

FINAL TRANSCRIPT

CCBNStreetEventsSM



Event Transcript

**HMP - CCBN Virtual Healthcare Conference: Co-sponsored by
Lippert/Heilshorn & Associates and RedChip Partners**

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CORPORATE PARTICIPANTS

Jim Flanagan

IR Strategic Advisors - President

Marshall B. Hunt

Horizon Medical Products - Director and CEO

CONFERENCE CALL PARTICIPANTS

James Flanagan

QUESTIONS AND ANSWERS

James Flanagan

Thank you, Mr. Hunt.

This is Jim Flanagan, once again, the moderator for this program. And I'd like to remind our audience that's participating in this live Webcast that you may submit a question at any time by simply typing your query into the question fields in the lower left hand side of the Webcast player. I'll present these questions during the Q&A period, which begins now.

Mr. Hunt, what is the significance, and you talked about the relationship with Medtronic, could you review that because you've identified it as being of utmost important to the company?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

Well Medtronic came to us in -- that's several years ago when they were working on these implantable pumps for the treatment of pain. And they recognized that the oncologist was the key decision-maker for the treatment of cancer pain. And this is pain that has metastasized into the bone system and it is intractable pain. These are patients that are in seriously horrible shape. Most of these patients are -- have a six-month to a year to live, but they are in severe pain.

Medtronic recognized and believes that the only way to really penetrate the oncology market is to find a company, a device company that sells directly into the oncology market. We are the only device company that sells directly into the oncology market, and that is one of our primary call points. So this relationship is wonderful because our ports are sold into oncology, our safety needles, our LifeValve. Virtually almost all of our products, with the exception of our hemodialysis catheters, are sold directly into the oncology office.

The SynchroMed and IsoMed are a product that when you walk in with a Medtronic product into an oncology office, they will almost always see you and talk to you, and they will also talk to you about your other products. So we use them to get in the door. And if it's an account that we're already in good stead with, we come in and show them the products. So that is the significance of the relationship.

James Flanagan

Excellent.

Let me go to a next question. Regarding your sales force, what is your training method? And talked about going forward, what do you expect to see in the future for sales growth in -- sales force growth, that is, in 2003?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

Well that's a -- that's a good question. The -- I'll take the first part first. The way we now train -- our sales reps now undergo a very extensive training program right when they first join the company. They -- actually we put them in the field for a period of about six to eight weeks, then we bring them back in for a two-week extensive training program on our products. Then they go back out in the field and they work constantly with different sales managers and other peers, as we will call them, but top guns, as they're classified, or other very, very good reps that we fly in to work with the rep for a period of about six weeks. We then bring the reps back in at about six months and have an advanced training class that we continue to train the reps.

Training the reps is the most significant thing you can do to create the type of level of service that we need in our company. The financial analysis of this, now that we are at 40 reps strong, six months ago, we had 27 direct reps. Now we are at 41, and we will be around 43 by the end of the year of this year. We believe that with this -- with this product line and with this -- with this sales force and the products and the -- and the opportunity that we have now, we're expecting a top line growth of approximately 30 percent at '03. And we expect that in '03 that we will operate in the black.

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James Flanagan

Excellent. And a follow-up, do you expect the sales force to grow in 2003 or will it stay at the 43 that you identified at year end this year?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

I think we're going to try to hold tight at about 43, unless we see opportunities for competitive reps that we'd like to hire that may want to join us in areas where we're not doing a very good job. You know we would certainly add reps there.

We have implemented a program called the screen program where we expect to have turnover in this organization from the standpoint of the bottom third of the class and primarily the bottom 20 percent of the class are not going to stay around. We're going to continue to call (ph) this sales force until they get better and better and better. The -- I guess the -- I guess a saying that I have liked over the years is you will -- we'll force them up and get better or force them out. And -- so our goal now is to take the 43 reps we have and by the end of '03 wind up with a much, much better sales force than what we had in '02 just by the sheer nature of continuing to forcing them up or forcing them out and replacing them with better people.

James Flanagan

Great. And a follow-on question, Mr. Hunt, is there a particular background, either technically, education or experience wise, that you people look for in sales reps?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

Yes, there is. And believe me, we've tried -- what was it Winston Churchill once said America always does what's right only after they've exhausted every other possibility. Well over the years, we have tried every different kind of type of sales rep trying to come up with the best answer, and this has been in the last 20 years, and my background has been distribution and sales. I've went back even when I was with American Hospital back in the early, early '80s, late '70s.

The profile that we look for is an individual with good hard sales experience, and not necessarily medical sales experience, but somebody that has had good sales training, a Xerox sales rep, a Linear (ph) sales rep, you know somebody may come out of IBM. It's somebody that may come out of another medical device company that's a -- that is a -- that is known to be a good

-- a good competitor. We will -- those are the type of people that we are looking for. We're looking for individuals that have strong commitment to athletics as such, or people that are out of the military, junior officers out of the military. We look for discipline, perseverance and people that don't understand what the word no means.

James Flanagan

Excellent.

Let's turn now, Mr. Hunt, to the operational side of the business. Horizon's achieved some significant operational improvement over the past year, and what do you -- how would you describe the drivers to that?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

Well the -- if I -- if I had to explain, you know, what all the -- you know we -- in 2002 and 2001, we had a lot -- we made a tremendous amount of changes that really have not showed up yet in the numbers. We have -- we have reinvented ourselves. Two years ago when the market shut down and we couldn't go out and add -- couldn't go out and do secondaries and these types of things, we had to go back and become an -- we had to start doing our own in-house development.

We have reinvented our mission statement. We -- you know we are a vascular -- we are a medical device company that makes high-tech products for the vascular and spinal access markets. We've overhauled our distribution from -- over the last year where we have gotten rid of virtually all of our distributors and have come back now with a 41 to 43 strong, direct sales force where we have control of our sales reps. We can control their training, train them properly and move forward. The existing distributors -- you know getting rid -- getting out of the distribution business, the Stepic business, and moving ourselves to our a pure medical manufacturer, we've moved our margins from 45 percent five months ago to 62.3 percent as of last quarter. So we clearly are -- I believe are moving in the right direction in that area.

James Flanagan

Great. And what about going forward in additional initiatives that you may take in 2003 to keep up any of the operational improvements (ph), efficiencies, productivities in your organization?

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Marshall B. Hunt - *Horizon Medical Products - Director and CEO*

Well the -- we've spent two years with one of the greatest consultants that I've ever known that basically moved in with us. He worked for us full time, a guy -- gentleman by the name of Bob Kiger (ph), and absolutely overhauled our manufacturing processes, all of our cost accounting. So we know a lot now about exactly what our overhead costs are, exactly what it costs us to produce a product. We have -- we are going to continue to work on backorders. Backorders are obviously one of the worst things in the world that you can -- that you can have.

We are now working on, you know, blocking and tackling, but things that we are going to do and we have already started doing, and we're going to increase our turns next year significantly. And we would like to be -- our goal is -- our goal for finished goods turns is five for next year and that will be one of -- one of Bob Wenzel's NBO (ph). We are somewhere, you know, slightly below or in the four turn range. So another turn of inventory would be a very -- a very, very positive occurrence for us.

Let me see, and I think where you are and will see a lot of improvement in '03 from an operational standpoint simply because we now have this world class, highly trained sales -- direct sales force. And the major emphasis is sales, profit, rep stability and increasing the productivity per rep. We are currently at about \$65,000 to \$70,000 per rep per month. We want that number at \$100,000 per month, and that is -- that is what we're driving those reps to.

How do you do that? You put better products, higher margin products, higher revenue products in the hands of the rep. And I think if you had listened -- or if you listened to my presentation, you will see that's exactly what we're doing, so we're expecting a great year in '03.

You also have to factor in quality. Quality of the products is the key -- is the biggest key to this whole deal. We have -- as we speak, we have created a quality council that is meeting today, actually. It's the first time we've -- well we've put this together, which consists of sales, marketing, engineering and the COO. And basically they go into a room and they talk about what we can do to improve the quality. What -- name every single thing you could do to improve the quality of our products. So I think that from a -- from the -- going forward, I think you're going to see a lot of changes in '03 that will improve -- prove the operations of Horizon Medical Products.

James Flanagan

Mr. Hunt, you talked recently about a 30 percent growth rate for 2003 and you talked about moving the company in the past year from 45 percent margin to about 62 percent. Can you recap what you believe would be the most important drivers to that and will the new products that you mentioned in your presentation be a contributor to that this year or is that later?

Marshall B. Hunt - *Horizon Medical Products - Director and CEO*

No, the products that I talked about in the presentation, all of those products have -- are now on the streets, with the exception of gendean (ph) and the F16 (ph), all of those products will be and are -- have just now hit the market and will be significant drivers for '03. The F16 (ph), we expect release any day from the FDA for that product. That will be a significant driver for '03. And then the advancements that we're making in the design of the LifeValve is -- will make a significant difference in that market. We are going to have a catheter that has a lot better aspiration qualities than what the current valve catheters afford you.

So we believe that in -- all of these products. These products are all in the 68 to 70 percent margin range that we're talking about right now. The LifeGuard Safety Needle doesn't operate quite that high, but it is a product that anybody will see us over because that market right now has become -- it has gotten to be such a problem with people getting stuck either by -- for -- you know the Huber Needle goes through the top of the port and it has a needle grip. So when you pull it out, it's a little bit hard to pull out and often rebounds and sticks the patient. It has the highest incident of needle sticks per chase (ph) of any needle out there. The -- and Congress did mandate that if there is a needle available, a second needle that's available, it needs to be evaluated and tried, and that was about a year-and-a-half ago.

We are now seeing the first signs of lawsuits at hospitals that are not using a safety needle that is available and a -- and a nurse or a clinician is stuck. So -- and our product, this is a product that takes a little while to get in and through the organization. You have to go through a number of stations and nurses. But as I said, we are -- we're in somewhere around 190 hospitals right now and the product has really been only out for about four months. We have it in virtually every size. It is -- it is functioning. We've had no complaints whatsoever, and it's doing very, very well.

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James Flanagan

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Mr. Hunt, you talked about achieving profitability in 2003, will that be sequentially each quarter or for the year?

Marshall B. Hunt - Horizon Medical Products - Director and CEO

I think you got -- I think we really would like to keep it, at this point, for the year. We -- after we sold Stepic, we -- when we sold Stepic, we -- that was a profitable addition, but it raised a lot of cash and helped us a lot with our debt. But we have some EBITDA to recover, but we are in position now to recover that EBITDA with this large sales force; and we believe we will start seeing a positive turn toward the midyear.

James Flanagan

It appears we have no more questions for Mr. Hunt and Horizon Medical Products.

Mr. Hunt, if there's any concluding remarks you'd like to make at the end of today, go ahead.

Marshall B. Hunt - Horizon Medical Products - Director and CEO

Well I -- you know I would -- those of you that have followed us since we went public, I think that I can honestly say now that the team that's put together the engineering team, the strategic relationship with Medtronic, the whole folks of this company now is a pure medical device company that is focusing on the needs of the clinician and the patient. And that is our mission statement. We want to make sure that whatever we do helps the patient and helps the clinician that's administering the health care.

We have great products. We have a lot of technology that is sitting in our bays now from all the acquisitions that we've made over the last four years from Pfizer and other companies that we've bought additions of. And we're going to continue to be a very strong force to deal with in the vascular access and even dialysis markets. And I would -- I think that we are a very, very good bet to be involved with from an equity standpoint in the future.

Thank you.

James Flanagan

Mr. Hunt, we thank you today and we thank Horizon Medical Products for participating in CCBN's Virtual Health Care Conference. We thank our audience for your time.

And to listen to the next Webcast, please close your media player and return to www.ccbn.com, www.redchip.com or www.lhai.com. Thank you.

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