

Nevro Corp.(NVRO)

\$99.98 (As of 03/31/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Nevro Corp continues to gain from its domestic and international revenues which saw solid growth in recent times. Also, higher demand for implants led to the solid quarterly show recently. The commercial launch of the Senza Omnia SCS System buoys optimism. Management is further optimistic about the long-term prospects of the flagship Senza II platform, launched late last year. The U.S. launch of Senza Omnia is expected to lend the company a competitive edge in the near future. A strong guidance for 2020 holds promise. Expansion in gross margin is heartening as well. However, increased operating expenses raise concerns. Also, the stock is overvalued at the moment. The stock has underperformed the industry on a year-to-date basis.

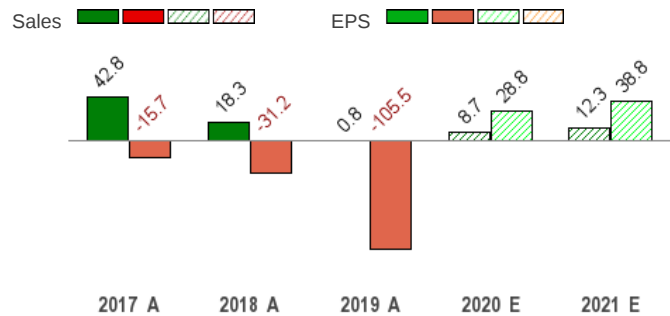
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.05 - \$54.00
20 Day Average Volume (sh)	746,649
Market Cap	\$3.2 B
YTD Price Change	-14.9%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 16% (41 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.0%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-17.9%
Expected Report Date	05/14/2020
Earnings ESP	-2.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	108 E	118 E	118 E	141 E	476 E
2020	98 E	107 E	108 E	125 E	424 E
2019	82 A	94 A	100 A	114 A	390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.52 E	-\$0.41 E	-\$0.37 E	\$0.02 E	-\$1.47 E
2020	-\$0.80 E	-\$0.62 E	-\$0.49 E	-\$0.23 E	-\$2.40 E
2019	-\$1.45 A	-\$0.91 A	-\$0.58 A	-\$0.44 A	-\$3.37 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	8.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/31/2020. The reports text is as of 04/01/2020.

Overview

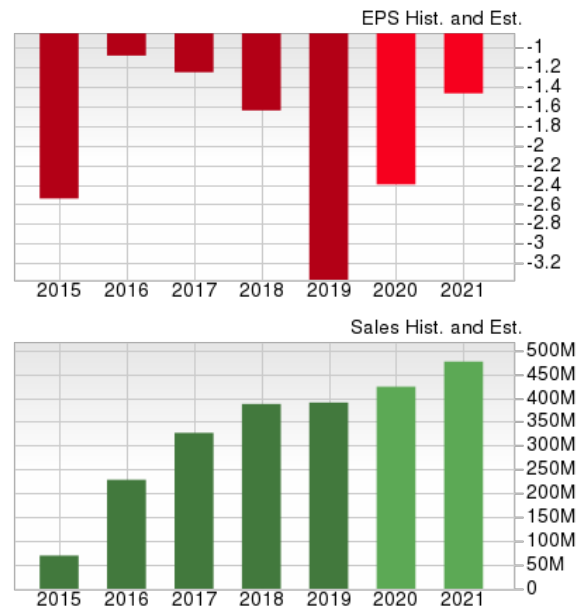
Headquartered in Menlo Park, CA, Nevro Corp. is a medical device company which engages in developing and commercializing a neuromodulation platform for the treatment of chronic pain, primarily in the leg. The company is known for developing and commercializing the Senza spinal cord stimulation (SCS) system, an evidence-based neuromodulation platform for the treatment of chronic pain. Additionally, the company's HF10 therapy provides long-lasting relief from chronic back and leg pain.

Nevro Corp.'s flagship Senza SCS system has been consistently driving the top line. Since its commercial launch in the United States, the system raked in significant revenues. These apart, Senza is commercially available in Europe since 2010 and in Australia since 2011. In early 2017, Nevro Corp. commenced a controlled commercial launch of a new surgical lead, marketed as the Surpass TM surgical lead.

The company also has bright prospects when it comes to other chronic pain indications where it uses HF10 therapy to treat chronic upper limb and neck pain and other non-surgical back pain.

2019 at a Glance

Revenues in 2019 were \$114.4 million, which rose 6%.



Reasons To Buy:

▲ **Guidance Promising:** Buoyed by a strong fourth-quarter show, Nevro issued a strong guidance for 2020. The company expects 2020 revenues within \$435-\$440 million. Gross margin is projected in the range of 69-70% and operating expenses are expected at around \$355 million.

Lucrative prospects in the SCS market, solid international foothold and focus on innovation drive the stock.

▲ **Senza — A Key Driver of Growth:** Nevro Corp.'s flagship platform, Senza, got its first FDA approval in the United States in 2015. Notably, the system has been developed and commercialized for the treatment of chronic pain. The system delivers paresthesia-free HF10 therapy, a superior one over traditional low-frequency spinal cord stimulation for the treatment of chronic back and leg pain. SENZA-RCT was a prospective, randomized, multi-center pivotal study, conducted across 11 U.S. clinical trial sites. Notably, the study demonstrated the superiority of HF10 therapy to traditional Spinal Cord Stimulation (SCS) therapy. In the recent past, the company launched Senza II, a smaller-footprint, advanced battery system.

In recent times, Nevro launched its next product platform, Senza Omnia, in the United States which is expected to lend the company a competitive edge in the near future.

▲ **International Prospects:** Nevro Corp. currently sells Senza in Europe and Australia through a network of sales agents and independent distributors. To date, the company has expanded its direct sales operations to Austria, Australia, Belgium, Germany, Luxembourg, Netherlands, Norway, Sweden and Switzerland. Management at Nevro Corp. expects growth in Europe to drive worldwide revenues in 2019.

In the fourth quarter of 2019, international revenues were \$16.5 million, up 1% year over year and 3% at constant currency.

▲ **Lucrative SCS Market:** The major factors driving the global SCS market are growing aging demographics, high cost related to therapy, stringent regulatory approvals and major reliance on traditional SCS therapy. Notably, HF10 therapy delivered by Nevro Corp.'s Senza system was demonstrated in the SENZA-RCT study to be superior to traditional SCS therapy, with Senza being nearly twice as successful in treating back pain and 1.5 times as successful in treating leg pain when compared to traditional methods. Management further confirmed that an expected product launch can allow the company to bring the most versatile platform in SCS therapies.

Notably, the market for SCS therapies looks lucrative at the moment. Per a report by Market Data Forecast, the global SCS market is estimated to reach \$2,827.4 million at a CAGR of 8.6% (between 2018 and 2023).

▲ **R&D Edge:** Nevro Corp. aims to continue to improve patient outcomes and expand patient access to HF10 therapy through enhancements to Senza and development of newer indications. Since the launch of the initial Senza system, the company introduced a number of product enhancements like active anchors with improved performance, second generation clinician programmer software, MRI machines, conditional full body MRI etc. The company continues to make enhancements to Senza to boost its performance. The company's R&D expenses totaled \$16.9 million, up 25.6% year over year, in the fourth quarter of 2019.

The company recently announced the Omnia launch, a product which delivers HF10 SCS therapy. The company expects meaningful contribution from the platform in 2020. Notably, the Senza Omnia platform consists of three new components to make it easy for physicians to offer a wider array of waveforms across the full SCS frequency spectrum.

Risks

- **Shares Down:** Year-to-date, shares of the company slipped 15% compared with the industry's 13.3% decline. The S&P 500 index has fallen 18.5%. Notably, the company faces stiff competition in the MedTech space. Also, with ongoing coronavirus crisis has majorly slashed the company's share prices of late.
 - **Valuation Looks Dull:** Nevro is currently trading at a forward P/S (TTM basis) ratio of 8.00 over the past year, which compares with 2.84 and 3.60 for the S&P 500 index and the industry, respectively.
 - **Cutthroat Competition in Niche Space:** Nevro Corp. faces stiff competition in the Spinal Cord Stimulation market. Per management, the primary competitive factors are company brand recognition, clinical research leadership, pricing and reimbursement among many others. Notably, the company faces competition from MedTech bigwigs like Medtronic, Boston Scientific and Abbott Laboratories, who have already obtained regulatory approval for SCS systems and have greater capital resources.
 - **Tough Regulatory Environment:** Nevro Corp.'s products and operations are subject to extensive and rigorous regulations by the FDA under the Federal Food, Drug, and Cosmetic Act (FFDCA) and its regulations, guidance and standards. Any violation of these could result in a material adverse effect on the company's business, financial condition and operational results. In addition, if there is a change in law, regulation or judicial interpretation, Nevro Corp. may be required to change its business practices, which can be detrimental for the business. In fact, the company's international sales are subject to regulatory requirements in the countries in which its products are sold.
-

Last Earnings Report

Nevro Q4 Loss Narrower Than Expected, Guidance Solid

Nevro Corp. reported fourth-quarter 2019 loss of 44 cents per share, narrower than the Zacks Consensus Estimate of a loss of 62 cents. The company had incurred a loss of 32 cents in the year-ago quarter.

Revenues were \$114.4 million, which surpassed the Zacks Consensus Estimate by 3.2%. The figure also rose 6% year over year.

Quarter Ending 12/2019

Report Date	Feb 25, 2020
Sales Surprise	3.20%
EPS Surprise	29.03%
Quarterly EPS	-0.44
Annual EPS (TTM)	-3.38

Quarter Highlights

In the quarter under review, international revenues were \$16.5 million, up 1% year over year and 3% at constant currency.

U.S. revenues for the quarter totaled \$97.9 million, up 7% year over year. Per management, revenues gained from the 17% year-over-year growth in U.S. trials and 20% increase in permanent implant.

Margins

Gross profit totaled \$81.3 million, up 6.7% year over year. Gross margin was 71%, up 50 basis points.

Operating expenses rose 9.7% year over year to \$92.9 million. Research and development expenses totaled \$16.9 million, up 25.6%.

Sales, general and administrative expenses rose 6.6% to \$76 million.

Loss from operations was \$11.7 million, compared with a loss of \$8.6 million in the year-ago quarter.

Guidance

Nevro Corp. expects 2020 revenues within \$435-\$440 million.

Gross margin is projected in the range of 69-70% and operating expenses are expected at around \$355 million.

Valuation

Nevro Corp.'s shares are down 14.9% in the year-to-date period but up 61.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 13.3% and 12.9% in the year-to-date period. Over the past year, stocks in the Zacks sub-industry and sector are down 12.2% and 12.3%, respectively.

The S&P 500 index is down 18.5% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 7.1X Forward 12-months sales, which compares to 19.9X for the Zacks sub-industry, 2.5X for the Zacks sector and 6.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.9X and as low as 2.5X, with a 5-year median of 6.9X.

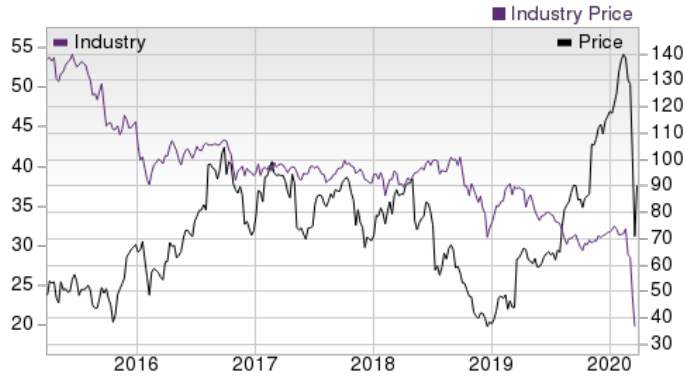
Our Outperform recommendation indicates that the stock will perform better than the market. Our \$115 price target reflects 8.1X forward 12-months sales.

The table below shows summary valuation data for NVRO.

Valuation Multiples - NVRO					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.06	3.17	2.44	2.85
	5-Year High	19.98	3.65	3.84	3.43
	5-Year Low	2.54	2.18	2.44	2.54
	5-Year Median	6.95	2.59	2.96	3
P/B TTM	Current	14.33	2.88	3.36	3.53
	5-Year High	20.68	4.23	5.05	4.55
	5-Year Low	4.15	2.36	2.84	2.85
	5-Year Median	9.01	3.34	4.3	3.63

As of 03/31/2020

Industry Analysis Zacks Industry Rank: Top 16% (41 out of 254)



Top Peers

Integer Holdings Corporation (ITGR)	Outperform
Penumbra, Inc. (PEN)	Outperform
Abbott Laboratories (ABT)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Cardiovascular Systems, Inc. (CSII)	Neutral
Medtronic PLC (MDT)	Neutral
ABIOMED, Inc. (ABMD)	Underperform
Becton, Dickinson and Company (BDX)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	NVRO Outperform	X Industry	S&P 500	ABT Neutral	BSX Neutral	PEN Outperform
VGM Score	F	-	-	C	F	D
Market Cap	3.18 B	80.94 M	17.97 B	139.15 B	45.56 B	5.65 B
# of Analysts	7	2	13	10	11	3
Dividend Yield	0.00%	0.00%	2.37%	1.82%	0.00%	0.00%
Value Score	D	-	-	C	D	F
Cash/Price	0.08	0.11	0.06	0.03	0.01	0.03
EV/EBITDA	-36.59	-0.45	10.93	19.54	23.70	95.12
PEG Ratio	NA	2.31	1.74	2.34	2.08	NA
Price/Book (P/B)	14.33	3.02	2.39	4.46	3.28	11.60
Price/Cash Flow (P/CF)	NA	18.40	9.48	15.81	13.58	128.92
P/E (F1)	NA	27.19	14.84	22.89	20.77	133.70
Price/Sales (P/S)	8.15	2.79	1.91	4.36	4.24	10.33
Earnings Yield	-2.40%	-2.70%	6.65%	4.37%	4.81%	0.75%
Debt/Equity	0.84	0.09	0.70	0.53	0.62	0.15
Cash Flow (\$/share)	-3.16	-0.10	7.01	4.99	2.40	1.25
Growth Score	D	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	NA%	13.54%	10.89%	8.90%	14.77%	1,027.52%
Proj. EPS Growth (F1/F0)	28.91%	13.12%	1.29%	6.39%	-0.58%	23.13%
Curr. Cash Flow Growth	110.25%	5.04%	6.03%	4.54%	12.08%	77.16%
Hist. Cash Flow Growth (3-5 yrs)	NA%	11.44%	8.55%	11.80%	10.33%	250.42%
Current Ratio	5.98	2.40	1.24	1.44	0.97	5.09
Debt/Capital	45.52%	15.51%	42.36%	34.74%	38.24%	13.22%
Net Margin	-26.57%	-14.31%	11.64%	11.56%	43.78%	8.85%
Return on Equity	-49.96%	-20.21%	16.74%	18.39%	21.15%	7.72%
Sales/Assets	0.86	0.57	0.54	0.47	0.41	0.90
Proj. Sales Growth (F1/F0)	8.53%	6.01%	1.61%	5.71%	4.73%	16.25%
Momentum Score	F	-	-	D	F	B
Daily Price Chg	1.62%	0.00%	-2.05%	-0.54%	3.13%	-1.15%
1 Week Price Chg	27.44%	9.92%	12.32%	9.65%	12.37%	17.50%
4 Week Price Chg	-22.66%	-19.45%	-18.09%	1.18%	-12.36%	-4.90%
12 Week Price Chg	-16.17%	-25.21%	-24.90%	-8.09%	-28.13%	1.67%
52 Week Price Chg	61.86%	-42.49%	-18.55%	-0.89%	-15.29%	11.69%
20 Day Average Volume	746,649	172,905	4,222,189	14,519,075	15,975,302	448,167
(F1) EPS Est 1 week change	-9.39%	0.00%	-0.18%	-4.20%	-3.63%	0.00%
(F1) EPS Est 4 week change	-17.93%	0.00%	-3.16%	-4.20%	-10.88%	0.28%
(F1) EPS Est 12 week change	20.71%	-2.98%	-4.36%	-4.54%	-12.33%	5.54%
(Q1) EPS Est Mthly Chg	2.95%	0.00%	-2.63%	-1.80%	-10.57%	-5.97%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.