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Volcano Corp. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Mike Weinstein – JP Morgan.

Chris Pasquale - JP Morgan

Hey guys, Chris Pasquale here for Mike. Scott, maybe to start off with obviously a very impressive system placement number this quarter, can you spend another minute on the situation in Japan? In the past, we've seen boluses of system demand there, especially around new product launches. It sounds like you're attributing this recent increase more to a shift in your selling strategy which could be a longer term driver. So, given that, how sustainable is the momentum that you see in there in the back half of '08?

Scott Huennekens

Yes, just to walk you through exactly how the direct business works in Japan; we basically place the systems in the hospital for free like we do in the US under catheter utilization programs.

So as we've converted accounts to our direct model, these are accounts that would've been previously Goodman or Fukuda accounts, we've gone into the hospital. You sell them on the benefits of your product. They indicate they want to use it, so you place an S5 system in there, then it goes onto our balance sheet and we appreciate that as an asset.

For example, at an exchange rate of 90, today in Japan, reimbursement for an IVUS catheter is JPY1 41,000. You convert that to dollars at 90 and it's about \$1,566. The hospital pays 75% of that or about \$1200, but you don't have to sell a lot of IVUS catheters or wires which correspondingly would be around \$1300 per wire, our FM wires, in order to justify putting the capital there for free.

So that's how it works. As we open up new accounts, we put our S5 our S5I system into the account and John we placed how many systems in Japan in the fourth quarter?

John Dahldorf

Approximately 100.

Scott Huennekens

So, approximately 100 systems were placed there and I think you'll see that trend continuing throughout 2009, as we win new accounts and as we move accounts to our direct business model.

Chris Pasquale - JP Morgan

How much of that market do you think you're covering on a direct basis now with your 24 reps?

Scott Huennekens

Very, very small, 5%, 10%.

Chris Pasquale - JP Morgan

On the Axsun side, you're guiding to a little bit of a step-down in revenue relative to what they've been doing as a stand-alone company. What's the driver there? Are you weeding out some prior business that either was unprofitable or you don't want to pursue any more and how should we think about that segment's top-line growth profile longer-term?

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