

IRadimed Corporation NasdaqCM:IRMD

FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.09	0.14	▲55.56	(0.10)	0.29	1.07
Revenue (mm)	8.72	8.68	▼(0.46 %)	4.69	34.75	55.77

Currency: USD

Consensus as of Apr-13-2020 9:12 PM GMT

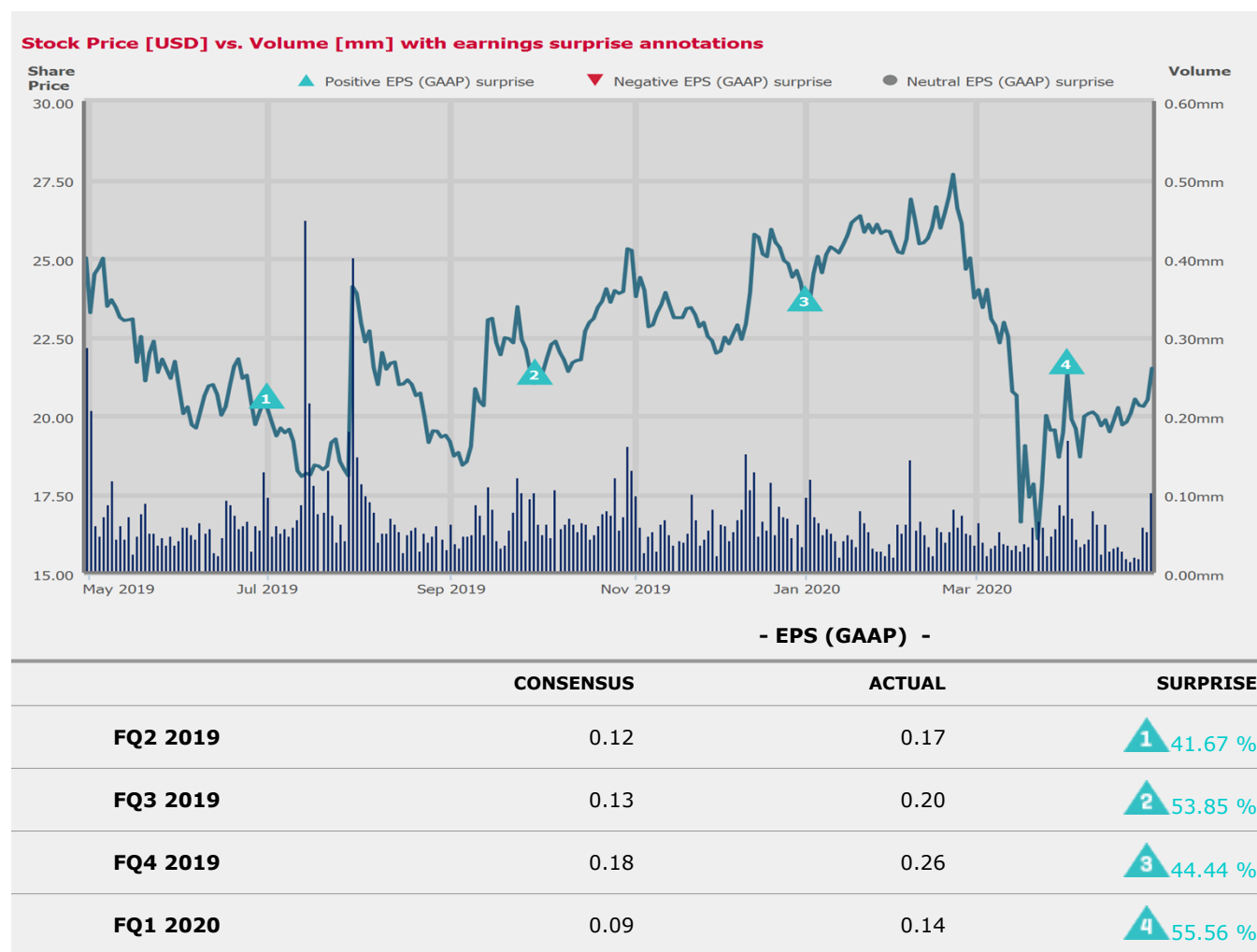


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	7

Call Participants

EXECUTIVES

Christopher K. Scott
CFO & Secretary

Leslie L. McDonnell
President, CEO & Director

ANALYSTS

Lisa Springer
Singular Research, LLC

Scott Robert Henry
*Roth Capital Partners, LLC,
Research Division*

Presentation

Operator

Welcome to the IRadimed Corporation First Quarter 2020 Financial Results Conference Call. [Operator Instructions] As a reminder, this call is being recorded today, April 30, 2020, and contains time-sensitive information that is accurate only as of today.

Earlier, IRadimed released financial results for the first quarter 2020. A copy of this press release announcing the company's earnings is available under the heading News on their website at iradimed.com.

A copy of the press release will also be furnished to the Securities and Exchange Commission on Form 8-K and can be found at sec.gov. This call is being webcast live over the Internet on the company's website at iradimed.com, and a replay of the call will be available on the website for the next 90 days.

The agenda for today's call will be as follows: Leslie McDonnell, President and Chief Executive Officer of IRadimed, will present opening comments; then Chris Scott, IRadimed's Chief Financial Officer, will summarize the company's financial results before opening the call up to questions.

Some of the information to be furnished in today's session will constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those focused on the future performance results, plans and events and may include the company's expected results for 2020.

IRadimed reminds you that future results may differ materially from these forward-looking statements due to a number of risk factors. For a description of the relevant risks and uncertainties that may affect the company's business, please see the Risk Factors section of the company's most recent reports filed with the Securities and Exchange Commission, which again may be obtained for -- on the SEC's website at sec.gov.

I would now like to turn the call over to Leslie McDonnell, President and Chief Executive Officer of IRadimed Corporation. Ms. McDonnell?

Leslie L. McDonnell

President, CEO & Director

Thank you and good morning. Earlier today, we announced first quarter revenue of \$8.7 million, which is an increase of 2.8% over the first quarter last year. We also reported GAAP net income of \$0.14 per diluted share and non-GAAP net income of \$0.18 per diluted share. These results were negatively impacted by the COVID-19 pandemic and similar to the current discussion being had across much of the medical device industry, we expect to continue to feel the impact in some form for the remaining portion of 2020.

Regarding our ability to sell our products in the current environment, much of the sales cycle for products recognized in revenue during the first quarter was completed in the fourth quarter 2019. Additionally, as we progress through the first quarter 2020 and the impact of COVID-19 continue to spread throughout the world, we experienced an acceleration in the decline of orders for our products as our customers focus their efforts on preparing for and treating those infected with the virus and deferring decisions to purchase our products into the future. Also during this time, many of our hospital customers began restricting access to health care workers only, diminishing our ability to generate sales, which may delay the timing of future orders.

We may be further impacted if hospitals choose to maintain their restrictions on hospital entrants and limit their capital spending plans until their operations have stabilized. So despite the significant uncertainties created by COVID-19, we believe that this is a shorter-term dynamic and that higher demand for our products will return.

During the quarter, there were several bright spots for us to focus on. The first is revenue from our international channels exceeded our initial forecast, and total international revenue grew almost 73% over the first quarter last year.

Second, we received COVID-related orders for our IV pumps for some customers because of its remote control capabilities and its use as the primary infusing device in an isolation room configuration. We're really proud to be able to contribute to the overall treatment efforts for this virus.

And third, revenue from sales of our IV sets also exceeded our initial forecast in part due to COVID-related demand. During the quarter, we learned that some customers were using one version of our IV tubing set to infuse patients located in an isolation room utilizing a pump that is positioned outside that room.

With the current shortages of critical care supplies, IRadimed wanted to do more to help health care providers combat the increased demands that COVID-19 has placed on them. So we are using our clean room and IV set manufacturing expertise to build standard extension tubing that can be substituted for any IV extension tubing our customers are having trouble finding. It is just a simple IV tube using the same quality materials and components we use in our regular tubing. And we expect sales of this new tubing to begin within the next few days.

During Q1, we filled key leadership roles in sales, regulatory affairs and quality assurance and R&D as part of succession planning and to continue building out our capabilities that will help support the growth we anticipate in the years ahead. We also continue making progress on our product road map and have not seen any significant changes to time lines at this point.

However, I will point out that there are steps in the new product testing phase that require the use of third parties. And given the stay-at-home restrictions implemented by many government authorities, there may be shifts to our original testing schedules.

Now from a supply chain standpoint, we are not experiencing any delays in obtaining the materials for our products at this time. Overall, we are experiencing significant changes to our business due to COVID. During this time, we are focusing on the things that we can control and continuing to make investments in the company that are supportive of its longer-term health with the goal of emerging from the pandemic even stronger.

In our efforts to manage through this environment, we are looking through 4 lenses. The first one is product innovation for future growth. As mentioned, we have recently filled key technical leadership roles and continue to make progress on our product road map.

The second one is serving our customers, whether through modifying a version of our IV tubing to facilitate infusions from outside an isolation room or supplying our IV pumps for its remote control capabilities or providing virtual product training. We stand ready to support our customers' delivery of critical care for COVID-19 patients.

The third lens is taking care of our employees. We have a highly trained workforce and have implemented several policies that support their health and well-being during this time. These range from enhanced cleaning procedures at our headquarters facility to remote working arrangements where feasible.

The fourth is cost containment. We've already taken several steps to contain costs, including implementing reduced hours in some departments and complying with travel and entry restrictions by our field sales and clinical support teams. We will continue to look through these 4 lenses as the situation develops, and we'll evaluate taking additional steps, if needed.

Now I'll turn it over to Chris to summarize the financial results.

Christopher K. Scott
CFO & Secretary

Thank you and good morning. As always, I'll be discussing our financial results on a GAAP basis as well as on a non-GAAP basis. Our non-GAAP operating results exclude stock-based compensation expense and the related tax effects. Infrequent tax items are considered based on their nature and excluded from our

provision for income taxes as these items are not indicative of our normal provision for income taxes. Free cash flow is cash flow from operations less cash used for purchases of property and equipment.

We believe the presentation of these non-GAAP measures, along with our GAAP financial statements, can be helpful in providing a more thorough analysis of our ongoing financial performance. You can find a reconciliation of these non-GAAP measures to the nearest GAAP measure on the last page of today's press release.

As we reported this morning, first quarter 2020 revenue increased 2.8% over the first quarter last year. Revenue from domestic sales decreased 10.6% to \$6.3 million during the current quarter, while revenue from international sales increased 72.7% to \$2.4 million for the current quarter. The decrease in domestic sales was primarily driven by lower pump sales, and the increase in international sales was driven by higher pump and monitor sales.

Revenue from sales of our devices decreased 6.8% to \$5.6 million for the first quarter 2020. This decrease was driven by a 36.4% decline in IV pump revenue that was partially offset by a 63.5% increase in revenue from our monitoring systems. The average selling price of our MRI-compatible IV infusion pump system during the first quarter of 2020 was approximately \$29,900 compared to approximately \$35,800 for the same period in 2019.

The decrease in ASP relates to higher international sales of our infusion pumps recognized in revenue when compared to the first quarter last year. The average selling price of our MRI-compatible patient vital signs monitoring system during the first quarter 2020 was approximately \$35,400 compared to approximately \$37,400 for the same period in 2019. The decrease in ASP relates to higher international sales of our monitoring system recognized in revenue when compared to the first quarter last year.

Revenue from sales of our disposables, services and others increased by 30.7% to \$2.7 million for the first quarter 2020 from \$2 million for the same quarter in 2019. And lastly, revenue from the amortization of extended maintenance contracts increased 4.5% to \$0.5 million for the current quarter.

Gross margin was 74.5% for the 2020 quarter and 75.7% for the 2019 quarter. The decrease in gross margin is a result of higher international sales as a percent of total revenue, partially offset by unfavorable inventory costing adjustments recognized during the first quarter last year.

Operating expenses were \$5.7 million or 66% of revenue compared to \$4.9 million or 57.8% of revenue for the first quarter last year. On a dollar basis, operating expenses increased due to higher expenses for payroll, benefits and stock compensation due to higher headcount, higher employee recruiting costs and higher legal and professional fees, partially offset by lower sales commissions.

Our effective tax rate for the 2020 quarter was negative 111.7% compared to negative 14.9% for the 2019 quarter. The lower effective tax rate is primarily due to discrete items related to stock compensation and U.S. state tax benefit. Additionally, we recognized a benefit resulting from the CARES Act that allowed us to carry back our net operating loss to years prior to the enactment of the Tax Cuts and Jobs Act, which increased the benefit to the previously enacted federal tax rate of 35% versus the current federal tax rate of 21%.

Net income on a GAAP basis was \$0.14 per diluted share for the first quarter 2020 compared to \$0.15 for the 2019 quarter. On a non-GAAP basis, net income was \$0.18 per diluted share for the current quarter compared to \$0.13 for the first quarter last year.

From a cash flow perspective, we generated \$1.2 million of cash from operations compared to \$700,000 for the 2019 quarter. For the 3 months ended March 31, 2020, cash provided by operations was provided -- was positively impacted by cash inflows from accounts receivable and deferred revenue and negatively impacted by prepaid income taxes, inventory and accrued payroll and benefits.

For the 3 months ended March 31, 2020, and 2019, our free cash flow, a non-GAAP measure, was \$1 million and \$600,000, respectively. And lastly, we exited the quarter with a combined cash and investments balance of \$47.4 million and no third-party debt or other restrictive covenants. And with that, I'll turn the call over for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question is from Scott Henry with Roth Capital.

Scott Robert Henry

Roth Capital Partners, LLC, Research Division

A couple of questions. I guess, first, just a big picture question. I recognize you don't want to give guidance, but can you talk qualitatively about how we should think about 2Q relative to 1Q given COVID-19?

Leslie L. McDonnell

President, CEO & Director

Well, Scott, this is Leslie. I'll maybe start off by providing a little of that qualitative context for the kind of short to medium term, and then Chris can add to my comments.

When we think about how has that returned to growth, what's it going to look like, the time frames, which just happens, are going to be uncertain. But when we think about our portfolio, it really is well positioned with its remote capabilities, MRI safety and transportability. We have a nice mix of equipment and critical care disposables. We're geographically diversified, so in different countries around the world, recover from this pandemic at different rates. We will see benefit from that and be able to participate in that.

And probably finally, we believe the need to do MRIs on critical patients and those needing sedation will absolutely continue. In fact, there's accumulating evidence suggesting that patients with severe COVID-19 may be at risk for encephalopathy, which is actually causing an increase in critical care patients needing MRI exams. So these are just a few thoughts to kind of put some qualitative context around that path back to higher growth.

Scott Robert Henry

Roth Capital Partners, LLC, Research Division

And I guess just to kind of follow up, and I know you don't want to get too granular, but I mean, is it reasonable to think of business being down 40% to 50% in 2Q? Just trying to get a sense of the magnitude.

And along that line, could you give me a sense of how your business typically performs? And if there's a recessionary environment, I would think it would be relatively defensive but curious of your take.

Christopher K. Scott

CFO & Secretary

So Scott, I mean, I think you're hitting on a lot of the uncertainties that really caused us to withdraw our financial guidance in the beginning. And to Leslie's point, the duration that were impacted or the duration of the pandemic itself, when is the country going to reopen, how is that going to look, when are other countries going to reopen and how does that play out, I think there's a lot of the uncertainty exists around, and trying to quantify that is quite challenging at this point.

Could -- to your question, could revenue be down 50%? I'm assuming you're talking about 50% from the first quarter. That would put us somewhere around, I don't know, call it, \$4.3 million, \$4.4 million. And I mean my sense is that's a pretty drastic move but certainly not out of the realm of possibilities. But it's challenging trying to answer your question specifically.

Scott Robert Henry

Roth Capital Partners, LLC, Research Division

Okay. No, Chris, that's actually really helpful. I appreciate just kind of the context behind that. And then I just want to ask, in first quarter, the monitor sales were very strong relative to expectations. I mean they were strong in Q4. Typically Q1, maybe we drop back down, but it was a really solid number, particularly given the background. But then pumps got hit a little more, which -- not totally unexpected. But can you talk a little bit about those trends between the strong monitor sales and a little more weakness in the pump sales in Q1?

Christopher K. Scott

CFO & Secretary

I think part of this goes back to just our international channel performed very well with both pumps and monitors. Domestically, we struggled a little bit more on the pump side than, I would say, when compared to compared to the international side. But I think part of this goes to how the hospital restrictions were rolled out.

The March -- or I would say the third month in every quarter is always the most important month for us when it comes to bookings. And for -- really, we started to see restrictions on our ability to access hospitals in mid- to late February, where those rumors were starting to float around and isolated instances of hospitals really shutting their doors to vendors. And then, of course, as we progressed throughout the month of March, that really became the norm. And it impacted our ability domestically.

So I can't -- there wasn't anything out of the ordinary related to pumps, but other than the impact from COVID and hard to put a finger on anything else other than COVID.

Scott Robert Henry

Roth Capital Partners, LLC, Research Division

Okay. Great. And just a final question, just -- can you just clarify? It looks like the tax gain in was not excluded from non-GAAP EPS. Is that correct?

Christopher K. Scott

CFO & Secretary

That's right.

Scott Robert Henry

Roth Capital Partners, LLC, Research Division

It wasn't -- meaning it wasn't pulled out?

Christopher K. Scott

CFO & Secretary

It wasn't pulled out. That's right.

Operator

The next question is from Lisa Springer with Singular Research.

Lisa Springer

Singular Research, LLC

During your remarks, you mentioned that COVID-related orders for IV sets. I was wondering if you could -- do you have a sense of how much of the increase in disposables was related to COVID-19 type demand?

Leslie L. McDonnell

President, CEO & Director

So Lisa, this is Leslie McDonnell. We're not -- we don't have a good enough sense of that to be able to break that out. We saw the biggest surge in the IV set business in what we call our extension type set. Now those are typically used in critical care environments. So I think there was definitely a positive impact

from customers buying ahead as well as seeing an opportunity to use that tubing for patients who were in isolation room settings, and they wanted to control the pump from outside that room.

Lisa Springer

Singular Research, LLC

Okay. And you also do -- in your remarks, you mentioned cost containment is one of your -- the legs of the company going into 2020. Could you give us a little more detail around what areas you might be looking at? And have you set specific goals for cost containment?

Christopher K. Scott

CFO & Secretary

Well, I think at this point, we're looking at a lot of things. We've taken some steps already regarding reducing hours, where possible, restricting travel, things like that. We're sort of play-booking a lot of different options. But at this point, it's too early to carry out any of those plans so soon.

Lisa Springer

Singular Research, LLC

Okay. And do you have any sense in terms of the mix between domestic versus international going into the second quarter? Is it going to be stronger internationally again? Or do you have a sense of that?

Leslie L. McDonnell

President, CEO & Director

I mean, Lisa, I think that really will depend on how fast the U.S. hospitals open up to manufacturing partners coming in, in supporting them. It's -- we're seeing into that, reports of that in different places in the United States. It's kind of hard to gauge that relative to the pace of recovery in other countries. I think our international business will continue to stay strong. The comment I made before about that geographically diversified revenue base, I think it's going to play in our favor because of all that uncertainty.

Operator

At this time, there are no further questions. I'll hand the call over to Ms. McDonnell.

Leslie L. McDonnell

President, CEO & Director

I would like to thank everyone for listening and participating in the call. These are unpredictable times, and we are taking steps that come out of this pandemic stronger than ever. To manage through this, we are focusing on the things in our control and being vigilant in the areas of product innovation, serving our customers, taking care of our employees and assessing the impact of COVID on our cost structure. Wishing you all continued good health, and we look forward to speaking with you again after Q2.

Operator

Thank you. This concludes the call. You may now disconnect.

Copyright © 2020 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2020 S&P Global Market Intelligence.