S&P Global
Market Intelligence

# AngioDynamics, Inc. NasdaqGS:ANGO

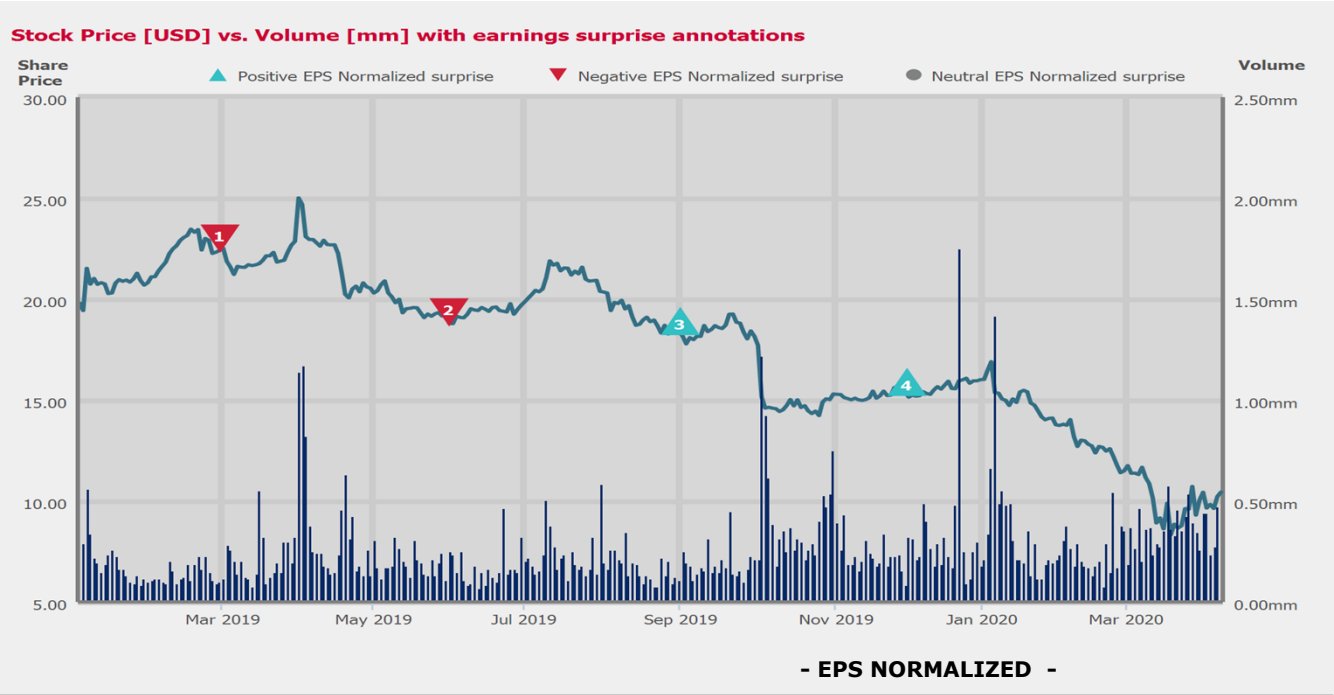
# FQ3 2020 Earnings Call Transcripts

## Tuesday, April 07, 2020 12:00 PM GMT

### S&P Global Market Intelligence Estimates

| | -FQ3 2020- | | -FQ4 2020- | -FY 2020- | -FY 2021- |
|---|---|---|---|---|---|
| | CONSENSUS | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (0.03) | NM | 0.02 | 0.12 | 0.22 |
| **Revenue (mm)** | 68.55 | ▲1.79 | 75.45 | 280.00 | 300.67 |

Currency: USD
Consensus as of Feb-03-2020 10:32 AM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2019** | 0.22 | 0.19 | 1 (13.64 %) |
| **FQ4 2019** | 0.26 | 0.25 | 2 (3.85 %) |
| **FQ1 2020** | 0.04 | 0.08 | 3 100.00 % |
| **FQ2 2020** | 0.02 | 0.06 | 4 200.00 % |
| **FQ3 2020** | (0.03) | - | NM |

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# Call Participants

## EXECUTIVES

**James C. Clemmer**
*CEO, President & Director*

**Stephen A. Trowbridge**
*Executive VP & CFO*

## ANALYSTS

**Jason Richard Mills**
*Canaccord Genuity Corp., Research Division*

**Jayson Tyler Bedford**
*Raymond James & Associates, Inc., Research Division*

**Matthew Ian Mishan**
*KeyBanc Capital Markets Inc., Research Division*

# Presentation

**Operator**

Good morning, and welcome to the AngioDynamics Fiscal Year 2020 Third Quarter Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

The news release detailing the fiscal 2020 third quarter results crossed the wire earlier this morning and is available on the company's website. This conference call is also being broadcast live over the Internet at the Investors section of the company's website at www.angiodynamics.com. And the webcast replay of the call will be available at the same site approximately 1 hour after the end of today's call.

Before we begin, I would like to caution listeners that during the course of this conference call, the company will make projections or forward-looking statements regarding future events, including statements about expected revenue, adjusted earnings and gross margins for fiscal year 2020. Management encourages you to review the company's past and future filings with the SEC, including, without limitation, to the company's most recent annual report on Form 10-K as well as most recent Form 10-Q for the quarter ending February 29, 2020, which identify specific factors that may cause the actual results or events to differ materially from those described in the forward-looking statements.

A slide package offering insight into the company's financial results is also available on the Investors section of the company's website under Events and Presentations. This presentation should be read in conjunction with the press release discussing the company's operating results and financial performance during this morning's conference call.

I'd now like to turn the call over to Jim Clemmer, AngioDynamics' President and Chief Executive Officer. Mr. Clemmer?

**James C. Clemmer**
*CEO, President & Director*

Thank you, Melissa, and good morning, everyone, and thank you for joining us for AngioDynamics' fiscal 2020 third quarter earnings call.

Joining me on today's call is Steve Trowbridge, AngioDynamics' Executive Vice President and Chief Financial Officer, who will provide a detailed analysis of our third quarter financial performance.

Given the impact that the COVID-19 pandemic is having on our company and our customers, during this call, Steve and I will take a tailored approach to assessing our third quarter results and discussing our perspectives on the business moving forward. With respect to the third quarter, we will discuss our results through the lens of the facts as they existed at that time. With respect to our business moving forward, we will discuss our perspectives looking through the lens of the facts as they exist today, while acknowledging that the facts, circumstances and situations for everyone remain highly fluid and dynamic and are likely to change significantly in the short and medium term.

With that said, I'd now like to provide an overview of our operating and execution highlights for the quarter as well as some commentary on the impacts of the COVID-19 pandemic on our company.

We had a strong third quarter. We reported solid top line performance during the quarter. Our revenue increased 6.5% year-over-year and increased 9.3% when excluding Asclera, and it was driven by growth in all 3 of our businesses. In addition, we are pleased to report that we delivered adjusted EPS of $0.01 per share. We believe this clearly demonstrates our ability to simultaneously invest in those businesses that will fuel our transformation into a growth company while being thoughtful and disciplined about our overall spending. We believe these results provide continued evidence of our successful ongoing transformation into a more focused medical technology company delivering unique and innovative health care solutions into larger and faster growth markets.

During the quarter, we remained focused on 3 drivers to continue this transformation: Internal research and development, M&A and clinical and regulatory pathway expansion. Let me update you on our accomplishments in each of these areas.

On the R&D front, we continue to focus investments on our 3 key technologies: AngioVac, AURYON and NanoKnife, while seeking out ways to increase the profitability profile of our other products. Earlier this year, we announced that we had launched NanoKnife 3.0 and AngioVac 3.0. And we spoke with you about expanding our AngioVac platform through the continued commitment to focused internal research and development. I'm happy to say that we remain on track to deliver 2 new AngioVac products in the next 12 to 18 months, and we look forward to sharing these developments with you in the future.

In terms of our recent M&A activities, we continue to advance the AURYON technology and progress towards commercial launch through investment in 3 primary areas: ensuring a strong and robust supply chain, building position and sales training programs and building a dedicated selling and marketing channel to take this product to the market in the proper way.

Additionally, the integration of our recently acquired C3 Wave PICC tip location system is progressing nicely and customers have already begun to express interest in this new product. M&A will continue over the medium and long term to play an important role in our transformation. However, we are clearly in uncharted territory due to the COVID-19 global pandemic. While we will maintain our disciplined approach of identifying appropriate M&A targets and will continue to assess opportunities, we will also prioritize the strength of our balance sheet amid this rapidly evolving macroeconomic climate. Steve will provide more details and perspectives on our liquidity position later in the call. Given that backdrop, I am comfortable saying that we will be more conservative with respect to M&A opportunities in the current environment of heightened uncertainty.

The third quarter -- the third driver of our transformation is clinical and regulatory expansion and data generation, which are foundational pillars to our strategic transformation. I'd like to update you on our 2 most important efforts underway, PATHFINDER and DIRECT. While we continue to focus on these areas, the current environment obviously requires flexibility. With CMS and hospitals throughout the country seeking to prioritize critical care procedures and seeking to preserve treatment capacity, additional site initiation activities and patient enrollment efforts in both PATHFINDER and DIRECT have been paused. We are working internally to be in a position to ramp up these efforts as quickly as possible once the situation allows us to do so.

In mid-January, we launched the PATHFINDER I-Registry, a pilot study to evaluate the safety and efficacy of our AURYON Atherectomy System. We believe this study will provide valuable, scientifically backed data to further differentiate the AURYON System from competitive products in this space and build upon the excellent long-term results that patients experienced during the IDE.

The NanoKnife DIRECT IDE saw solid progress through the third quarter. As of today, 19 study sites have secured IRB approval. We remain very pleased with the pace at which leading institutions have committed to our comprehensive clinical study and securing IRB approval.

Before I turn the call over to Steve, I'd like to provide an update on how the COVID-19 pandemic is currently impacting our business. Our office-based employees are working remotely and doing so efficiently and effectively. From a manufacturing standpoint, we have employees on the manufacturing floor to ensure that our products are available to help save lives. Given the nature of this pandemic, while we've effectively implemented the business continuity and contingency plans that we've had in place, we've also had to create some new ones to help to protect our employees while they protect our supply chain and ensure that production of our critical care products continues uninterrupted.

In the interest of their safety, at the request of our customers, we have grounded all of our field-based sales reps in order to help reduce transmission of the virus and free up hospital resources to focus on caring for patients with COVID-19. Despite these challenges, I'm very proud of our team. They've done a terrific job in adjusting and providing remote support to our global customers.

We have been very proactive around CRM activities and business development planning, so that we are prepared to spring into action once our customers are ready and have elective procedures resume. We have had great momentum heading into this, and we want to be sure we're ready to continue to build upon that momentum as we exit whenever that may be.

From a procedural impact perspective, our business includes products that fall on both sides of the critical care and necessary line. AngioVac cases saw strong growth during the third quarter and into the early days of the fourth quarter, driven by AngioVac 3.0. But over the past few weeks, we have seen procedures slow as hospitals have rightfully shifted their focus to preparing for COVID-19 patients. We have seen some slowing of EVLT procedures and even some labs closing their doors in the past couple of weeks. We anticipate that this business will be softer in the fourth quarter.

Oncology procedures are straddling the line between acute and elective-like. We expect this trend to continue, with some cases proceeding as planned and others seeing delays. We do believe that these are delays, not cancellations, as these are treatments that the majority of patients will proceed with.

Laser atherectomy procedures with our AURYON laser have been continuing in patches, consistent with other procedures and are still in the very early ramp-up stage.

And lastly, sales of our VA products, including PICCs, midlines and ports, remain strong even over the past few weeks, driven by our new agreement with Premier and a couple of new line extensions for our PICCs. While the current environment is certainly unprecedented, we are taking the necessary steps to prioritize the health and safety of our employees while also ensuring that we are positioning ourselves for continued innovation in both as the environment returns to normal over time.

With that, I'd like to turn the call over to Steve Trowbridge, our Executive Vice President and Chief Financial Officer.

**Stephen A. Trowbridge**
*Executive VP & CFO*

Thanks, Jim, and good morning, everyone. Before I begin, I'd like to point you to the presentation on our Investor Relations website summarizing the key items associated with our quarterly and year-to-date results. I'd like to reiterate something that Jim mentioned earlier, which is that with respect to the third quarter, we will discuss our results looking through the lens of the facts as they existed at that time. With respect to our business moving forward, we will discuss our perspectives looking through the lens of the facts as they exist today. Additionally, unless otherwise noted, all prior year results and comparisons exclude the contribution of our NAMIC fluid management business, which we divested at the end of our fiscal year ended May 31, 2019.

Our net sales for the third quarter of fiscal 2020 increased 6.5% year-over-year to $69.8 million. Excluding the fiscal 2019 revenue contribution from the Asclera sclerotherapy product, which we stopped distributing during the fourth quarter of fiscal year 2019, revenue for the third quarter was 9.3%. As Jim mentioned earlier, all 3 of our businesses posted solid growth during the quarter, led by strong performances by AngioVac and NanoKnife as well as our core PICCs and ports products.

Our total VIT business grew 4.3% year-over-year and when excluding Asclera, grew 10.5%, driven by higher sales of AngioVac, which were up 44% year-over-year, and a second straight quarter of growth of our core products. AngioVac procedural volume remains strong with procedures increasing 33% year-over-year, representing our tenth consecutive quarter of double-digit volume and revenue growth.

Vascular Access revenue increased 10.3% during the quarter, driven by double-digit growth in sales of PICCs, ports and midlines.

We continue to integrate our recently acquired C3 Wave tip location system and are already seeing positive impact of this product on our PICC business, together with the value PICC distribution relationship we entered to in the third quarter.

Revenue from our oncology business increased 5.1%, primarily related to growth from NanoKnife, which was driven by both strong capital and disposable sales. Total NanoKnife sales grew 47% year-over-year, including growth in disposable sales of 21%. Total NanoKnife capital sales were $1.4 million in the quarter. This growth was somewhat offset by a continued anticipated decline in sales of our radiofrequency ablation product as well as softness in the performance of our BioSentry and balloon businesses.

Moving down the income statement. Our gross margin for the third quarter of fiscal 2020 was 57.8%, a decrease of 40 basis points compared to a year ago, driven primarily by product mix. As we discussed during our call last quarter, this decrease was in line with our expectations. Our research and development expenses during the third quarter of fiscal 2020 were $8.4 million or 12% of sales compared to $6.9 million or 10.6% of sales a year ago. We are continuing to invest strategically in R&D and clinical with a focus on further developing our NanoKnife, AngioVac and AURYON products, while focusing on driving profitability of our other businesses. And prior to the current environment, we continued to expect R&D spend to be between $32 million and $34 million in fiscal year 2020, including investments related to our acquisition of Eximo Medical, now AURYON.

In the current environment, we're looking to maintain investment in our 3 key technologies while being more measured in our investments in other areas. SG&A expense for the third quarter of fiscal 2020 increased to $31.1 million, representing 44.6% of sales compared to $27.1 million, representing 41.4% of sales a year ago.

Prior to the current environment, we continued to anticipate SG&A spend between $126 million and $130 million for fiscal year 2020. We will support our upcoming product launches as well as the needed investments for a commercial release of AURYON heading into fiscal '21. Given the current environment, we are continually assessing controllable discretionary spend with an eye towards spend and cash management while maintaining investment in our key technologies.

Our adjusted net income for the third quarter of fiscal 2020 was $0.4 million or $0.01 per share compared to adjusted net income of $1.9 million or $0.05 per share in the third quarter of last year. Adjusted EBITDA in the third quarter of fiscal 2020 was $3.8 million compared to $7.7 million in the third quarter of fiscal 2019.

Turning to our balance sheet. In the third quarter of fiscal 2020, we began with roughly $41.2 million in cash, and we used $17.8 million of cash in operating activities. During the third quarter, we used $10 million of cash to fund the acquisition of the C3 Wave PICC tip location system. As of February 29, 2020, we had $27.2 million in cash and cash equivalents and $15 million in debt outstanding.

We entered this current environment with a strong foundational position, having a net cash position and a revolver with meaningful available capacity. In addition, inventory levels were elevated in anticipation of completing our move out of the Glens Falls facility that we sold to Medline at the end of fiscal '19. In the current environment, we have continued to increase inventory levels as an aspect of our evolving business continuity plans. We've been in contact with our strong and long-standing banking group and are keeping a close eye on the environment. We're taking a thoughtful and disciplined approach to our balance sheet. We're focusing on our collections. And while we will continue to keep a close eye on them, we are pleased to say that commerce continues to be moving. We are also paying close attention to our payables. We're not taking a cynical approach, and we have positioned ourselves to be a good customer while also being proactive. Overall, we believe we're in a solid position, and we'll remain focused on maintaining dry powder and being proactive in the current environment.

Consistent with this approach, we have initiated a modest draw of $25 million on our revolver. We believe that this is a prudent move, illustrating both our focus on cash and liquidity and our strong foundational position.

Turning now to guidance. As Jim and I have discussed on this call, we're pleased with our third quarter results. In addition, we were encouraged by our sales in the month of March, both on their own merits and in light of the current environment. However, we have seen a slowdown and a shift in procedures during the last couple of weeks. Given the reigning uncertainty, we don't believe it is possible to provide substantiated fourth quarter or full year guidance at this time. As a result and as noted in our press

release issued this morning, we are officially withdrawing our full year guidance. However, I will discuss some directional color to help provide insight into what we are seeing in the market.

As we've discussed throughout this call, the COVID-19 situation is incredibly dynamic, which mandates and recommends changing on a daily basis on both a national and state-by-state level with no firm insight -- no firm end in sight, excuse me. The primary unknowns at this point are twofold: The first is the duration of the COVID-19 pandemic and the impact it will have on elective procedures. The second is that we are unsure when our reps will be allowed to get back on the road and gain access to our hospitals and physicians' offices. The potential range of outcomes given these unknowns is so broad and far-reaching that we are unable to provide an accurate guidance range at this time.

As we mentioned earlier, we had a strong third quarter and saw that strength continue through the majority of the month of March. We're encouraged by this, but we saw decline in procedural volumes in late March and into the first week of April, which we anticipate will continue throughout the fourth quarter. While this is incrementally more granularity on the current quarter than we would normally provide, we felt it was important to share this given the context. As Jim mentioned earlier, we established exciting momentum through the end of Q3, and we're working hard to ensure that we will be well positioned to sustain and build on that momentum once the situation allows.
With that, I'd like to turn the call back to the operator to open the call for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from the line of Jayson Bedford with Raymond James.

**Jayson Tyler Bedford**
*Raymond James & Associates, Inc., Research Division*

So just a few questions. I was surprised with the strength in the Vascular Access business. Can you just give us a little more detail on kind of the drivers of the strength? And if you could, maybe quantify the impact from the Premier agreement on the Port business. And also, you mentioned some sort of value PICC distribution agreement in the quarter, and I was a little unclear as to what that was. So a little detail on that would be helpful.

**James C. Clemmer**
*CEO, President & Director*

A couple of things. So in our VA business, as we mentioned in the fall, the Port win on the Premier business was important for us. But it wasn't the only piece of strength we saw during the quarter. Because really, this quarter was more getting those customers that are part of the 2 Premier compliant agreements to get signed on with us and start the conversion processes. So there was some growth there, but not a whole lot. Good news was the growth was balanced.

So our base PICC business, both our BioFlo and non-BioFlo, also experienced a strong quarter. And a lot of that, Jason, too, we haven't talked a lot about it, but we have a couple of really good partners in the mobile PICC business. And these partners are committed to our BioFlo PICCs. And some of these partners have been gaining market share over the past year or so, building up their markets as they provide that valuable service to many hospitals looking to outsource that technique and that procedure to these mobile PICC teams. So again, they choose BioFlo in most of those cases.

And finally, we did add some new products. We've talked a little bit about it, just around our PICC portfolio. As you know, with BioFlo, we have a high-end PICC with unique capabilities, but we had some gaps in our PICC line. So we just filled in a couple of the gaps with some other products.

Jason, we expect the VA business to grow with the areas that we guided last year. As you know, 2019 was the first year of growth in many. And I think we anticipated growth about that same level this year. And going forward, it will be a business that's very well run, and the portfolio is a bit more balanced. And now we made the acquisition of the C3 Wave tip location system. Again, takes out one more barrier that we've had there.

**Stephen A. Trowbridge**
*Executive VP & CFO*

Jason, we did see strength throughout the VA portfolio throughout the third quarter. It was pretty balanced, as Jim mentioned, with our PICCs, ports, midlines and dialysis businesses all growing. So we hit a little bit on the value PICC that Jim talked about, filling in the gaps in those lines. We have mentioned C3 in the prepared remarks. As we talked about before, we don't really expect to see a big inflection potential from C3 until we get to the point where we're adding navigation to that technology. So we've seen strength in the base PICCs business moving in throughout this third quarter, and we see that strength continuing as we head into the fourth quarter. So one of the things that Jim talked about in his remarks was that line that we're drawing between products that fall on the elective-like or those that can be delayed, and those that are clearly acute and critical care. We've been seeing the VA business in those PICCs, midlines clearly falling on that line of critical care, and we expect to see that strength continue throughout our fourth quarter.

**Jayson Tyler Bedford**
*Raymond James & Associates, Inc., Research Division*

Okay. So I guess just to summarize that point, Steve, the growth that you saw this quarter seems pretty durable, at least, for the next few quarters?

**Stephen A. Trowbridge**
*Executive VP & CFO*

We believe so, yes.

**Jayson Tyler Bedford**
*Raymond James & Associates, Inc., Research Division*

Okay. And then I'll just ask one more, and then I'll get back in queue. Can you just update us on the status of the AURYON launch here? I'm just a little unclear as to the rep build-out. Is that complete? Given the dynamic with COVID, when do you expect a full commercial launch?

**James C. Clemmer**
*CEO, President & Director*

So -- Jason, good point. It's been 6 months now that we've owned the Eximo business and the AURYON product. So as we talked to you before, the first 3 parts of the move were, a, supply chain build-out. So now we're manufacturing the laser hardware to our specs and our supply chain. We're also manufacturing now the disposable catheters to our specs and our supply chain. So our supply chain team has done a great job with our quality partners the last 6 months building this out.

Number two, we needed to build a sales training program and a physician training program. We've done those as well. So ready, prepared to communicate those to the field.

And finally, number three was the dedicated commercial team as we communicated we'd build. So today, we have 15 people dedicated to this AURYON business. And over 10 of those people are dedicated field sales reps. Each of those have been hired. They have experience in their past life working for probably one of the other companies in this space. So these folks are already experienced atherectomy salespeople. They have relationships in their field in the areas that we've hired them in, and we expect good performance from them.

As we get closer to full launch, though, Jason, then we'll give you a little more time line as to when we'll add more people. So we're not at a full launch yet. We're right on track where we'd be with this process. So we're excited on what we've learned. As soon as we get through a little bit of this COVID-19 situation, we can take a deep breath, and we'll share with you little more details around the next phase of the launch. But it includes having podium presence, speakers to talk about the product, how it works and how it's being received in the market.

**Jayson Tyler Bedford**
*Raymond James & Associates, Inc., Research Division*

Is COVID the gating factor here? Meaning, once COVID is, I don't want to say over, but once this -- everything relaxes, will you be able to launch the product?

**James C. Clemmer**
*CEO, President & Director*

We will. Jason, I don't think -- COVID hasn't changed our plans. I think we told you guys when we bought it, we need about a 6-month window before we start to launch. In the last couple of weeks, we've slowed down spending here in a responsible fashion and slowed down some of the investments we are making, just to make sure we're disciplined with our cash management and our balance sheet. But COVID is not going to be part of the AURYON story. Really, we're building a story around those 3 areas. I can't wait till we can share more with you. It's really going at the pace we expected, and we're excited to keep building the team there.

**Stephen A. Trowbridge**
*Executive VP & CFO*

Jason, we continue to invest in AURYON. And so as we talked about our cash management priorities, we want to make sure that we're ready to hit the ground running when market dynamics allow us to do that. So we've continued to, as Jim mentioned, build up our supply chain, bring in the salespeople, be ready to go. We do see the atherectomy procedures as some that are on that line tending to be delayed during the current environment, while health care systems are looking to build up capacity. So once that does ease a bit, given the investments we're making, we'll be ready to hit the ground running, as Jim said, according to our original plans.

**Operator**

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

**Jason Richard Mills**
*Canaccord Genuity Corp., Research Division*

First, maybe a 20,000-foot view question. The thing that struck us is quite surprising as we, like everybody else, are trying to read as much as we can about what's going on in the current environment in health care and procedural volume, specifically, is the extent to which procedures you wouldn't assume would abate vis-à-vis a crisis like COVID, physicians aren't seeing it. So STEMIs, you're even seeing fewer strokes, acute ischemic strokes come in to the hospitals. And you mentioned pulmonary embolism. You said you've heard from physicians that suggest that they're seeing fewer cases. Those tend to be acute cases, those tend to be cases you can't delay, they're life-saving cases. Have you seen this as well? And what factors do you attribute to this? I think physicians are scratching their heads. And I just love your commentary on that as well as, perhaps, could you speak regionally? Let us know, are there any parts of the country or the world where you aren't seeing this phenomenon play out, where you are seeing sort of a normalized trend, if you will, of these cases that you guys participate in that are acute, like pulmonary embolism, come into the hospital. And then I have a follow-up.

**James C. Clemmer**
*CEO, President & Director*

Jason, this is Jim. So Jason, good question. I had a conversation 3 days ago, I think it was, with a Chief of Surgery at one of the large Boston hospitals who had mentioned, for the past 3 or so weeks, they spent so much time gearing up to be ready to care for the COVID-19 patients that they've asked some of the other doctors to stand down, not just because they need to free up ICU space, but they want to free up PPE equipment to that level for the caregivers that are caring for people in the critical care environment. So we've talked to many of our physician partners. And as we mentioned to you, you saw in Q3, really dynamic growth with the AngioVac product and really well received. But even here now, we've seen some cases slow down a bit. I think physicians are being told to stay home, stand down in many cases. Now we say that to you, knowing the severe acuity that many of the patients that our products treat have. The physician I spoke to last week even said, "Jim, we're treating now people or diagnosing people with Stage 1 cancers and ask them to go home, and we'll call you back with the treatment plan soon." In the past, they would have had an initial treatment plan, we may have been part of those treatment plans.

So Jason, I think we, like you're looking for, are looking for that clarity from our customers. We're speaking to a lot of our customers. Because we're trying to gain that clarity and be ready to support them. Because we're also expecting their expectations of our support may be different coming out of this. We want to make sure we can align what their expectations are with our resources.

You also asked about kind of geographic or regionally, Jason. In the U.S., we've seen the pockets that I think we've all seen as a collective body around the hotspots. Some are more severe than others. But really, I guess, even -- when I talk about U.S. only, kind of all of our doctors and physician partners are telling us the same thing. They've been asked to step aside a little bit and to hold off treatments when they can, not all cases, you can, as we know, depending on the patient acuity. But I think we're going to see at some point, I think some hospitals that we're speaking with are also planning now to get back into a treatment protocol and to catch up for some of these treatments that have been delayed. So I would expect, at one point, we're going to see not just a normalized treatment plan again, but even a little

catch up period, I believe, from our conversations with customers to make sure they can treat the people who've had to stand down for a little bit longer.

And Jason, outside of the U.S., as you know, 80% of our revenue is U.S.-based, but our global partners are telling us similar stories. We've even seen a couple maybe situations where, in Europe, a couple of treatments have come back maybe a little sooner in the last week or 2, so people being treated with our oncology products.

**Stephen A. Trowbridge**
*Executive VP & CFO*

Jason, this is Steve. You had mentioned pulmonary embolism. Our current AngioVac product is not really a pulmonary embolism product. For the most part, our current AngioVac is used with tumbling right atrial masses and tricuspid valve vegetation. What we -- the product -- the markets that we play in, I think, are good examples of what we're seeing in this dynamic environment. Early on in this process, early in March, our AngioVac sales volume and the procedure volume that we were supporting with our clinical specialists remained quite strong. And so we were initially looking at those right heart and tricuspid valve vegetation cases as being on that necessary acute side of the line that we talked about. A trend that we clearly have seen over the last couple of weeks is that line has moved or the physicians have defined where that line is, and that continues to change. And we have seen a drop-off in those procedures.

Oncology procedures are another example of ones that we're seeing change throughout this time, based mostly on what Jim talked about, which is physicians looking to build up their capacity. But when you think about the oncology cases and when you think about those cases that the current AngioVac product plays in, we do see those as delays and not lost procedures that are coming back. Now as we mentioned in the past, and Jim talked about the 2 AngioVac product extensions that we expect to see in the next 12 to 18 months, those are the products that we expect to be able to allow us entrance into the pulmonary embolism space and to get into that middle section of the thrombus management space, where we think that there's a lot of cases to be done.

**Jason Richard Mills**
*Canaccord Genuity Corp., Research Division*

That's helpful, both of you. And I wanted to get into a little bit more detail, if you're willing, on the new AngioVac products or at least targeting. And you sort of answered that to some extent but -- with pulmonary embolism. Maybe talk about the targets for those 2 products? Are they products that target 2 separate anatomies, i.e., pulmonary embolism for one, deep vein thrombosis, generally speaking, on the venous side on the other? Or what detail can you give?

And I guess, lastly, and I'll get back in queue, just back to the sort of macro discussion here because I'm interested in the macro before we tackle the micro. I mean, society has to tackle the macro. And the other thing that is really disconcerting to some extent is what we're seeing is when health care workers, we need [indiscernible] as we can get on the frontlines for COVID, you're seeing hospitals furlough health care workers, techs, et cetera, that would otherwise be participating in these elective procedures that, as you mentioned, are not happening as ubiquitously nearly as they were before. Is that -- when we're on the other side of this, will those hospitals be able to rehire quickly enough so that there's not a lag and a delay in getting back to some sort of a normalized environment? That phenomenon is interesting to me, and I'd be interested in your take on that as well as any detail you might be able to be willing to give on the 2 new AngioVac products.

**James C. Clemmer**
*CEO, President & Director*

Yes. So 2 things. So again, I don't want to speak for the caregivers and the hospitals. I won't speak for how they're doing it. But I can share with you the conversations we're having and the tone that we're getting. Because it's been pretty consistent, Jason, some of which is right exactly what you're asking for. So we've seen some furloughs as well, some hospitals. And I think if you see the root cause of that, it's because some of the censuses are very low. Some of the hospitals are telling us that the patients census is down because they tried to move people out of the hospitals, get them back home, and they try to free

up or create more ICU or critical care spaces, preparing for an influx of COVID-19 patients. So I think that the care they're delivering on a routine basis is much lower than it was a month ago. They need less people. We hope, again, by talking to our hospital customers and partners, that when this thing settles, they can rehire the people back to get back to normal care standards that they would operate in. We also believe, too, even some of the conversations, I think they're doing some of that contingency planning now. If you speak to some of those hospitals, they told us, they're doing some of that contingency planning of how they can get back in a rapid fashion. Some people have told us they may go to a 7-day operating schedule in their operating rooms, to go back and treat people who've had to stand down for a little bit. So on a macro scale, Jason, I think we're all learning together of how we're going to treat this situation. But we're hearing things enough and we're close enough to the market that gives us that hope that when people are ready to start treating people again in a normal situation, we want to be their partner, and we will be ready to partner, as you've seen with the momentum we've already generated this year.

Now back to your initial question on AngioVac. We're not ready to discuss all the details, but we have talked openly in the past publicly the next 2 products we'll launch. So AngioVac 3.0 that was launched in the fall is extremely successful in how it was launched. We redesigned the funnel tip and did a few other things that our physician partners asked us to do. The next version that comes out, which we're not good at naming. AngioVac 4, and we'll probably have a better name for you by the time we launch it, but it's a smaller version. Our physicians that say, "Hey, if you give us the same great features and it's still on pump, on circuit, so can reperfuse the patient's blood, which makes the procedure much less complicated from a patient recovery aspect." We're going to have the AngioVac 4 will be different sizing to allow them to treat more people. And maybe open up a clinical pathway for us to get indications back to the areas that you and I spoke a few minutes ago, and Steve did with PE and other places.

Now the other product, which is really special and unique, we've talked about we want to also use some of the unique features of AngioVac, but take it off the pump and circuit that it's on today. So we want to be able to get to that larger space of people with maybe less acute situations of thrombus, and we want to be able to treat a lot of those patients where we've seen mechanical thrombectomy options in the marketplace being chosen and selected by physicians as a better care of treatment. And some of that, I think, is due to some of the good options that other companies have come out with. We think when we take AngioVac off circuit with its other unique features, will be a really, really competitive option in that space. We think a lot of physicians would like to try our products in that space. And we'll get back to you soon with launch dates there. But that's what we said, Jason, 12 to 18 months, we expect both of those products to launch.

**Operator**

Our next question comes from the line of Matthew Mishan with KeyBanc Capital Markets.

**Matthew Ian Mishan**
*KeyBanc Capital Markets Inc., Research Division*

Jim, I just wanted to switch over to oncology first. I think you had an expectation coming into the year where you thought you could do about 20% growth in that area. Definitely looks like it's fallen short over the first 3 quarters and really outside of just some very big numbers in NanoKnife, it looks like the other areas are coming in negative. Can you go through the puts and takes of the balloons, BioSentry and microwave as well?

**James C. Clemmer**
*CEO, President & Director*

Yes. Matt, good question. A couple of things. What we've learned during the course of this year, Matt, we did set high expectations based upon our technologies in these areas. What we've learned, let me get back to balloons and BioSentry right now. I think our sales reps, they probably put too much in their bag, and I own that one. I thought while we're there in some of the call points we're in, we can have similar discussions based upon how these 2 new technologies are unique and work well. But in all cases, Matt, the synergies aren't there as much as we want to focus on speaking about what NanoKnife does with our new registry-based approach and the IDE. So what we're doing, Matt, differently now, and we've learned these

lessons, we're going to -- we're investing in and creating a new inside sales group that are going to handle the majority of our balloons and BioSentry business to take them out of the field sales bag. We know right now how effective these products are when used for patient care and treatment. But we've got to do a better job of commercializing that conversation. So we've missed the boat a little bit there. So missed it. You're right. What are we doing about it? We're changing how we go to market. That's number one for balloons and BioSentry.

Number two, for microwave, we know and we believe deeply, our microwave is better than the offerings from Medtronic and J&J. What I think we've learned, Matt, it's not that much better to offset some of the market size, clout and resourcing that those 2 giant companies have. So our microwave is better. I think if you match them up, physicians will say, it's a great product. But same thing, Matt, I don't know if we can go toe-to-toe with these guys as the way we thought we could, because we were very encouraged about a year ago with some really good conversions, some big medical centers coming over and buying our microwave versus some of the competitors. And that is still occurring, but not at the rate we thought we could do it with. So we're taking a step back, Matt. And over the course of the summer, [ we launch you ] whenever we can talk to you about our '21 plans. We'll show you how we're realigning ourselves. What we believe, Matt, is over time, microwave growth will probably be closer to market growth, whereas the 20% we pointed to this year, we thought we could really exceed market based on how good our technology was and some initial conversations. I don't know if we can do that, Matt, sustainably. That's why we're going to bring down our own expectations for that product. It will grow nicely with market. It's a great product, but we're going to shift more of our resources to making sure we support NanoKnife growth, support those customers that are choosing to enter our registry, treat people and then collect the data to do so.

And then the final cusp there on NanoKnife, we've already seen how the 3.0 version has been so successfully received. You've seen after 3 quarters, we sold record amounts of capital in either new NanoKnifes or upgrades to the new NanoKnife platform. That's encouraging to us. People really love this new platform. But Matt, we've got to go one step further. NanoKnife is really effective, but it's also complicated to use and is tricky. So training and development of those physician practices are important. We also need to make the next step in technology to make NanoKnife easier to use, and we have that design. It's called H-FIRE or high-frequency IRE. So we're going to put more of the time and development to developing the next platform, which we call H-FIRE, and get this new platform to market as soon as we can, that we think will then maybe match up really nicely with the culmination of our DIRECT study in a couple of years. And we see more and more people who want to use NanoKnife to treat maybe other organs over time. We want to have a platform that's ready to help support that and is easier to use.

So Matt, I gave you a lot out there, but some of that is showing you where we missed, why we missed and what we're doing about it going forward, rather than step back. Yes, go ahead.

**Matthew Ian Mishan**
*KeyBanc Capital Markets Inc., Research Division*

Yes. Like you said -- I think that's all fair and very helpful. On NanoKnife, could you give us a sense of how do -- the numbers are very strong as far as the placements going and in the number of probes and the recurring revenue. Could you just give us a sense of how you're doing with that in the U.S. versus you are, like, internationally?

**James C. Clemmer**
*CEO, President & Director*

So -- it's a good question. I'll look to Steve, maybe Steve has more of a split on the geographics, Matt. I think right now we've seen a balanced sale with our capital this year, both U.S. and OUS. It's been encouraging, though, Matt, some of the systems that have been bought in the U.S. recently are full systems. These are expensive products. I think people now are getting interested in our DIRECT study and the ability for them to be part of the study and to set up a treatment protocol in their facilities.

So again, as we told you early this year, we knew that the Q3 we just reported this morning had very strong disposable sales as you saw on NanoKnife probes, which was our expectation as we talked to you

after Q2. By selling record hardware in the first half of the year, we knew disposables would carry on. I'm not -- I don't want to predict how we'll be now in this quarter in front of us, but it's what we expected.

**Stephen A. Trowbridge**
*Executive VP & CFO*

Yes. And I think, Matt, we are seeing strength, both in the United States and outside the United States. You can think of our current breakdown at about 60% in the U.S., about 40% outside the U.S. We've seen some particular strength in the Asia Pac area outside the U.S. I think we've modified a little bit, mitigated a little bit by EMEA. But we think that that's a temporary trend, and we expect to see EMEA catch up and also be a big contributor going forward. So we have seen strength throughout the globe, driven by the U.S., but definitely some strength OUS as well.

**Matthew Ian Mishan**
*KeyBanc Capital Markets Inc., Research Division*

Okay. And then on NanoKnife and AngioVac both, do you need a clinically trained salesperson in the procedure room to make those effective? Or are the doctors that are performing them capable of doing that without an Angio representative in there?

**Stephen A. Trowbridge**
*Executive VP & CFO*

So that's interesting, Matt. Before the world changed recently, I think the answer from both our physicians as well as us in terms of what we were seeing at the time, to that question would have been, yes, you need clinical specialists in those cases. As the world has changed, we've noticed that both our customers as well as our own clinical specialists have been very creative in providing that case support in this dynamic environment. So I think the answer is, at a very high level, yes. I do think that these NanoKnife procedures as well as AngioVac are complicated procedures that there's a tremendous value provided by our clinical specialists and the knowledge that they have. I think what we're seeing through this new environment is the manner in which we support those cases can be somewhat dynamic. And I think that there's an opportunity to be creative in how we do that support going forward. But ultimately, in the type of procedures that they have with the different disease states and the complexity of our products, there is a role that is necessary for some level of support.

**Matthew Ian Mishan**
*KeyBanc Capital Markets Inc., Research Division*

Okay. And then just last question on the cash flow. You were able to do breakeven on net income, but free cash flow was negative $20 million. So a little bit more color on really what drove that. And from here, I mean, if you have the levels of inventory in place that you think, how capable are you guys of managing several quarter downturn in the business or you really don't know how much it's going to -- how much it swings, while also preserving your current balance sheet position?

**Stephen A. Trowbridge**
*Executive VP & CFO*

Yes. It's a great question, Matt. And it's absolutely something that we've been focused on over the last 4 weeks. So I think you kind of hit the point that we were looking at pretty critically over the last several weeks and looking at the cash flow versus the net income. There are a couple of points that feed into that change in cash that I think are temporary. And I think you would [ chalk up as ] temporary. So we talked about the inventory build, that's actually a big part of it, right? $4 million to $5 million of that cash usage was in inventory build. Now as we talked about going into the current environment, we were planning to increase our inventories in anticipation of moving all of our lines out of the Glens Falls facility that we sold to Medline into Queensbury. So we had a big build as we were coming in. We have continued to build in the first several weeks of this process. The next aspect of that then is going to be, okay, now that you've got the inventory as a backstop to what could be some potential disruptions depending upon what happens, at least, in terms of our production process, you want to then burn off that inventory, and so we're focusing on that.

There was some short-term additional funding that was acquired during the third quarter related to AURYON into the Israeli R&D aspects there. I think that will pull back a little bit. There was also a lot of timing. $7 million to $8 million of that cash usage, I would say, was in timing related to the TSAs and some of the disaggregation activities coming out of the Medline divestiture. So that won't repeat.

So we talked earlier about focusing on our cash, understanding where we want to continue to invest, so we don't lose momentum in areas like AngioVac, AURYON and NanoKnife, but then being much more controlling in terms of that discretionary spend, the third-party R&D spend in all the other products. The other thing we're keeping a close eye on, you've got a whole bunch of expenses that end up not being spent just by the very nature of the situation that we're in. The fact that nobody can be traveling, T&E goes way down. So we're keeping a close eye on that. We feel really good that we're going to be able to maintain our strong foundational cash position through this downturn. We talked a little bit about initiating that draw. As both an opportunity to keep our eye on the cash flow and make sure that we've got the right cash balances that we need, but then also illustrate our strength. We're not looking to draw the entire revolver. It's not a prudent thing to do at this time. It's not something that we need to do at this time.

So we feel pretty comfortable that we'll be able to maintain that cash position by reducing our expenses that we've talked about, not cutting into those areas that we want to make sure are going to maintain momentum when it's time to come out of that. And then also seeing some of those onetime timing things that we saw in Q3 not repeat as we head into Q4 and then into the first half of our FY '21.

**Operator**

Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Clemmer for any closing remarks.

**James C. Clemmer**
*CEO, President & Director*

So thank you for joining us today for our quarter 3 2020 call. I'd like to, again, call out the dedication and commitment of our employees. We have manufacturing, quality and distribution people working today in Queensbury and Glens Falls, New York. They've worked over the past 3 or 4 weeks during this pandemic process with their commitment to manufacturing high-quality products that are used around the globe in the care and treatment of those in need of care.

We've done a good job here at AngioDynamics, helping to make their workplace as safe as we can make it and reduce risks of transmission internally. We've changed how we do what we do. We made sure that our people are thought of first. So we've got a great group of people. We're proud to report our good Q3 results today. We look forward to sharing with you our Q4 results and beyond. And I think we did a good job highlighting today just some of the uncertainty we see from our customers. As soon as we can get better clarity and transparency from our customers, we'll be happy to share with you our new thinking when that occurs. But today, our company is driven by a belief that our products make a difference in the wellness and care of others. The company is committed to that. I want to thank our employees for working through this difficult process. Thank you. We'll speak with you soon.

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