectively	17	10
Treasury stock, at cost, 56,165 and 42,559 shares, respectively	(4,120)	(4,026)
Additional paid-in capital	722,478	640,789
Accumulated deficit	(648,877)	(599,715)
Accumulated other comprehensive income	2,578	2,588
Total stockholders' equity	72,076	39,646
Total liabilities and stockholders' equity	\$ 324,291	\$ 293,070

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Source: Endologix, Inc.

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