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CONTENTS

Endologix Inc. NasdaqGS:ELGX

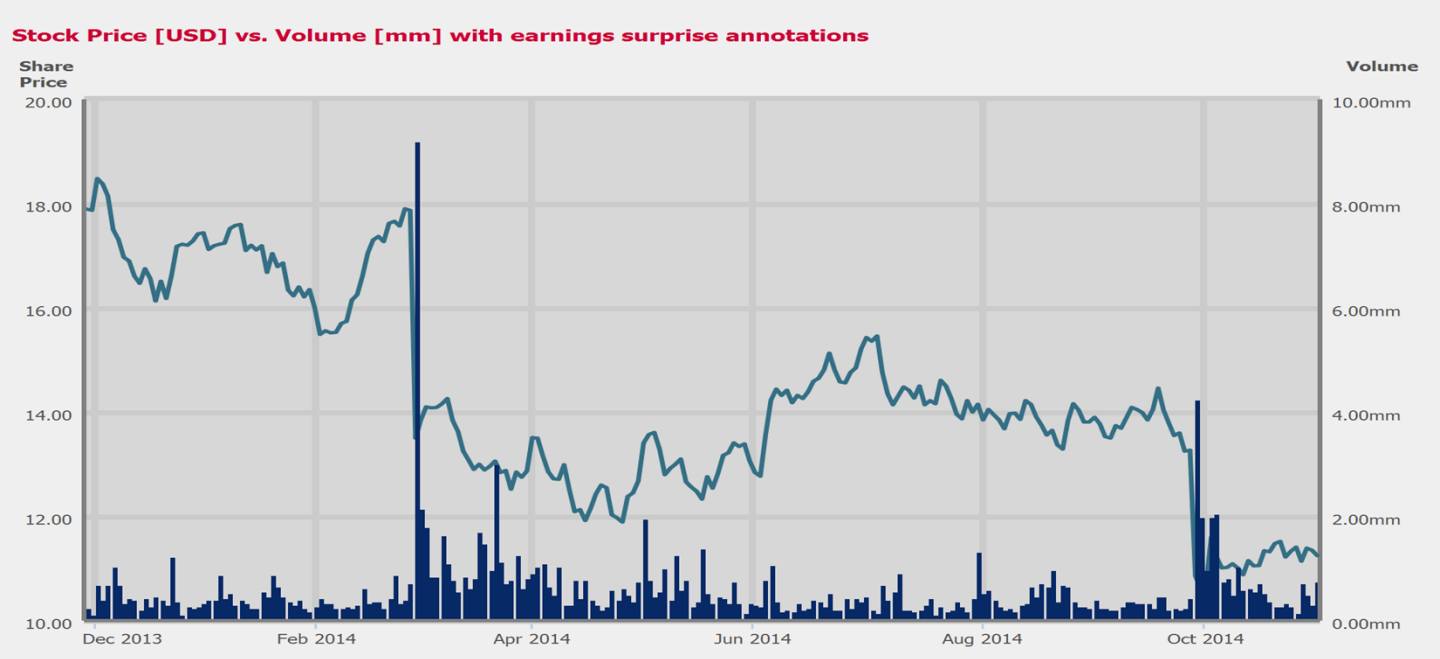
FQ4 2014 Earnings Call Transcripts

Wednesday, February 25, 2015 10:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-			-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.10)	(0.11)	NM	(0.10)	(0.37)	(0.38)	NM	(0.40)
Revenue (mm)	37.90	38.85	2.51	37.59	146.71	147.59	0.60	163.71

Currency: USD
Consensus as of Feb-24-2015 11:05 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	(0.05)	0.00	NM
FQ1 2014	(0.08)	(0.08)	NM
FQ2 2014	(0.08)	(0.06)	NM
FQ3 2014	(0.13)	(0.13)	NM

Call Participants

EXECUTIVES

John McDermott
Chairman of the Board and Chief Executive Officer

Shelley B. Thunen
Chief Financial Officer, Principal Accounting Officer and Secretary

Zack Kubow
Senior Vice President

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Presentation

Operator

Greetings, and welcome to the Endologix, Inc. Fourth Quarter and Full Year 2014 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.
I would now like to turn the conference over to your host, Zack Kubow of The Ruth Group. Thank you, Zack. You may now begin.
Zack Kubow
Senior Vice President

Thanks, operator, and thanks, everyone, for participating in today's call. Joining me from the company are John McDermott, Chief Executive Officer; and Shelley Thunen, Chief Financial Officer. This call is also being broadcast live over the Internet at www.endologix.com and a replay of the call will be available on the company's website for 30 days.
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's 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, February 25, 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.
John McDermott
Chairman of the Board and Chief Executive Officer

Thanks, Zack. In the fourth quarter, we achieved total revenue of $38.8 million, an increase of 12% over fourth quarter last year on a constant currency basis. International revenue grew 19% year-over-year driven by adoption of Nellix in Europe, where sales were up 50% in the quarter and 81% for the full year. In the U.S., revenue grew 6% in the fourth quarter and 3% for the full year. On today's call, I'll provide an overview of our growth initiatives, our clinical studies and our 2015 guidance. After that, I'll turn the call over to our CFO, Shelley Thunen, who will provide a more detailed review of our fourth quarter financial performance and 2015 guidance. After that, I'll come back on to review our key goals for 2015, and then we'll open up the call for questions.
Starting with the U.S., we had a very good performance in Q4 and grew 6% over last year. These results reflect the effectiveness of our sales and clinical teams and the positive impact from the new AFX clinical data that was presented in the fall. We'll continue to drive adoption of AFX in 2015 and look forward to the planned introduction of AFX2 later in the year.
AFX2 is a new delivery system for our bifurcated main body device and has been designed to reduce procedure steps and improve ease of use.
In addition to improvements to the AFX system, there continues to be interest in our percutaneous EVAR training programs. Endologix was the first and only company to evaluate this minimally invasive technique in a multi-center randomized trial, and we have since trained nearly 600 physicians in the U.S. We will continue this program through 2015 and plan to train another 200 physicians, bringing the total to 800 doctors that we will have trained on PEVAR by the end of this year.
Based upon a positive clinical results with AFX, last year, we announced the LEOPARD clinical trial, the first-ever randomized head-to-head EVAR clinical study. LEOPARD is designed to enroll 800 patients at 80 leading centers throughout the United States. The centers will be a mix of current and new Endologix customers, with each investigator selecting one competitive device to randomize against AFX. The clinical endpoints of the trial are treatment success at 1 year defined by acute procedural success and freedom from aneurysm-related complications. We expect to enroll our first patient in LEOPARD in the next week and hope to enroll about 300 patients by the end of 2015.
Now turning to Europe. We ended 2014 with over 100 centers using Nellix and are encouraged by the adoption levels and interest from physicians. We continue to see positive trends in utilization and currently

have an average of 30% share with our existing Nellix physicians. And for those customers who have had access to Nellix for 1 year or longer, we are above 60% of their case volumes. Since starting with the limited introduction in 2013, we have now completed over 2,500 Nellix procedures, and the interest level among physicians continues to grow.

To support demand in 2015, we plan to increase our European sales and clinical team from 34 professionals up to around 43 by the end of the year, representing a 26% increase.

On the clinical side, in November, the first clinical data was presented from the 300-patient EVAS FORWARD-Global Registry at the VEITH symposium. The results were extremely positive with the lowest overall endoleak rate ever reported for an endovascular aortic aneurysm device.

The next Nellix presentations are planned for the Charing Cross Meeting in London at the end of April. The presentations will include an update on the registry data and the treatment of complex anatomies. We are also hosting a symposium on aneurysm ceiling next month in Europe and expect over 100 physicians to attend.

Also, in November of last year, we completed enrollment in the EVAS FORWARD-IDE. The patients in this study will be followed for 1 year after which, we will submit the final module with the PMA to the FDA. Based on this timeline, we remain on track for potential FDA approval of Nellix in late 2016.

In the meantime, there continues to be strong interest among the Nellix investigators, so we've expanded enrollment in the IDE through a continued access protocol or CAP. Our goal for the CAP is to enroll an additional 200 patients this year in the U.S. and begin training our sales and clinical people, so they are well prepared for the anticipated launch in late 2016.

Turning to product development. In addition to the introduction of AFX2, we also plan to release an enhanced version of Nellix in Europe by the end of this year. The improvements to the Nellix system are based upon physician feedback and include more sizes and minor design changes to enhance performance and ease of use.

We're also updating our instructions for use to capture best practices and continue our clinical and development activities to broaden indications and treat more complex anatomies. We'll provide more details on these programs later in the year.

Finally, I'd like to touch on our financial guidance for 2015. We are forecasting revenue in the range of $163 million to $168 million, which represents a 10% to 14% increase in constant currency compared to 2014.

In the U.S., we expect to grow around the market rate of 2% to 4%. On a sequential basis, this growth will be -- will likely be more in the second half as we get LEOPARD centers up and running and start the limited market introduction of AFX2.

Outside the U.S., we expect our international business to grow in the 32% to 39% range in constant currency. This growth reflects continued adoption of Nellix in Europe and a limited expansion into Latin America and new Asian markets in the second half of the year.

With that, I'd like to hand the call over to Shelley Thunen for her financial review. Shelley?

Shelley B. Thunen

Chief Financial Officer, Principal Accounting Officer and Secretary

Good afternoon, and thank you, John. Today, we are reporting our financial results and key metrics for the fourth quarter and full year 2014. Total revenue for the fourth quarter increased by 10% year-over-year to $38.8 million. Changes in foreign currency exchange rates in the fourth quarter 2014 as compared to the fourth quarter 2013 had a negative impact of approximately $600,000 or 2% of revenue, resulting in 12% constant currency growth in the fourth quarter.

Domestic revenue in the fourth quarter increased by 6% year-over-year to $27 million, while international revenue increased by 19% year-over-year to $11.8 million, driven by growth in Europe, offset in part by softness in Japan as we discussed in our third quarter conference call.

In Europe, fourth quarter revenue increased to $7.8 million, up 50% year-over-year or 62% on a constant currency basis. Gross margin in the fourth quarter of 2014 was 76% compared to gross margin of 74% in the prior year. The increase in gross margin was due to improved manufacturing cost and absorption on higher volume, offset slightly by geography and product mix with a greater percentage of revenue from sales in Europe with lower gross margins and a higher proportion of Nellix product, which has a higher cost to manufacture.

Operating expenses for the fourth quarter of 2014 were $40.5 million compared to $27.2 million in the same period last year. Our GAAP net loss was $14.8 million or $0.22 per share in the fourth quarter of

2014 compared to a loss of $3.4 million or $0.05 per share for the fourth quarter of 2013. Our increased GAAP loss in the fourth quarter of 2014 compared to the fourth quarter in the prior year is primarily due to increased investments in sales, marketing, primarily sales and clinical personnel, both in the U.S. and Europe, general and administrative expenses to support the growth and research development and clinical expenses, inclusive of $4.1 million in business development expenses in the quarter or $0.06 per share as compared to none in the fourth quarter of 2013.

Business developments in the fourth quarter of 2014 were $2.5 million associated with obtaining our Shonin approvals in Japan from our distributor, $1 million for continued exclusive licensed polymer rights and the remaining $600,000 to obtain additional patents, which could be used for our Nellix product.

On an adjusted EBITDA basis, a non-GAAP measure of GAAP income or loss, adding back noncash charges, including the Nellix contingent consideration, stock-based compensation expense, depreciation, amortization, interest expense, business development, tax and foreign currency gains and losses, our adjusted EBITDA net loss in the fourth quarter of 2014 was $3.4 million or $0.05 per share loss compared to income of $1.3 million or $0.02 per share in the fourth quarter of 2013.

Turning now to the full year 2014 results. For the full year ended December 31, 2014, total revenue increased 12% to $147.6 million compared to $132.3 million for the prior year. U.S. revenue increased 3% to $106.1 million compared to $102.9 million for the prior year. International revenue grew 42%, led by an 81% revenue growth in Europe to $29.1 million compared to $16.1 million in 2013, while the rest of the world growth was down slightly due to softness in Japan. There was a negligible impact to revenue from changes in foreign currency exchange rates for the full year 2014 as compared to 2013.

For the full year ended December 31, 2014, gross margin was 72% as compared to gross margin of 75% for the prior year. The decrease in gross margin was due to $4.7 million inventory write-off in the third quarter of 2014, primarily from product inventory that was replaced with the launch of DURAPLY material for our AFX system. The inventory write-off resulted in a reduction of 3 points of margin for the full year 2014.

Operating expenses for the full year 2014 were $134.9 million compared to $109.9 million for the prior year. The increase in operating expenses was driven by research and development, regulatory and clinical, sales and marketing, G&A, and business development expenses.

For the full year ended December 31, 2014, we reported a net loss of $32.4 million or $0.50 per share compared to a net loss of $16.1 million or $0.26 per share for the prior year. The increase in our net loss was driven by increased operating expenses or investments throughout the year in sales and marketing, research, development, clinical studies, regulatory cost, and general and administrative expenses.

R&D regulatory and clinical affairs [ph] included $4.1 million in business development expense or $0.06 per share in the fourth quarter.

In addition in 2014, we incurred interest expense of $5.7 million or $0.09 per share for our convertible senior notes we entered into in December 2013.

For the full year ended December 31, 2014, the adjusted EBITDA loss was $13.7 million or $0.21 per share compared to income of $3.1 million or $0.05 per share in the prior year.

Now turning to the balance sheet. Accounts receivable days outstanding was 62 days at the end of the fourth quarter of 2014 compared to 65 days at the end of 2013 and 64 days at the end of September 2014. DSOs have remained excellent and consistent, but we continue to expect DSOs to increase a bit over time as the percentage of revenue from outside the U.S. continues to increase as a percent of total revenue.

Inventory turnover was 1.6 turns at year end compared to 1.7 turns at the end of 2013. We expect inventory turnover to remain in the range or to improve slightly during 2015.

We ended the year with cash and cash equivalents and investments of $86.7 million as compared to $100.5 million in cash and cash equivalents at the end of the third quarter. Principal uses of cash in the fourth quarter included capital expenditures of approximately $3.2 million of the total $11 million for our new facility, continued investments in inventories, $4.9 million for business development expenses, inclusive of the $3.5 million of the total $4.5 million for our restructuring agreement with our Japanese distributor that now includes a provision to acquire the IntuiTrak, Shonin and the future AFX Shonin approval.

As a reminder, the restructured agreement with our Japanese distributor also increases the minimum purchase levels in 2015 as compared to 2014.

Now turning to guidance. For the full year 2015, we expect constant currency revenue in the range of $163 million to $168 million, a 10% to 14% increase in constant currency growth over 2014. This includes U.S. revenue growth of 2% to 4% and international constant currency revenue growth of 32% to 39%.
In preparing our revenue guidance for the full year 2015, we are assuming each euro will translate into about $1.13 compared to about $1.30 in 2014. Using these exchange rate assumptions, we expect full year 2014 reported revenues as follows: worldwide revenue of $159 million to $165 million or growth of 8% to 12%; U.S. revenue of $108 million to $110 million or growth of 2% to 4%; and international revenue of $51 million to $55 million or growth of 22% to 32%.
We expect gross margins to be about 70% or 71% on a constant currency basis as compared to 72% achieved in 2014. The anticipated decrease in gross margins is primarily the result of products and geography mix. As a reminder, gross margins internationally are lower than in the U.S. as average selling prices are lower. And our use of distributors in certain international markets, primarily Japan and Latin America. In addition, the Nellix product is currently more expensive to produce than our AFX product line.
2015 operating expenses are expected to increase about 14% over 2014, primarily, for increases in clinical studies, regulatory filings, product development and continued investments in sales and marketing initiatives.
In addition, operating expenses will likely to be inclusive of $2.5 million in business development cost for payments under existing agreements for polymer license and continued expenses previously discussed associated with our Japanese AFX Shonin approval.
On an adjusted EBITDA basis, a non-GAAP measure of GAAP income or loss, adding back noncash charges or benefit, including the Nellix contingent consideration, stock-based compensation expense, depreciation, amortization, interest expense, business development, tax and foreign currency gains and losses, we expect a full year 2015 loss of $0.29 to $0.34 per share.
In 2015, our P&L guidance includes approximately $20 million in noncash expenses or stock compensation, depreciation, noncash interest expense from the convertible debt and business development expenses.
In addition, we expect our first quarter 2015 constant currency worldwide revenue to be up about 16% to 17% over the first quarter of 2014 but nominal sequential growth. With the euro currency adjustment, we expect the first quarter to be around $37 million to $38 million.
We expect U.S. revenue to reach double-digit growth as compared to the first quarter of 2014, but flat to down sequentially, given the strong performance in the U.S. as we closed out 2014.
We expect continued European growth year-over-year and sequentially, and rest of world revenue is expected to be down slightly due to timing of Latin America distributor orders.
As John mentioned, we expect U.S. growth to be a bit back-end loaded as the impact of our LEOPARD study and continued access for Nellix IDE site ramps up after their IRB approvals are received.
Not included in this guidance, however, are potential adverse litigation outcomes, fair value adjustments associated with Nellix contingent consideration and other possible business development transactions not already outlined.
We expect to end 2015 with approximately $70 million to $74 million in cash, using between $13 million and $17 million in 2015, with most of the cash used in the first half of the year. We are assuming $20 million in noncash expense in the P&L, continued excellence but slightly increasing accounts receivable DSOs and investments, and investments in inventories consistent with our growth but lower than the inventory additions in 2014.
I will now turn the call back to John.

John McDermott
Chairman of the Board and Chief Executive Officer

Thanks, Shelley. In 2015, we're poised for another year of growth, led by Nellix and international markets. We're pleased with the strong position interest in Nellix and encouraged by the adoption rates in Europe. This gives us confidence in the long-term potential for EVAS with Nellix to become the market-leading aortic aneurysm therapy.
The following are our key goals and priorities for 2015. First is the continued successful rollout of Nellix in Europe and move gradually into other international markets; second is to enroll 200 patients in the Nellix CAP while preparing and submitting our first 3 PMA modules; third is to get the sites up and running in the LEOPARD trial and enroll at least 300 patients; and fourth is to introduce AFX2 and the Nellix improvements in the fourth quarter.

Achieving these goals will build our momentum and market share as we continue on our path to becoming the leading innovator in the treatment of aortic disorders. We look forward to keeping you posted on our progress and are planning to participate in the ROTH investor conference in March.
With that, we'll open it up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Rick Wise with Stifel.
Mathew J. Blackman
Stifel, Nicolaus & Company, Incorporated, Research Division

It's actually Matt Blackman here for Rick. Just a couple of questions. I may have missed it or misheard it, but did you give a Nellix -- a number of Nellix cases in the fourth quarter? I know you gave the full -- the since-launch number.
John McDermott
Chairman of the Board and Chief Executive Officer

No, we didn't give a quarterly number. We just gave the since-launch 2,500.
Mathew J. Blackman
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And are you willing to sort of give us a sense you have directionally in the past to sort of the mix of Europe AFX versus Nellix's? I presume Nellix's is greater than 50% of that European revenue base now.
John McDermott
Chairman of the Board and Chief Executive Officer

Yes, just over 50%. That's correct.
Mathew J. Blackman
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then, John, on LEOPARD, the 80 sites, any sense of the percent of those or however you want to think about it that are either sort of new to Endologix or maybe have a sort of underrepresented market share in those 80 sites?
John McDermott
Chairman of the Board and Chief Executive Officer

Yes. So there's a pretty wide range so far, and it's still early. We've got about 40 sites in various stages of contracting and IRB. Of those 40, about 20% are new -- completely new. And the remaining 80% are a combination of low volume, medium, and then I think there's a couple of higher volumes. So it's a pretty nice mix. I was actually pleased to see 20% of them completely new. I don't know if that is going to be the number when we're done, but that's kind of the current mix for those sites that are in process.
Mathew J. Blackman
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. That's very helpful. I'm just going to sneak one more in. You grew 6% in the U.S. in the fourth quarter. You're still guiding to that sort of 3%-ish growth in 2015. Is there something you're seeing in the first quarter that makes you think that maybe that growth in the fourth quarter was somehow outsized relative to what you'll see in '15 or no? You're just -- that's what the market growth is and you're still thinking you're going to grow in line with the market?
John McDermott
Chairman of the Board and Chief Executive Officer

Yes, it's more the latter. We had a really good December, which was great. We finished the year strong, but we just want to step in to the year with reasonable expectations and be successful.
Operator

And our next question comes from the line of Brooks West with Piper Jaffray.
Brooks E. West
Piper Jaffray Companies, Research Division

John, I just wanted to build up the OUS guidance for 2015. Could you give us a sense of kind of the waterfall of products first? I know Nellix is launching another territories. You've got VELA coming into

Europe. You've got AFX in Japan. Could you just kind of run through those product timelines? And then I've got a Nellix-specific question.

John McDermott
Chairman of the Board and Chief Executive Officer

Okay. If you want to get kind of a macro picture of the growth profile internationally, I think you got to start with the reps. So right now, we've got 35 reps, Brooks. We're going to take that up to 42 to 44. That 35 today compares to 25, basically, a year ago. So we're starting out the year with about 40% more people on the ground in Europe than we did a year ago. So I think that's an important part of it. For Nellix, in terms of product, we do have an enhanced version that we will introduce later in the year. But from a product perspective, the only other new product that will get introduced into Europe this year will be VELA, the new proximal aortic extension. And that will vary by market and tenders, contracts and reimbursement. In terms of the new geographic markets, we'll start -- or plan to start limited market introductions of Nellix in the second half in countries like Brazil, Argentina, Australia, Hong Kong, Singapore and Thailand. And then as you pointed out, also, internationally, in the second half of the year, we expect to get AFX approved in Japan.

Brooks E. West
Piper Jaffray Companies, Research Division

Okay. And so with that, should we assume a pretty decent step-up in your Japan business then when AFX finally hits?

John McDermott
Chairman of the Board and Chief Executive Officer

Well, as Shelley pointed out in the introductory remarks, we reconfigured our agreement with our Japanese distributor at the end of last year. And they're -- but they may, depending upon the cadence of orders. I don't know that we'll see a big step-up, but we might see a little improvement in the second half, for sure.

Brooks E. West
Piper Jaffray Companies, Research Division

Okay. And then on the rep comment, which sounds like it's the primary limiting factor for Nellix in Europe, can you speak to -- or can you speak to demand, excuse me, as you see it right now? Can you speak to competitive response, specifically on price? And then we've had conversations with major centers in Europe who have said, "Look, if they give us a little bit more price, we'd give them 100% of the business. But for now, we're only giving them 30%, 40%, 50% are hard cases." Can you just speak to those kind of 3 limiting factors on the Nellix progression?

John McDermott
Chairman of the Board and Chief Executive Officer

Yes. So starting with the reps, as I pointed out, we feel good about starting this year with 40% more people on the ground. Now I need to qualify that in that they're not all certified yet. But they also weren't all certified at this time last year. So I still think it's a reasonable year-over-year comp. We're going to grow the team another 26% this year. So I feel like we're putting a good amount of resource, and I'm pleased with the talent that we're bringing on board. So the team is coming together well. There is a lot of demand, but we still want to be selective with the centers that we're approaching. So we're not targeting all 2,000 centers in Europe. We're being more selective at probably 1/3 of the market with higher volumes. So we'd rather penetrate these centers more deeply than try to go too wide with a limited team. But anyway, we feel good. Last year was kind of a struggle, honestly, to hire people, but it's gotten easier. I think as Nellix has gotten more well known to the physician community, more people are getting comfortable joining our team and enjoying the success they're having there. So on the rep side, we feel good about that. What was the other question, Brooks, I'm sorry?

Brooks E. West
Piper Jaffray Companies, Research Division

Competitive response and then how are you handling the kind of price volume trade-up conversations with major center?

John McDermott

Chairman of the Board and Chief Executive Officer

Yes. So your representative sample, I think, is consistent with the feedback we get in the marketplace. We do get pushed back -- once a physician kind of goes over the threshold and really gets it in terms of the potential expansion of patients they can treat with the device and the ease of use and the other benefits, is they do tend to switch and start to convert a significant portion of their cases to Nellix until they get push back from administration on price. So far, we have not accommodated those requests for lower prices because we would like to continue to build our clinical evidence on the belief that the evidence will justify the higher price. And we don't feel it's the right time to start discounting. So that's been our approach. We'll take a lower percentage of penetration in an account at a higher price than discount to get more. The competitive reaction has been mixed, but in situations where they feel like they could lose the whole account, we do see them resort to price, which kind of supports this segmentation thing that's happening in some accounts. We still believe that with the growing evidence and building enthusiasm for the product, we'll still be in a position over the long term to get the full account conversions, but we don't want to give up gross margins and try to hurry that. We think we got to look long term.

Operator

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

Jeffrey Chu
Canaccord Genuity, Research Division

This is actually Jeff filling in for Jason. Perfect. Shelley, you gave us a full year gross margin in your guidance expectation. I was wondering how we should think about gross margin as we move through 2015?

Shelley B. Thunen
Chief Financial Officer, Principal Accounting Officer and Secretary

I think it will be pretty consistent quarter-to-quarter. We have an introduction of AFX2 towards the end of the year. We do not plan on doing an obsolescence like we did with the introduction of DURAPLY. We will have a little bit of account version in the second half due to that. So it will be pretty consistent, but the variation between first and second half with the smaller inventory write-off will be relatively nominal.

Jeffrey Chu
Canaccord Genuity, Research Division

Great. And with regards to the U.S. sales force, tell me how you're thinking about your rep additions between now and the Nellix launch? And how do you think about productivity as we go forward over the next few quarters?

John McDermott
Chairman of the Board and Chief Executive Officer

Yes. We finished the year -- or today, I should say, we're at 96 reps and clinicals, which this time last year, we had 86. So we're starting this year with 12% more feet on the street. We plan to go up this year to around 100 by the summer. And then we will evaluate our size and any gaps we have geographically at the end of this year. Honestly, we don't think we have to substantially add to the sales team to have a very successful Nellix introduction. We've got a very seasoned team approaching kind of a 3-year mark on average tenure. So the team has got a lot of experience, and we like to get some leverage out of our good geographic coverage. So we'll probably do some rounding off and filling in some gaps, but we don't have plans to do a significant expansion in preparation of Nellix. We'd like to get the team extremely well trained to have an effective launch.

Jeffrey Chu
Canaccord Genuity, Research Division

And last one for me. When can we expect to see the first presentation of the Nellix IDE data?

John McDermott
Chairman of the Board and Chief Executive Officer

I know it was submitted to be presented at the SVS. I don't know if it's yet been accepted. But it was a submission to present the 30-day results from the IDE. If it gets accepted, it would be presented at the SVS meeting in June.

Operator

[Operator Instructions] And our next question comes from the line of Joanne Wuensch with BMO Capital Markets.

Joanne K. Wuensch
BMO Capital Markets U.S.

Can we spend a few moments on the U.S. market, please? We talked most of last year about 3 things: competitive pressures, the introduction of VELA and lost doctors because they were upset they weren't part of the Nellix clinical trial. Can we get an update on where you are in those 3 pieces? And how do you view some of those doctors coming back as we think about a 2016 approval of Nellix?

John McDermott
Chairman of the Board and Chief Executive Officer

Yes. So let's start at the end, Joanne. On the Nellix -- the physicians that were disappointed that they weren't included in the Nellix study and then the other variable as you recall was Dr. Sue [ph], had also been using AFX because of its relationship with Ventana. So I think those were the 2 primary challenges that we faced. We benefited from those 2 initiatives in '13, and we gave some of that back in '14. So although that was difficult, we feel like we've annualized that off. And now we're just -- the pressures in the United States are just more a function of competition. You've got a couple of new entrants, and there's just a lot more reps standing in doctors' doorways today asking for cases. That being said, we like the growth initiatives that we've lined up, some of which we've touched on. We're starting the year with more reps. The PEVAR program has paid dividends for us in the past. We'll train another 200 doctors there. LEOPARD gives us access into 80 high-volume centers, so I think that's going to represent a growth opportunity. The Nellix CAP, we expect to do more cases there than we did last year and then AFX2 later in the year. So those 5 initiatives we think position us pretty well to be able to grow at the market rate.

Joanne K. Wuensch
BMO Capital Markets Canada

And the competitive [indiscernible], is that being managed through VELA or is it being managed through more feet on the street by you guys? You talked about adding sales reps. But I think those are mostly OUS reps, if I understood that correctly.

John McDermott
Chairman of the Board and Chief Executive Officer

Yes. It's a small number of reps in the U.S. I mean, most of the people -- the benefit in reps in '15 will be people that we hired last year. So what I said was we're starting the year with 12% more people on the street. We'll get the full year benefit of that. We're going to add a handful more over the course of the year. They won't contribute much until the second half. So we'll get a little benefit of reps this year, but most of it will come from the reps we hired last year. But I think our competitive positioning and our ability to keep growing in the U.S. market will be more about the clinical programs: LEOPARD and the Nellix CAP. If you combine those 2 studies, we'll have active clinical trial initiatives in a 100 high-volume EVAR centers across the United States over the full course of 2015. That gives us unique positioning in the marketplace to develop relationships, expand relationships, is also get people ready for the future introduction of Nellix. So it's going to a tough year for sure in the U.S., but I think we've lined up a good number of growth initiatives to proactively address it.

Operator

And our next question comes from the line of Chris Pasquale with JPMorgan Chase and Company.

Christopher T. Pasquale
JP Morgan Chase & Co, Research Division

I just want to follow up first on Brooks's question and all the moving pieces internationally. So can you give us any color on what you're assuming for European growth in 2015?

Shelley B. Thunen
Chief Financial Officer, Principal Accounting Officer and Secretary

We have not broken out European growth separately in our guidance. And I don't think we will, although we break out the actual results quarter-by-quarter. As we've said, we've got 22% to 32% growth with the

currency conversion in our numbers. We get a little growth out of Japan, a nominal amount of growth out of the rest of the world. And the vast majority of that growth, just like last year, will come out of Europe, but you'll get a little bit more out of the new initiatives, new countries with Nellix in the second half of the year. But I think you're going to expect kind of a cadence where most of the growth comes out of Europe as it did last year.

Christopher T. Pasquale
JP Morgan Chase & Co, Research Division

Okay. So I just want to make sure I understand for Japan with AFX and for Nellix and those rest of the world territories you mentioned, do you expect any upfront stocking orders as you launch those products? Or is it just going to be kind of a smooth transition?

Shelley B. Thunen
Chief Financial Officer, Principal Accounting Officer and Secretary

In Japan, we have a distributor agreement. And we renegotiated our minimums with our Japanese distributor. Because they did take less product last year, they ended up with too much. And in the third quarter, we discussed the effect of that with us. So they have returned in their minimums to kind of the normalized kind of volume that they took in 2013 versus the lower volumes they took in 2015. In most of our international expansions, other than Latin America, where we'll continue to use distributors and to have a limited launch, we are going direct or quasi-direct with a partner, meaning that we'll recognize revenue for the Nellix cases as the cases are performed just like we do in our direct markets in the U.S. and Europe. And then as we convert to AFX, we intend to do something similar with our Japanese distributor and that allows us to get a little bit better gross margin. So I don't think you're going to see any stocking activity in our numbers.

Christopher T. Pasquale
JP Morgan Chase & Co, Research Division

Okay. And then one more for Shelley, while I have you here on the gross margin guidance. If I adjust for the inventory obsolescence charge you took in 2014 gross margin, will it come out around 75%? And I think I heard you say you don't expect a similar charge this year. So what drives that big step down? It seems like more than just natural mix.

Shelley B. Thunen
Chief Financial Officer, Principal Accounting Officer and Secretary

Well, yes. The comparable number is 75%. And I did say that we'll be in about 70%. We will have some obsolescence, but nowhere near what we did with DURAPLY in the second half. That was about 3 margin points. But we'll have a little natural obsolescence as we make the transition to AFX2. But as you look at our overall gross margins, the big driver is really geography and ASP. If you think about growth in 2015, you've got about 3% U.S. but you've got the whole rest of international growing at a much higher rate. And so I think overall, when you think about international growing 22% to 32%, it's Europe with lower ASPs. You know their ASPs are about 60% of what we get in the U.S., a little bit more for -- better for Nellix. And then our other larger international markets are distributors, right? And so you pay something for that as well. And while we're going direct in recognizing revenue in these other markets as cases are completed, we also have a pricing that is not direct, but not distributor in those new markets because we are using the expertise of partners in those markets. So it really is that. You're going to have a little normal obsolescence. But it's really all about geography and product mix. And recall, Nellix is much more expensive to produce than AFX. And it will stay that way through this year.

Operator

And our next question comes the line of Matt Keeler with Crédit Suisse.

Matthew J. Keeler
Crédit Suisse AG, Research Division

First, can you give us any color on what you saw in the U.S. as far as pricing on a like-for-like basis, both in the fourth quarter? And then what's in your guidance for 2015?

John McDermott
Chairman of the Board and Chief Executive Officer

Pricing has been pretty stable, Matt. I can't say that we saw -- we actually budgeted for some erosion in '14 and didn't see it. So we budgeted for it again in '15. Now it's early in the year. But so far, it's been relatively stable. So that's what's happened and that's how we've planned it. What was your other part of your question?

Matthew J. Keeler
Crédit Suisse AG, Research Division

No, that was my question. And just to follow up on a question that was just asked on the regions outside of Europe where you're launching Nellix in 2015, you've characterized that as a soft launch. When do you think that will become more meaningful for you? When can you fully sort of ramp in some of those regions where you're launching in the second half of '15?

John McDermott
Chairman of the Board and Chief Executive Officer

Well, I think it starts to, on a year-over-year basis, make a more meaningful contribution in '16. We'll start in a limited way with thought-leading physicians in the handful of markets I've talked about. But for us, it will be all about getting started with the right guys and focusing on good outcomes. And then we'll use those centers as training centers and KOLs to branch out into those markets and start to push more commercially in '16, '17 and '18. So there will be some incremental benefit in the second half of '15, but the bigger gains in those additional markets will come in the subsequent years.

Matthew J. Keeler
Crédit Suisse AG, Research Division

Okay. And just one last follow-up before I drop. Have you given any color on what timing for Nellix could be in China?

John McDermott
Chairman of the Board and Chief Executive Officer

I don't know that we've talked about it, but I can share with you our current thinking for both China and Japan at this point. Based upon the current anticipated time lines, they look like they're on about a 1-year path later than U.S. So at this point in time, we would expect them in the latter part of 2017. Now as we get a year into this, we'll be able to get more clarity around that. But for -- right now, for a place marker, I think that's a pretty good expectation.

Operator

There are no other questions in the queue at this time. I would now like to turn the call back over to management for any closing comments.

John McDermott
Chairman of the Board and Chief Executive Officer

Okay. Thanks, operator. Well, I'd like to thank everyone for joining the call this afternoon and for your interest in Endologix. We look forward to seeing you at the upcoming conferences. Have a great evening.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time, and we thank all of you for your participation.