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Motus GI Holdings, Inc. (MOTS) CEO Tim Moran on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-14-19 Earnings Summary

Press Release *10-Q*

EPS of $-0.18 beats by $0.07 | Revenue of $0M (-% Y/Y) misses by $-0.02M

Earning Call Audio

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Motus GI Holdings, Inc. (NASDAQ:MOTS) Q3 2019 Results Earnings Conference Call
November 14, 2019 8:00 AM ET

Company Participants

Bob Yedid - IR, LifeSci Advisors

Tim Moran - CEO

Andrew Taylor - CFO

Mark Pomeranz - President & COO

Conference Call Participants

Kyle Bauser - Dougherty & Company

Matthew O'Brien - Piper Jaffray

Steven Lichtman - Oppenheimer

Jeffrey Cohen - Ladenburg Thalmann

Ben Haynor - Alliance Global Partners

Operator

Good evening and welcome to the Motus GI Third Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Mr. Bob Yedid. Thank you, Bob. You may begin.

Bob Yedid

Thank you, operator. And thank you everyone for joining us for the Motus GI third quarter 2019 update call. Representing the company are Tim Moran, Chief Executive Officer; Andrew Taylor, Chief Financial Officer; Mark Pomeranz, President and Chief Operating Officer of the company.

Before turning the call over to management for their opening remarks, I would like to take a minute to remind you that this conference call and webcast will contain forward-looking statements about the company. These statements are subjects to risks and uncertainties that could cause actual results to differ. Please note that these forward-looking statements reflect opinions only as of the date of this call, November 14, 2019. We will not undertake any obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Factors that cause actual results or outcomes to differ materially from those expressed in or implied by such forward-looking statements are discussed in greater detail in our most recent filings on Form 10-K, and other periodic forms -- and other periodic reports on Form 10-Q and 8-K filed with the SEC.

With those prepared remarks, it's my pleasure to turn the call over to Tim Moran, CEO. Tim?

Tim Moran

Great. Thank you, Bob. And good morning, everyone. Thank you for joining us today for our first quarterly conference call as a public company. I'll start off today's call with an overview of our business and progress to-date, before turning the call over to Andrew, so he can review our financial results for the third quarter. And then of course, we will open up the call for a Q&A session.

With that said, let's get started. We recently entered an exciting phase of our company's history, as marked by the initial commercial shipments of our Pure-Vu System to hospital customers in the U.S. As a reminder, these customers are currently focused on using the Pure-Vu System to address inadequate bowel prep for patients undergoing an inpatient colonoscopy, principally for emergency conditions, such as lower GI bleed, anaemia, infection or undiagnosed abdominal pain. Inadequate bowel preparation prior to colonoscopy remains a significant unmet need that affects up to 50% of all impatient procedures. This leads to canceled, delayed and even aborted procedures, resulting in prolonged hospitalization and increased costs for both patients and providers.

The Pure-Vu System puts the power and control to overcome the challenges of inadequate bowel prep into the hands of the physician for the first time. It allows physicians to rapidly and safely clean the colon during the colonoscopy procedure to achieve high quality visualization.

As a result, we have demonstrated in several studies that the Pure-Vu System offers clear clinical benefit and its ability to ensure procedures are completed on time, thereby reducing length of stay, improving bed turnover and reducing the overall burden on both patients and the nursing staff. There are an estimated 1.5 million inpatient colonoscopies performed in the U.S. which makes up approximately 10% of the 15 million colonoscopies every year. Outside the U.S., we estimate that over 2.5 million inpatient colonoscopies are performed in hospitals.

Over the long-term, we believe Motus GI has the unique opportunity to establish the Pure-Vu System as a new standard-of-care for bowel prep challenges for this large inpatient global market. We also see follow-on opportunities to expand into the adjacent outpatient market as well as into upper GI procedures.

Before I provide a detailed commercial update, I think it's important to quickly review the path we took to get to this exciting inflection point. Since joining Motus GI as CEO one year ago, the team and I have been diligently planning for this commercial launch and executing on key milestones designed to optimize our success. First, we've put together a top tier leadership team in addition to significantly bolstering our commercial organization. Mark Pomeranz, previously CEO of the company, who led the development and regulatory approval of the Pure-Vu System, assumed the role of President and Chief Operating Officer. Mark has been a great partner to me and continues to be an incredible asset to the company, leading our advanced R&D team with deep resources Israel as well as our clinical regulatory and manufacturing operations.

We also recently hired two key executives into important leadership roles. Steve Bosrock joined as our Vice President of Global Marketing and Strategy; and George Peters joined the team as Vice President of Quality and Regulatory Affairs.

Finally, our sales team led by Jeff Hutchison, Vice President of Sales and Commercial Operations, was expanded in September with the appointment of several seasoned medical device sales professionals who joined us from the GI division of a leading global medical device company. With these additions, our sales team now averages more than 15 years of proven experience in medtech and GI and we believe are geographically situated to allow optimal proximity to our largest customer opportunities.

Next, we completed a detailed market assessment and crystallized our go-to-market strategy. We have carefully analyzed and segmented accounts as well as patient and procedure profiles in order to focus our launch where we believe we'll have the highest success both in driving adoption and utilization as well as in generating recurring revenue streams that may help the company achieve sustainable future growth.

Based on this detailed market assessment, we are initially focusing our commercial launch on larger hospital networks, with the average hospital conduct anywhere from 500 to more than 1,000 inpatient colonoscopy procedures per year, which I'll discuss in more detail in a moment.

The last key milestone in preparing our launch strategy was to generate robust clinical data. This was established through the multi-center inpatient REDUCE study we completed earlier this year. As you may recall, the REDUCE study showed statically significant improvement in bowel cleanliness after Pure-Vu use as compared to the standard-of-care. Specifically, patients demonstrated that adequate bowel preparation rate improved to 96% following the use of Pure-Vu from 38% at baseline. There is no technology that we are aware of in the market today that is capable of delivering these outcomes.

This of course brings me to another key milestone in 2019 which was receiving FDA clearance for the second generation of Pure-Vu and commencing shipments of our commercial system. The GEN2 system incorporates major upgrade to our workstation that improves set up time, mobility, ease of use and reliability. It also incorporates important enhancements to our single use sleeve which further facilitates loading onto most commercially available scopes, as well as improved handling and navigation, while maintaining our outstanding rapid cleansing capabilities. I cannot overstate the importance of all of these GEN2 system improvements in now positioning Motus GI for future commercial success.

As previously announced, the first commercial placements of our Pure-Vu System began in early October. Our initial focus was on early adopter hospitals. These are hospitals that had previous experience in using our first generation system. The reason we are rolling Pure-Vu out to early adopter sites is because given their prior experience they're providing us with rapid real world feedback on the system including its handling characteristics, ergonomics and ease of use.

To-date, the feedback has been extremely positive. This early feedback is critical as we accelerate our deployment to additional hospitals throughout the remainder of Q4, and of course into 2020 and beyond. In addition to these early adopter hospitals, our initial pipeline of commercial opportunities is focused on high value targets that can help position us for long-term substantial and sustainable growth in this large market, which I just outlined.

From a macro perspective, if you look at hospitals that perform between 500 to greater than 1,000 inpatient colonoscopy procedures a year, this represents approximately 1,000 potential hospital customers, many of which we are already targeting, and all of which we have the opportunity to target in the future as we proceed with our strategic rollout of the Pure-Vu System to the hospital market.

With that understanding, let me provide an outline of the commercial strategy we are currently executing. First, the Pure-Vu System typically is required to go through a Value Analysis Committee review. This has become a standard process for medical device purchases within most hospitals. To be successful in this stage, it starts with our sales team identifying and building relationships with one to two key physicians, who will champion the Pure-Vu System through the VAC process. While this process can vary, most hospitals require a brief evaluation of the device prior to final VAC approval and purchase, which contains anywhere between 90 days to 180 days from start to finish. Once approved, we then offer a variety of capital acquisition options. The hospital has the choice to utilize one of our lease or rental programs or they can make an outright purchase.

If we dive a bit deeper into the progress we've made with our pipeline, we have now engaged directly with more than [15] target hospitals. Most importantly, a meaningful number of these hospitals have resubmitted the Pure-Vu System to their VACs and received approval to conduct an evaluation. Following positive evaluations, we expect to move these customers through the leasing, rental or purchase process in the fourth quarter and into 2020. A high winning percentage in the VAC process is of utmost importance at this stage, and we believe our tenured team, armed with powerful clinical and economic tools is making very good early progress. To further elaborate on these initial targets, most, if not all, are part of larger IDN or Integrated Delivery Networks, which consists of numerous additional affiliated hospitals.

Our strategy is to gain approval in the flagship site, which we then provide an easier pathway to adoption within sister hospitals that are part of that same IDN.

In our first six weeks since launch, I'm pleased to report that the Pure-Vu System is now being utilized in approximately 10 of our early adopter hospitals targets. These sites are a combination of customers who have either; one, purchased the entire system; two, purchased sleeves while using our workstation on short-term loan as they proceed through their capital budget process; three, are doing brief evaluations prior to submitting to their VAC for purchase approval; or four, have completed their evaluation and have submitted to their VAC for approval and implementation. This is very typical in early sales funnel for medical device companies introducing a new solution to the market.

In terms of our revenue model, it’s important to recognize our belief that the long-term growth opportunity for Motus GI is through the sale of our disposable sleeves and therefore we will be focused on driving utilization at every site. Initially, for modeling purposes, we expect customers over time to ramp to approximately five to 10 Pure-Vu System procedures per month per workstation.

One driver of utilization will be the expansion within a hospital GI staff. For example, a new customer account may only have two to three physicians with Pure-Vu experience, out of a GI staff that can range from five to 20 doctors. This will limit the initial utilization at a hospital account. Once an account has a Pure-Vu workstation in place, the objective of our clinical product specialist is to implement our account activation program, which includes training additional GI doctors and their staff on the system and establishing an agreed-upon protocol within the hospital that can lead to broad and regular use of the Pure-Vu System for inpatient cases.

We believe the execution of our account activation program will lead to additional utilization each quarter which in turn will lead to growing sales of our disposable sleeves. While we are pleased with the initial uptake of our system, it is too early in the launch to provide specific guidance. However, after we get several quarters of commercial experience, we plan to share key metrics on the penetration of the Pure-Vu System into the market.

Looking ahead, we are committed to generating additional clinical evidence of the benefit to the Pure-Vu System in collaboration with leading investigators and world-class medical centers. Earlier this week, we announced the initiation of EXPEDITE an investigator

initiated study being conducted at Boston Medical Center.

The study is primarily designed to assess the Pure-Vu System's ability to minimize the use of conventional bowel preparation regimen in order to further accelerate the time to a successful colonoscopy for the inpatient population as well as for outpatient cases performed at the hospital.

I want to close out my remarks by sharing real world procedures that I think exemplifies the power of Pure-Vu. A few weeks ago, one of our new accounts had an emergency GI hemorrhage patient arrive at their hospital. The patient was then admitted into the intensive care unit. Knowing they now had the Pure-Vu System available, the physician rolled our system up to the ICU, conduced an immediate bedside colonoscopy, identified the source of the bleed and treated the patient immediately. This patient had no pre-procedural bowel prep. Without the Pure-Vu System, the successful and rapid approach to this case would likely not have been possible. It's cases like this that truly resonate with our customers and then ultimately could help us to drive adoption across the U.S. and globally. Unfortunately GI bleeds are all too common worldwide and bowel prep has inherently been an obstacle to diagnose and treatment.

We are all inspired by the positive impact we can have on patients through the use of our technology.

I will now turn the call over to Andrew to discuss our financials for the third quarter. Andrew?

Andrew Taylor

Thank you, Tim. And thank you everyone for joining us today. For the three months ended September 30, 2019, we reported a net loss of approximately $5.2 million or a net loss per diluted share of $0.18 compared to $5.2 million or a net loss per diluted share of $0.33 for the same period last year. The third quarter of 2019 included non-cash expenses of approximately $600,000 principally related to stock-based compensation, compared to $1.4 million of non-cash expenses for the same period of 2018.

For the nine months ended September 30, 2019, we reported a net loss of approximately $17.1 million or a net loss per diluted share of $0.72 compared to $16.7 million or a net loss per diluted share of $1.13 for the same period last year. The nine months ended September 30, 2019, included non-cash expenses of approximately $2.7 million principally related to stock-based compensation, compared to $5.8 million of non-cash expenses for the same period of 2018.

The company ended the quarter with approximately $26.4 million in cash, cash equivalents and investments. This reflects the investment of about $700,000 into additional inventory this past quarter for the GEN2 Pure-Vu Systems in order to prepare for upcoming commercial placement.

And with that, I'll turn the call back over to Tim.

Tim Moran

Thank you, Andrew. As I reflect on the last 12 months, I'm very proud of what the company has accomplished. That said, staying laser-focused on the execution of our strategy will allow us to reach the full potential for the Pure-Vu System, which is protected by 23 issued patents and 28 patents pending globally. We have a very large market opportunity both in the U.S. and globally which for the moment belongs to us and us alone. We believe that Motus GI is in a unique position to bring our high impact solution to a large market with significant unmet needs. We have a great team. We are highly motivated to work diligently to pursue this compelling opportunity whereby we believe we can improve patient care, reduce costs for healthcare providers, and drive shareholder value for our investors.

I would now like to open up the call to Q&A. Sian?

Question-and-Answer Session

Operator

[Operator instructions]. Your first question comes from Kyle Bauser from Dougherty & Company. Please go ahead.

Kyle Bauser

Hi, Tim. Good morning. Thanks for all the updates here. Maybe I'll start with EXPEDITE. So just for clarification, so the key difference here between the 50 patient inpatient arm of the EXPEDITE and the previous REDUCE study, is that the inpatient arm of the EXPEDITE study will be used without a 24 hour prep, as was the case in the REDUCE trial, is that right?

Tim Moran

Yes, so Kyle the way I would think about EXPEDITE is, for the inpatient, they will look at the prep that they administered, that was appropriate for that inpatient. So, for example, in a GI bleed case, they may accelerate and reduce the prep and they will document that. At the end of the study, they'll look at the cohort of inpatients, then determine what the improvement was in time to colonoscopy versus their historical look back at cases over the previous year. From an outpatient perspective, they will be looking at cases that they were able to complete that otherwise would have been canceled.

Kyle Bauser

And what are your timing expectations for enrollment of the full 100 patients. And I'm just curious which arm do you think will enroll faster?

Tim Moran

Great. I am going to turn that question over to Mark.

Mark Pomeranz

Hi, Kyle. As we look at that, the outpatient arm we do expect to enroll faster than the inpatient arm and we anticipate this study going through the most of the course of next year, with the inpatient arm being the longest lead around that and that's just basically due to the volume at BMC on this. But it’s a great intercity hospital, so it gives us a nice understanding of the real world setting of utilization.

Kyle Bauser

Okay. And just a couple of quick additional questions here. Will the EXPEDITE study be used for any type of indication expansion or especially 510(k) clearance or is it primarily to prove out the value proposition in that urgent high medical need patient population?

Tim Moran

Yes. Thanks for the question Kyle. Yes, so we don't see the EXPEDITE study as an expansion of indication but we do see it as a valuable data point on the economics being validated in a real world setting. So, to your point, looking at data entire endoscopy unit, both their inpatient and outpatient volume, and the impact that they have on both accelerating inpatient colonoscopies as well as reducing canceled or delayed outpatient cases.

Kyle Bauser

Okay. Understood. And one last question if I may on the topic of clinical trials. So you've spoken about other investigator led clinical trials that will eventually be underway and I am in particular thinking about the randomized control trials that are in your presentation deck. Can you just talk about these trials, timing and how much you anticipate them costing? Thanks so much.

Mark Pomeranz

Hi, Kyle. This is Mark again. So, yes, we are actually working with some of the top main institutions in

the world on trials, both randomized in the inpatient setting as well as multi-center studies in the outpatient world that are also randomized controlled trials that will really help establish our ability for work in the ultimate setting of reimbursement in the outpatient setting and really driving a lot more cost data for that inpatient world on a randomized basis as well.

Tim Moran

Yes. And Kyle, if I can just add a little more color, the second part of your question around cost, one of the things that we've talked about before, what's nice about this business and the space that we're in, the cost of these trials is, I would say is not significant compared to other device companies. So, while we haven't given the specifics out, these are not super expensive trials to run, which is why you see us continuing to make these investments because they come obviously very important sales tools as we're out now commercializing.

Operator

Thank you. Your next question comes from Matthew O'Brien from Piper Jaffray. Please go ahead.

Matthew O'Brien

Tim, can you just tell us how many reps you have at this point? If you're not comfortable with the exact number, would you just say it's low single-digits, mid single-digits, even higher than that?

Tim Moran

Matt, thank you for the question. We currently have approximately 10 customer-facing field-based sales reps. So if you look at the team, and as I mentioned in the prepared remarks, we now have that team where we want them for the commercial launch and geographically located throughout the country.

Matthew O'Brien

And how do you -- and I'm sure you just added these folks, how do you think about them ramping up and in early days what kind of productivity levels do you think they can get to over maybe a six to 12 month period?

Tim Moran

Yes, so one of the things that we've been deliberate about is the profile of the reps that we've brought into the organization. So as I mentioned earlier, on average 15 years experience, but we've really targeted top tier folks that have proven track record at very

prestigious organizations. And what they're coming to us with is not only the KOL relationships, which is probably of utmost importance, but they also know how to navigate the hospital Value Analysis Committee process and they've done this for many years, and that's probably the most important thing right now that we're focused on that, the winning percentage in the VACs is so critical. And then you get the license -- and we start to be able to then expand and grow our business as we bring more docs on. But it all starts with getting that VAC approval. And I'm very pleased with the early progress. I think the brand new reps coming into our organization, learning our business probably takes about a quarter to get up and running fully which I think is based on my previous experience is pretty quick. But again given their track record and having worked in the GI space, it's what we're expecting and why we've made that type of investment.

From a productivity perspective, I think as we get a couple of quarters under our belt we will have better view to that. But I do think over time, what that is tied to is account independence and account-driven utilization. It’s something that we're focused heavily on in that account activation program that I mentioned. So when we get our product into an account, we have a very specific and systematic approach that we take to train the physicians and their staff and ensure that they fully understand how to set up our system and operate our system. So eventually after that kind of initial period, we can then move on to other accounts and they’re self sustainable and that obviously will allow our reps to cover more accounts. But I think we want to get a couple of quarters under our belt before I can probably give you specifics in terms of the actual productivity but absolutely something that we're focused on.

Matthew O'Brien

When you talk about the 1,000 accounts that you are targeting, you’re in 1% already, which is impressive in one month, what percentage of that 1,000 accounts are you talking to right now?

Tim Moran

So I would say that right now 1,000 accounts are a lot of accounts, right, that can keep us busy for quite some time. I would say about 10% of that population, we have had dialogue with. As I mentioned in my prepared remarks, we're engaged with about 50, right? It's all

about qualification and prioritization and when both the facility is ready to put Pure-Vu as their priority, right? These accounts obviously have other things happening in conversions in their hospitals. And fortunately, this is such a large market opportunity for us, we are able to spend time with the accounts that are ready to go more quickly. But I would say I'm pleased with the progress that we're making with 10 reps, hitting about 50 that we've had very good qualified communications with and obviously that will continue to expand as we get through the end of Q4 and into early 2020.

Matthew O'Brien

Okay. And then as we guys think about that inventory investment that you've made, is that largely just for the system themselves or there is a lot of sleeves that were built as part of that $700,000 or just on the CapEx side?

Andrew Taylor

Hey, Matt. It's Andrew. I'll jump in on this one. So, the $700,000 that you see there, was split roughly

60:40 on the capital side, obviously on the sleeves and that's a mix of raw materials and WIP and finished goods. I think over time, you will see that there will be continued investment on both fronts but even more so on the disposable side as the business model starts to evolve here.

Matthew O'Brien

Okay. And then just two more from me. Thank you so much for all this information, super helpful. You are engaged with 50 accounts right now, you've got 10 in. There is a multitude of options that you're giving them for working with you. How do you think about those 50 eventually hopefully converting or 100 converting at some point? Is there going be an out system purchase, are they going to just do a sleeve purchase? I mean how do we think about where that could go? I know it's kind of an open ended difficult question, but just want to hear your thoughts on that.

Tim Moran

Yes. What's good Matt is, I think it's following kind of the typical sales cycle or funnel that I have been associated with in past lives in are running medical device companies. So, we're moving them through I would say the thoughtful process, obviously need to generate that initial champion. But an evaluation needs to happen, right? And so far success with these evaluations has been very high. We have got an excellent technology that we believe works each and every time. And as I said earlier, addressing a need that exists in ever hospital in America, right? So, you've got a take on that need. You got a technology that works and we put really a high power team on the street to go out and capture it. Where they fall in terms of the capital acquisition model, whether a hospital will execute lease, rent the system, we have various programs in both categories, or making outright purchase. I don't think we have a clear enough view yet just given being six weeks in. But what I think is really important is that we have been thoughtful upfront to make sure that we do have options for these customers so that we can meet their needs based on where they stand from a capital perspective at the hospital. At the end of the day, this business is built long-term on the recurring revenue of the sleeve. We want to do what we can to work with the hospital to ensure that they acquire the workstation in a manner that is efficient for them.

Matthew O'Brien

Okay. Last one for Andrew, just and again a difficult question. I know it's early. Can you just put some kind of air buzz around the cash burn rate over the next may be 12 months?

Andrew Taylor

Yes. So, obviously we're not providing specific guidance on that as you alluded to. I think what I can say and I have been consistent on this for the last couple of quarters is that our burn rate right now in 2019 has ranged between $4.5 million to $5 million per quarter. I think we expect as you heard we had investment into personnel, obviously continued investment into inventory. So we would expect that to kick up. I think that it will be a moderation, won't be dramatic. So I'm not going to put a specific number on it. But I think you can expect and anticipate some uptick from that say $5 million per quarter mark that we will probably be closing 2019 with.

Operator

Your next question comes from Steven Lichtman from Oppenheimer & Co. Please go ahead.

Steven Lichtman

Can you -- you mentioned the metrics that we should be thinking about is helpful, five to 10 procedures per month for workstation. Is that based on the assumption of one main physician champion for institutions? I know you mentioned you expect the penetration to be sort of multilevel as the institutions gains experience. So could we assume more per workstation if additional physicians come on board over time?

Tim Moran

Yes, I think Steve that's the way to think about it. We're taking a view of a new paradigm shifting technology, right? We're bringing people along. And as I mentioned and you recall, most accounts, we typically will have one or two docs that are our champions, that have been by our side, leading it through the VAC. So as we take a view of that ramping to five to 10 that -- I think that -- the way to think about that, that's an early view. And over time what's nice about this business is we're going to expand, if you will, same-store sales if you will, right? As we get more GIs onboard doing procedures, we would expect over time so that number to ramp up. But we also -- we want to be able to have a good view on the time it takes to get there.

Steven Lichtman

And then just a little bit more on the 50 or so hospitals you are currently engaged in. How many of those were had experience already with GEN1 and how many sort of came from the pipeline?

Tim Moran

Yes, sure. So about half of those accounts had a previous experience with GEN1. So half of those accounts kind of come from that early adopter category that I had outlined.

Steven Lichtman

And then obviously U.S. is the primary focus here, you mentioned in the press release, gaining -- looking to gain CE Mark for GEN2. Generally, what are your thoughts about outside of the U.S. opportunities and how aggressively you will pursue those in the coming couple of years? So anything to talk about in terms of international expansion?

Tim Moran

Yes, sure. So, as I think we've mentioned in the PR we will -- a key milestone will be a report on the CE approval. We are in that process -- really in the administrative process with the agency and we anticipate that being a Q1 approval given our kind of line of sight to that now. What I'll say in that is I can't emphasize enough how important getting our beachhead and executing on U.S. opportunity is. So we are very focused from a resource and time perspective on executing in this large market. But having said that, we have spent time assessing the O-U.S. markets, significant emphasis and looking at the countries in Europe, understanding reimbursement programs where we think that we can get the greatest return on our investment, and then obviously a little bit longer term, Japan and other markets. So, I think we will provide updates as we get into future quarters. We absolutely see a big market there but I would say that that's probably a later in 2020 priority for us. What we are spending our time on now as it relates to O-U.S. is getting to the point of being selling ready, but I think pulling the trigger commercially we will continue to think about that and take a view as we further our U.S. penetration.

Operator

Thank you. Your next question comes from Jeffrey Cohen from Ladenburg Thalmann. Please go ahead.

Jeffrey Cohen

Just to follow on some of the previous questions. I know Matt was talking about the sales force currently. Can you walk us through how that may look and play out for the balance of the year and into 2020? Do you expect that to increase, double or give us a sense of clinical and capital folks on the field during 2020?

Tim Moran

Sure. Yes. So, Jeff, the way we are looking it is, right now, we have a team that we feel is the right sized to go penetrate the market. And also given what I outlined in terms of their experience and what we think over time they can do from a productivity and efficiency perspective, we will obviously continue to invest in invest in growth as we see the growth coming. So, I'm not ready to suggest that we will absolutely double the sales force in 2020 but what I will tell you is as we start to see our expectations coming through on a quarterly basis, we already have plans in place to where would we put that next rep, in what market and why. But I think it's really important at this stage of our evolution as a company, as you know, managing our cash burn effectively and our resources, capital expenditures effectively, it's just of utmost importance. So, as we continue to grow, we will add more sales people.

The mix, as you know we have got clinical product specialists that are part of the organization as well, that's something that we will also continue to take a view on as we get more commercial experience under our belt. You've got the sales rep that is really charged with the relationships with the KOLs and driving through that Value Analysis Committee process. But the clinical product specialists are going to be on site supporting procedures, doing education and playing important role in bringing us additional physicians on over time. So, to your point, I think that mix will be important. And again, as the customer to starts to come on board, we will flex that one way or another.

Jeffrey Cohen

Okay. Got it. And then you were talking about CE Mark, did you -- what process are you in now as far as pursuing that? Is that filed and when do you expect -- sounded like you had mentioned 2020, early 2020 previously?

Tim Moran

Yes. So we have filed for CE Mark approval and right now our best estimate is in the first quarter we would expect the feedback on that filing.

Jeffrey Cohen

Okay. And then, could you kind of discuss a little bit how you're thinking about some of the European territories as far as eventually getting into them, is that something you are planning on doing directly or through any distribution partners?

Tim Moran

Yes. So, thank you for that question. We are, as part of kind of our market research -- and I was actually just over in Europe a few weeks ago, Mark and I were, we're assessing the most appropriate go-to-market strategy for all of Europe or also by country, right? And I think that includes the potential for all of those options that you mentioned, right? Whether we would consider going direct in a market, aligning with a strong distributor partner, but also I think the other consideration is strategic partnership. And we're evaluating all three. And I think as we get further into 2020, Jeff we will provide more specifics on that. But I would say that we're at the early stages of that process in terms of engaging with both distributors as well as strategic.

Jeffrey Cohen

And one more from me, I guess for Andrew, could you talk about the inventory build both on the consumable side and as well as the console side and how that looks and more resources that will be put into it as far as a backlog goes and demand?

Andrew Taylor

Sure, of course. So as I've mentioned, right now, our inventory levels are split about 60:40 between the capital and disposables. The disposable ramp will certainly start to accelerate into 2020. And I'd anticipate -- and this is one of the areas that Matt had mentioned earlier with respect to burn, that I would expect that there'll be more investment into inventory, particularly into disposables, so that will be an element of the growth of the cash burn through 2020. And I think we'll head in that direction as the year progresses. We anticipate trying to stay at least a couple of months, two to three months ahead on inventory, which is sort of normal course of business in terms of both the capital and the disposable.

Jeffrey Cohen

Okay, and you don't see any year term or medium term issues as far as scaling up?

Tim Moran

Absolutely not. Mark, you can perhaps add a little bit more about the manufacturing partners.

Mark Pomeranz

Yes. Hey, Jeff. So we're actually in really good shape with manufacturing partners and one of the things we do is we actually have even on the workstations continual manufacturing going on, on a monthly basis. So we always keep those production lines sort of active, running those sort of in line with sort of where we need to be of a quarter ahead or so, two to three months ahead, as Andrew mentioned. So we keep the lines continually running, and we have capacity now on the line. With just adding additional staff, service all our needs through next year.

Operator

Thank you. Your final question comes from Ben Haynor from Alliance Global Partners. Please go ahead.

Ben Haynor

Just a couple of here from me. I know it's early days and the big broad takeaway is that you're going to get might be a little bit limited. But given the familiarity with the system that these early 10 or so accounts have, I was just curious to what you've seen so far in terms of how their utilization has ramped, is there any kind of color you can provide there?

Tim Moran

So Ben what I'll say -- thank you for the question, what I will say is, we do -- if you think about the -- and I've talked about this in the past, we've had a bit of a benefit of having a FDA approved GEN1 unit that we were doing our market development work with, which allowed us to cultivate this group of early adopter hospitals, which is not always the case, right, with the product launch. So, I would categorize that group as having the ability to move a bit faster through the process in comparison to the timing and that I outlined in the prepared remarks, that 90 day to 1 80 day process. But being six weeks in even with

these facilities having the workstation on site, to comment on utilization, I think is probably premature. I am comfortable with the comment around five to 10 procedures per month ramping to that. I think that's our best view early on. But I am pleased with the performance of our sales team in getting these units out here very rapidly. And I think we continue just to execute on the plan that we had set forth with this early adopter group.

Ben Haynor

And lastly from me, I appreciate that you don’t want to provide guidance necessarily for the burn rate. But was curious if you might be able to share kind of all those to point out, the way you got internally, kind of where you see a breakeven run rate on a quarterly or annual basis?

Tim Moran

So, Ben, this is Tim. Let me just start and Andrew can add if he like here. Again, at this juncture I think to give a breakeven would be premature for us. But having said that, I think right now as Andrew mentioned, we have put together the appropriate organization, both the commercial team but also the back office, right? I mean, if you think about this, the inflection point is not only moving to becoming a selling organization but we're a commercial company now, right? So, with that comes back office support, how we interact with the customer from an order processing logistics. And we’ve put the team in place that is required to be successful from our view, which is why we don't see significant increase in expense through 2020. And we will continue to run this business in an effective and efficient manner. But I think, at this point, we are focused on executing here in the early days of the commercial launch, starting to bring these customers on and build recurring revenues. And at some point in future, obviously we will be very interested in providing more details, not only around the metrics that we are running our business off of, but also future potential for breakeven points.

Andrew Taylor

The only thing I'd add is, although we are not going to be providing guidance, I think that you will find that both our growth margins over time at scale will be very much in line with medtech companies operating margins. Similarly, we anticipate getting a lot of leverage

out of our sales personnel, as Tim has spoken to with respect to our recurring revenue business model. And so I think the same thing will occur as it relates to reaching a cash flow positive level that, that will be in line with what you see with other medtech companies in terms of what their level of sales need to get to in the timeframe for which we will get to it as well.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to Tim for closing remarks.

Tim Moran

Thank you, Sian. I just want to say on behalf of the management team here at Motus, I want to thank everyone for their interest and supporting the company. I appreciate the time and the questions today. We absolutely look forward to speaking to everyone again here in the near term. Thank you.

Operator

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