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MANAGEMENT DISCUSSION SECTION

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

All right. I think we'll get started with the next session. Hello, everyone, again. My name is Mathew Blackman. And for those of you who don't know me, I work on the Stifel Medtech Research Team. I'm pleased to be joined by Vaseem Mahboob, the CFO of Endologix.

A quick teaser upfront for those who are not familiar with Endologix, the company is solely focused on the treatment of abdominal aortic aneurysms or AAA, and the only company in this market with more than one product in the portfolio, as well as the company has a pipeline of products that could even further expand its portfolio to address the shortcomings of current AAA treatment, as well as address the most complex and undertreated patients.

Still, it's been a challenging couple of years at Endologix with a number of, I think, best described as both self-inflicted but also unexpected [indiscernible] (00:00:59) headwinds that prompted the company to make some meaningful changes to the executive management team. John Onopchenko joined the company over a year ago as Chief Operating Officer and assumed the role of CEO earlier this year. And over the last four months, John and Vaseem have implemented a significant shift in the go-to-market strategy.

It's still probably the top of the first inning for this new strategy and we'll have Vaseem talk about that today in more detail. But to me, it's clear that these changes make sense and they were certainly necessary moves to attempt to reposition the company for a return to sustainably positive growth and at the same time be better stewards of cash.

So, with that, I'm going to sit down and we'll kick off the discussion.

QUESTION AND ANSWER SECTION

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

So, Vaseem, I think it'd be helpful for those listening, if you can provide some context, and I think maybe the best way to do it is how we got to where we are today and where we are today frankly with Endologix. And then we'll flesh out, I think, the more important part of this discussion is where we go to from here?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Sure. So let me kind of take it back a little bit. First of all, thanks for having me here. So three years ago, we were right at the cusp of the Nellix launch. We had AFX on the market which was essentially two-thirds of the business. And in Q4 of 2015, we produced the best EVAR data ever for the gen 1 Nellix device. And at that time, the thesis was Nellix was going to take significant market share. It was going to be the end all be all, used in all anatomies globally, and had a huge promise. And AFX was doing really well and had a certain clinical unmet need that it catered to, and was really the key device in the bag that kind of paid for the business in the short term with the potential for Nellix to come in. At that time, we were thinking the launch was going to be Q1 2017.

So two things have happened since then. On the Nellix side, that one-year data that we saw at VEITH which was the best we had ever seen in EVAR got clouded with the issues of migration. And that's why you do clinical trials, right? You do clinical trials to learn how these devices are going to do. And we narrowed the IFU, did the right things, and today the promise of Nellix is kind of narrowed down due to the indication change, but still a very promising therapy, promising technology. We have over 10,000 grafts around the globe that have been implanted, and we can talk about the timeline of when that comes back. So it was a challenge from a stock price perspective because a lot of the value was ascribed to Nellix.

At the same time in Q4 of 2016, we also had, to your point, a self-inflicted challenge with the quality of AFX. We lost the CE Mark in Europe, which was reinstated in January the following year, and we resolved the manufacturing issues in 2017, and now the supply is back to normal. But along the way, we lost some customers and lost some sales primarily here in the U.S. And that's put some pressure on our volume.

So going forward, those are the two things in our mind that are going to contribute to the value of the company, but more importantly help us kind of get back to growth here and that's what we talked about at the Investor Day, Mat.

So what we're expecting here is that we can stabilize AFX in the U.S. in 2019 and we showed you a lot of data that Matt Thompson presented on why we think that can happen. And then on EVAS 2 which is enrolling patients, we expect to finish enrollment in 2019, and still hold to approval in 2021. But more importantly along the way, we also acquired TriVascular which has become a pretty significant part of the business with the Ovation product line. And we're on track to launch Alto in 2019 and continues to be a very promising product here for the company going forward.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Okay. That's great. That's a great summary. So when you think about stories that involve significant change and transformation, it's important to lay out mileposts to help measure progress, and restore consistency and confidence, and to that end, you mentioned in the Analyst Day, you and John laid out a thre phased plan, three-part plan. I'd like to walk through each of the three phases, the opportunities they present, the challenges as well.

And so starting with phase one which I maybe stealing what you called. But what I'm calling is strengthening the core. And when I think about phase one, I see two different inextricably linked pieces, your two flagship of products, AFX and Ovation, and your new sales force or go-to-market strategy.

So the first question is put a timeframe on the phase one part of this turnaround. My sense is, correct me if I'm wrong, it started in August with maybe earlier this summer, and really will play out into the second half of 2019. Is that the right way to think about it first of all?

Vaseem Mahboob A
Chief Financial Officer, Endologix, Inc.

Absolutely.

Mathew Justin Blackman Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. And so, again, so I'm breaking it down to two pieces. We'll start on the product side. And you brought up and you mentioned the AFX headwinds, but you also mentioned the Ovation tailwind. So, I think the first question is, you said that the first part of your plan is to stabilize AFX, which has been a drag, and in fact masking very solid, I think at least double-digit growth of Ovation. So, what gives you confidence that you can stabilize AFX because frankly it's been a couple years of pretty steady decline? Help us understand that.

Vaseem Mahboob A
Chief Financial Officer, Endologix, Inc.

So let me take you back a little bit here. I think when we talk about the next six quarters from the time we announced the reset is what we're calling like phase one which is building the foundation, right. And it starts with a great management team. So, one of the big changes that we have made, and particularly John has made here is, we brought in the Chief Quality Officer, Jeff Fecho who is a Section 16 officer at St. Jude before they got acquired. We brought in Jeff Brown on the manufacturing side that runs R&D, manufacturing supply chain. We're in the process of recruiting for a new Chief Commercial Officer. But what we're trying to do here is put the fundamentals in place with people, process, and systems so that we can really, phase one is to strengthen the foundation, but it's really to regain a lot of the credibility that we have lost. Okay.

And that starts with having a high say-do, making sure that we put points on the board and we deliver what we have committed. And as you know, in the past we've had challenges with that, right. So changing the culture in our mind was step one of that, and I think we have done a lot of work on the transformation of the company from a cultural standpoint, management team, on how we are measuring our teams, how we laid the foundation for the plan for 2019 because all of those things are very critical for any strategy to work, and to your point, in this half of the first year too early to throw a confetti. But I think we've done a lot of work to make sure the enablers are in place.

So really from our perspective, now when you get to the financial side of the house with the framework that we laid out, there were two critical elements to that. One was, listen we believe that AFX can stabilize in the U.S. in

2019 and Matt Thompson showed you the data on why we believe. One of the big dark clouds on AFX has been these IIIb endoleaks.

And I think when you look at the data that we showed at the Investor Day that we updated with four-year compliant data to show you how that data is tracking for four-year [ph] cuts (00:09:30). You can clearly see that there's a pretty significant difference between the incidence of Type IIIb endoleaks on AFX with DuraPly, which is on the market versus Strata which has been off the market for a long time.

So we feel that there is – that those diverging curves give us a lot of confidence that based on the implantation rates that we saw in Strata and how many of those patients have presented at this point with IIIb endoleaks, that overhang goes off, and that gives us confidence that AFX can stabilize in the U.S. in 2019.

The second piece is the Ovation business that was subject of the FSN that we launched in August. We think it's a transitory event. We think it'll take some time to get out of that. And Ovation is subject to a lot of counter detailing because it is the product that has a lot of promise. So we really feel that on the heels of an Alto launch in 2019, and a stabilizing AFX business, we can return back to growth with sequential improvements in Q1, Q2, Q3, and Q4.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. That's very clear. And as we think about the AFX part of the portfolio and think beyond 2019, should we at best be thinking about AFX being flattish? Is that the right way to think about the trajectory or could there still be potential growth somewhere down the road?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.
A

Yeah. Listen, in the U.S., I'd say, it is a flattish business. As we have talked about in previous conversations, Mat, there's a real clinical unmet need that AFX addresses. Even in times of that massive disruption, physicians went from AFX2 back to AFX1 because AFX2 was not available, okay?

The crossover lumen, the ability to treat patients with PAD, the anatomical fixation, there is a need for that product in the bag, and I think there's a lot of physicians that actually use it for that. So I think there'll always be need for AFX in the U.S. To the contrary, if you look at OES – OUS where they don't have the overhang of this IIIb issue, when we lost the CE Mark in Europe, today, we are actually growing the businesses. The base business for AFX is bigger than what it was prior to the CE Mark.

In Japan, our distributor, Japan Lifeline is doing more than 200 cases a month. So there's people having success with it, so there'll always be place for AFX, so I will not think that it's a product that's going to go away. But really, from our perspective, the growth engine for the company is going to be Alto and Nellix and the other therapies we'll bring into market.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

So let me just shift to Ovation. The critical evidence here continues to build and growth continues. Let me talk about where you're having success with Ovation. Again, it's been a couple of years of pretty robust growth. Are you seeing it primarily just increasing Ovation in existing accounts? Are you still opening new accounts?

Obviously, we'll touch on more of the go-to-market strategy reboot in a little bit. Also to that point, how much growth is coming at the expense of AFX? These are largely new to Endologix customers that are using it.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Well, I think it's two, maybe three-part answer here. First one is we struggled out of the gates with Ovation, as you remember in our bag, because our sales guys in the U.S. they were so focused on Nellix, they were so focused on AFX, and especially in light of the fact that they were counter-detailing Ovation when it was in the TriVascular bag, there was some reluctance to the adoption of Ovation. So, we went through a phase of certification, recognition that it was a good product internally, and that took some time.

The second phase of that was, Nellix got delayed, our sales guys recognized that they needed a new technology. They have kind of gotten through the certification process, really understood the benefits of Ovation, which I think was good. So a lot of them adopted Ovation. So, sequentially, we have seen from when we acquired the business to have gone from over 120 cases a month to we have done 200 cases a month now. So, that business has grown.

Now, has some of that come at the cost of AFX? Yes. Right. If you remember back in Q1 of 2018, we actually publicly said that we were going to move a little bit away from Ovation and spiffed our sales guys on Ovation disproportionately, by the way, which we had never done in the past. We were always paying the sales guys on growth. So, some of that cannibalized the AFX business. But really, from our perspective today, the guys are starting to kind of actively sell Ovation. They recognize the benefits of the polymer. In fact, there's discussions now happening at VEITH where the headwinds for the traditional EVAR devices lead or blend really nicely into the polymer technology, especially with Ovation which is on the market today. And the guys are having some success with it.

And more importantly, you heard from Dr. Schermerhorn at the Investor Day that as we package the data better, right, and freedom from Kaplan-Meier curve that they could recognize, and once the physicians have started to use it, Dr. Schermerhorn clearly said, for anything that is a short neck or a complex neck, the only device he would use is Ovation. So, we're going through that phase. We are starting to see that in the numbers. But let's get through the challenges with the FSN and this transitory event. And I think going into 2019, especially ahead of the Alto launch, I think we should be in a pretty good spot.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. That's a nice lead into Alto which is the next-generation Ovation launch coming next year at some point. Help us understand what Alto, obviously what it could do for growth, but I guess more importantly that implies what it could do in terms of the number of patients it could treat more broadly, easier to use, just walk through the attributes and why it could at least be a growth-sustaining launch perhaps even a growth accelerating launch.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

So, it is a – it's a new technology. It's building off of the current iX product that's in the U.S. So, our plan here is to have a controlled release sometime in 2019. And depending on the timing of the launch whether it happened in the first half or the second half, which we haven't by the way disclosed yet, will drive the actual topline impact on just 2019. But from our perspective, we do want to launch it into the second half and try and grow that Ovation business or the Ovation franchise on the heels of an AFX business. So I think that's one.

The second piece is, listen clinically, there's a difference between iX and Alto in the sense that from the top of the sheath to the first O-ring is only 7 millimeters versus 13 millimeters. So the applicability is much higher. So Ovation Alto will treat 80% of the traditional business on label and 25% percent of the complex cases on label. And that 25% of the complex cases is about $494 million business. That's pretty substantial.

Today, you know that in that $1.2 billion complex market only 31% is penetrated because there's really no solution for these patients. So, how much it will contribute to 2019 and beyond, I don't think we've gotten there yet. But we know that it has a very big market opportunity. Now the question becomes how quickly can we launch it into the market and how can we really monetize that. But the move into the higher volume centers and you've heard us talk about randomized controlled trials with competing products that we're going to do with Alto and that will actually contribute substantially going forward.

Mathew Justin Blackman Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. And are you still getting a premium for Ovation over AFX if only modest?

Vaseem Mahboob A
Chief Financial Officer, Endologix, Inc.

We haven't talked about price historically. But Ovation has a premium on AFX.

Mathew Justin Blackman Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. So let's shift to the go-to-market strategy reboot. I think it was pretty revealing at the Analyst Day when you broke down your customer base by volume. I think that was great slide to share with everybody. It was something like 70% of revenues were generated in hospitals doing essentially less than one EVAR case a month versus higher volume accounts that are doing two to four times that amount. That only represented about a third – a little bit less than a third. So clearly an opportunity, both from a volume and also a cost to serve standpoint, to drive more share in these higher volume accounts. So it makes total sense. But how do you do that, I guess, is the question and I ask that because I assume your customer concentration slipped the way it was, was probably a function of some passive, least competitive resistance. And so I'm guessing it's part of the expanding clinical data package and narrative about Ovation that allowed you to do that. Just help me understand why that is doable, how you're going to attack the obvious shift into the higher-volume EVAR accounts?

Vaseem Mahboob A
Chief Financial Officer, Endologix, Inc.

Yeah. Listen, I think one of the things that got misunderstood when we talked about that back in August at the Investor Day was we're talking about small steps, right?

Mathew Justin Blackman Q
Analyst, Stifel, Nicolaus & Co., Inc.

Yes.

Vaseem Mahboob A
Chief Financial Officer, Endologix, Inc.

So we're not talking about abandoning our base and just suddenly going into the competitive strongholds and take share. Good news is that we're already in some of those high-volume centers, right? 30% of our business – or 28% of the business today comes from those high-volume centers that we put on the chart, and 68% and – sorry 72% of our business comes from the low-volume centers. So what we're talking about in 2019 is a mix of 2 percentage points between those two, okay? And as John mentioned, 2 percentage points is $10 million of revenue, is less than one case per rep per month which is very doable, okay?

But how do you do that is very important as well. How we do that is why they can say – the high-volume centers we want to go after are who believe the four key things that John talked about, right? They believe that the outcomes in EVAR have to change, right? That this overhang on open versus EVAR. Second, that going back to open is not a choice. Third, the data has to be rigorous. And four, the outcomes have to be compelling. So if we can identify 25 of those volume centers which is our plan for next year, I think that'll be a – really a goal, but at the same time, getting us to those 2 percentage points is not a huge task like I talked about.

Now having said that, we got to come to you guys with a framework on how we look at that next year and how we give you progress updates because the last thing we want to do is give you the play and suddenly put it out into space, and we're the only AAA company that is pure AAA...

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

Sure.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc. A

...and give out our play. I really feel that it's a well thought through, well segmented approach. It's a very small impact for 2019 but longer term we'll have pretty significant dividends. But having ENCORE and having Ovation, and having Alto actually helps us improve our mix in those high volume centers from those low-single digits to mid-single digits. Mat. And that's not asking for too much especially when you look at the durability of the five-year data with ENCORE is fantastic.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

Yeah. It does seem like a heroic assumption. You and I have talked about this a couple of times. It seems like as I think about the biggest risk or risks in phase one of the reasons for transformation is the sales force attrition. And I think one of the, or was a part of the 3Q earnings call, and correct me if I'm wrong, but was your comment that October was tracking on plan. And so first of all, just to reconfirm, did I hear that correctly...

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

Yes you did hear that right.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

And second, sales force attrition, biggest risk. What have you done, what are you doing to help stem that potential loss of talent?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Right. So first of all, you did pick up on October, we had endoleaks, and the context behind the October comment was we have the second notice from the FDA that came out that classified the AFX Field Safety Notice as a Class 1 recall, right. And that created some confusion in the marketplace where we had cases, and the risk managers in the hospital calling the physician about AFX thing, but this distinction between Strata and DuraPly was not very clearly understood. It took a little bit of time to kind of just work through that. Our case creation dipped a little bit but then picked up again. So that was the context behind October was that we feel that that little bit of a disruption that happened still tracking to the $29 to $33 million guidance for the quarter.

Now the range that's driving that $29 million to $33 million, the big element of that is the FSN and is the attrition. Listen, we're doing everything we can possible to retain our top talent. We have put retention packages in place. We're looking at different structures for those retention packages not to just make them equity based. We are looking at not only doing that for our top reps but also doing that for the clinical specialists because we recognize that as we make that shift, and we lower our costs to serve, our clinical specialists become a very important component of that. So to lose a clinical specialist versus lose a rep, we want to keep everybody right, especially since we have gone from 110 reps down to 92 reps which by the way Mat, I want to make sure people understand, the reason we did that was because we had excess capacity and that excess capacity was built over time when we acquired TriVascular ahead of the Nellix launch which was the real genesis for that deal by the way, right. So now that Nellix is delayed to 2021, we felt that the right number of people for the U.S. market with the products that we have in the bag is 92 reps. It was not 110 reps.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got you. And so that gives you confidence that, again, anytime you cut – you're worried about cutting bone.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

That's right.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And so I guess that gives you some confidence that you have not. So maybe to sum up, there's two risks. I call that attrition. You called out [indiscernible] (00:23:55). When are those – when would you feel more comfortable that those are behind you? I think we've talked about the attrition side is really – as we get to maybe mid-2019, so maybe another six months to nine months. What about on the FSN side? Is that something as we walk into 2019? Is that going to take longer than that? How do we think about balancing really the timing of those risks?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

I think five months is better than two months. And so we'll definitely give you an update at JPMorgan. But I do feel that when we go back and look at some of the big disruptions that we've had in the last three years, typically there's a little bit of a deferred effect on the actual disruption.

So we announced the FSN in August. We had a decent August, good September, October is tracking. Listen, I just think that we've just got to be cautiously optimistic here and recognize that by the end of Q1, I think we should feel pretty good and have pretty good visibility that the worst is behind us. But I think before we kind of get to that point I just don't want to declare victory and say we are out of the woods or, Mat, it's going to happen in Q4. It's just not prudent.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Sure. Okay. It'll play out over time.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Yes.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And I'm just curious because you brought it up – and for those of you who don't know, one of the major vascular medical meetings is actually going on as we speak here in New York City, VEITH. What has been the feedback from VEITH, from the physicians? I think primarily on Ovation and the FSN, are you hearing anything that is...

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Well, I only saw the readouts for yesterday as I was flying in. So – but I think there's a lot of discussion about the durability of EVAR. And that's not for Endologix. I'm just saying generally that's a topic being broadly covered. We had some of our physicians present podium presentations around neck dilatation and the benefits of Ovation because of the polymer seal versus a typical self-expanding stent applying outer radial force to aneurysmal disease. So, listen, I think we're going to be presenting the LEOPARD data here at VEITH. And by the way, it's only a randomized controlled trial in a long time in EVAR that compares our product to competitive [ph] products (00:26:08). So we're excited about that and that's one of the datasets that we think gives us more confidence that we can continue to, one, stabilize the AFX business, but more importantly helps us achieve the guidance for Q4. So I think yesterday was the first day, I haven't heard today, but again, we have some pretty good speakers and some good events coming up in a couple of days.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good. And so the timing of this whole phase one up and above all of these changes, clearly have significant implications for your spend rate. And maybe you can walk through what you've accomplished really in the last several months to get that spend rate down. We'll touch on the balance sheet a little bit later. But where are you, where were you, I think, it's important to use the context of where the spend rate was, where you've set it now, and what that means for the next couple of years in terms of your capital requirement?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Listen, we've had to make some pretty significant adjustments in the last 18 months. If you remember, prior to TriVascular merger, on a combined basis, we were at a $228 million OpEx number. We have brought that down substantially to the $160 million and change. That's what we said we're going to end up for this year. Next year guidance we put out was $130 million to $140 million. And good news here for the Street here is that when you look at the operational run rate as of Q3, which is $35 million puts a smack in the new guidance achievement for

2019 at $140 million. And when you adjust for some of the one-timers that we had, which we talked about in the second quarter related to the CEO transition or some of the costs of financing, litigation expenses, those one-timers kind of go away. So, we feel very confident that the $130 million to $140 million number that we put out there we can achieve that.

So, a lot of work happened on that with the strategic working group that we talked about when Joanne hosted us at the BMO meet and greet with John. So, the five elements we talked about looking at markets, looking at products, looking at the clinical pipeline, zero-based budgeting, looking at the entire expense profile, and then lastly looking at our culture, right? So, all of that work kind of culminated into the restructuring, which by the way is complete. So, we took a $2.9 million charge in the third quarter and actually was self-funding, Mat, because we paid for that in the numbers that we put out for 3Q. So, I feel really confident on what we have done on the cost side.

But more important I feel good about is that we have still preserved the investment for the clinical trials like EVAS 2 and ChEVAS for next year. We are actually going to do the first in human on next-gen EVAS, which by the way is the real Nellix that is going to solve the defect more, so we hope, that we learned through the IDE trials that we've run so far. And we have preserved those value drivers. And we have an infrastructure that protects the company from a quality, and a controllership, and a compliance perspective.

So, we have done those tradeoffs, right? But I think it's not easy. We have had to lay off a lot of our colleagues and that's always hard. So – but I feel really confident about the level of investment in the business and how we protected the value drivers and making sure that we have a solid foundation.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

Okay. That's great. Let's move to phase two, which is really about positioning for consistent growth and perhaps even accelerating growth. So let's put a timeframe on that one. I think about that phase of this reboot, this turnaround, it's really 2020 and beyond. Is that the right way to frame it?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc. A

Yes.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc. Q

Can you talk about the key elements of driving I would say how we get to the consistent part that makes sense, the potential for accelerating growth actually to get into positive growth territory. What are the key elements that get you there?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc. A

Sure. So, first and foremost, big one, one full year of Ovation Alto, U.S. and OUS in 2020, we feel really helps accelerate the topline. Hopefully we're out of the woods, actually not hopefully, I'm sure we'll be out of the woods on AFX in 2019. So that business is very predictable. And like I said, there'll always be a place for AFX.

And as you remember, there's a halo effect of the data readout. So, we would have enrolled in the EVAS 2. So we'll basically finish the one year follow-up with the patients in 2020, start presenting the 30-day data. We would be about to finish enrollment in ChEVAS around the same time. And I think we would have actually reduced our cash dependence, we've talked about for 2019 being less than $5 million and we breakeven in 2020.

So we can grow our business double-digits from topline with the elements that I talked about, and have a cash flow breakeven milestone we think that it'll be a pretty significant milestone. So, again, it's all tied to the fundamentals and making sure that the people, process, and systems are in place, and we continue to execute on those.

We would have finished the – we would have started the randomized controlled trials. Again, the details of which we have not shared, that we should expect to help contribute to the topline in a meaningful way. But again it goes back to high say-do, high credibility in 2019, building the foundation, and then really starting to monetize in 2019.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Yeah.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.
A

2020.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

I know you don't want to share the details on the clinical studies that you have, but just give us a sense that you've talked about doing, and this would be very unique although you've done it before with LEOPARD, head-to-head studies and there's obviously risk as well as reward from that. Are those studies – should we think about those as 2019, not necessarily readouts but is that 2019 a year when those things start to come together where you start to put those into place, start to enrolling? How do we think about just when you start that process and conceptually, what you're trying to accomplish?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.
A

I think first things first, we just got to – like I said, the places where you want to do those are going to be those top 25 accounts that we want to do. So let's get through that milestone first, and then we can have a conversation about the trials. And I think it would be better to have that conversation with Dr. Thompson in the room.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Sure. Sure, sure. All right. So then there's – and we touched on it a little bit, there's a phase three which is accelerated growth or...

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.
A

Yeah.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

...you mentioned double-digit growth rates that would be tremendous. But as you take a step back and again, early and this is not a commitment here but we all need to think about what could be if all this or even most of this goes the way you think it does. How do we think about Endologix five years out, crystal ball, however you want to phrase it, what's sort of the topline growth profile? What's the margin profile? How do we think about that scale and everything going right? What could this be?

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Listen, it goes back to the point on the best setup in my mind and in this market today is you have Alto full year in 2019, right? You have Nellix launching in 2021- sorry in 2020 also in 2020, and Nellix in 2021, and ChEVAS in 2022. That 2022 is when you have all of the arrows in the bag. I think we can substantially accelerate the topline that's the assumption.

So if we are talking about 2020 and beyond double-digits which is like maybe in the 10% range. You can look at that – you can think of other business easily growing 20% topline, 70% gross margins, and by the way we've been at 70% gross margins, and we lost a lot of the volume, which means now if we start to ramp up volume, you can get better leverage on your overhead. You can look at a strategic partnership with somebody else and contract management. There's a lot of things hydrophilic coating that used to talk about, stent manufacturing capability that we have in Santa Rosa, and then the readout on next-gen EVAS around the corner.

I think this can be a business that can be pretty substantial in terms of topline and EPS positive which is what you have said in 2022.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. And I think it's the last topic we'll cover, and again all of these things are inextricably linked to balance sheet.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

Yeah.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

You've done a lot of work trying to reposition that balance sheet, strengthen it, could you give – I think it'll be helpful if you give people an update in terms of, I think it impresses me where the balance sheet was, where it is now, and the goals for and the timeframes for fully de-levering that balance sheet and taking those commitments off.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

So we have done some good bit of work here, this year on fixing or addressing the balance sheet. We listened to the feedback and we got working on it. We took $40.5 million dollars of the 2020 maturities, the convertible debt, rolled it into the term loan with Deerfield which was great. We secured the short term cash needs at the time with the ABL which is in place. We just recently did a bought-deal for $20 million. Listen, the bought-deal was to totally derisk our business and create that headroom and cushion where we don't have to worry looking at our covenants everyday as we came into work, right? So that gives us the freedom and derisks the P&L so that it puts us in a position where you mentioned it's the top of the first innings for the new strategy. But at least it gives us time to make sure that we can see that strategy through and put some good quarters on the board here, and demonstrate that it's a business where we can rebuild our credibility. We can have a say-do that's greater than one, and put ourselves in a position of strength to refinance the $84.5 dollars that's left again.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And that comes up to [indiscernible] (00:36:12) again.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

So that's the 2020 maturity. So we have the flexibility from now until towards the end of next year to start thinking about that. So that's a lot of work.

On the restructuring side, so we have taken the tough medicine here and rightsized the business. And again, rightsized the business but preserving the long-term value drivers of the company as well. So hopefully, you appreciate that too where we haven't just gone out and cut costs, right? So we've been very strategic about it. We've been very mindful of it. And I really think that it's a better company today than it was six months ago, but does that mean all of the work is complete? The answer is no. We still got some work to do.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

<Okay.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

A

But again, it starts with good execution and a high say-do.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

Great. Well, we've got a couple of minutes left. I think we've covered everything I want to cover. So, again, always appreciate your time. Thank you for joining us.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

No. Thank you.

Mathew Justin Blackman
Analyst, Stifel, Nicolaus & Co., Inc.

And thank you, everyone in the audience, for joining us as well.

Vaseem Mahboob
Chief Financial Officer, Endologix, Inc.

No. Thank you, everybody. Appreciate your time.