

Nevro Corp.(NVRO)

\$117.70 (As of 07/01/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: F

Growth: A

Momentum: A

Summary

Nevro's domestic revenues improved on a year-over-year basis in the last reported quarter. Also, demand for implants contributed to the solid quarterly show. The commercial launch of the Senza Omnia SCS System continues to buoy optimism. Expansion in gross margin is encouraging. A stable liquidity position and solid international prospects are heartening. The company outperformed its industry over the past year. Nevro exited the first quarter on a strong note, with earnings and revenues beating estimates. On the flip side, decline in international revenues during the quarter raises concern. The company also incurred operating loss during the quarter. Stiff competition and the coronavirus pandemic add to the woes.

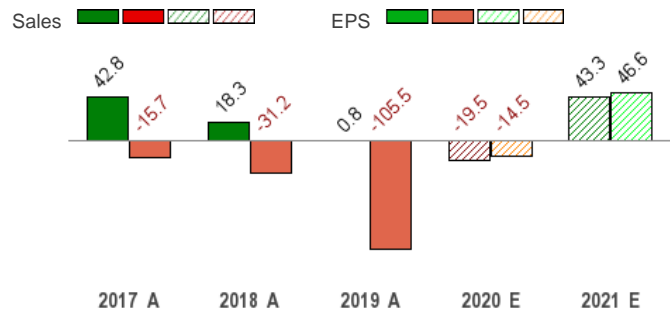
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.05 - \$60.51
20 Day Average Volume (sh)	387,438
Market Cap	\$4.0 B
YTD Price Change	0.1%
Beta	0.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 44% (142 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.3%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/13/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	99 E	108 E	109 E	134 E	450 E
2020	87 A	38 E	75 E	112 E	314 E
2019	82 A	94 A	100 A	114 A	390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.73 E	-\$0.58 E	-\$0.50 E	-\$0.17 E	-\$2.06 E
2020	-\$0.78 A	-\$1.74 E	-\$0.97 E	-\$0.39 E	-\$3.86 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	10.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/01/2020. The reports text is as of 07/02/2020.

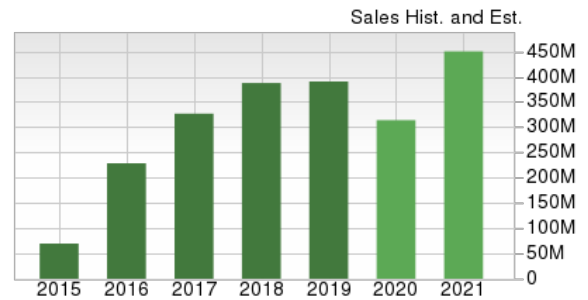
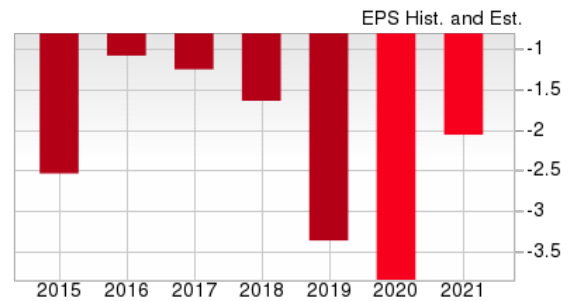
Overview

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.

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.

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:

▲ **Share Price Up:** Shares of the company surged 86.1% compared with the industry's 4.7% rise over the past year. Nevro Corp continues to gain from its domestic 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 on the stock.

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.

The Senza Omnia has been gaining traction through the first quarter of 2020. Senza Omnia, which is the only SCS platform that can offer high frequency, plus lower frequencies and paired waveforms, received an earlier-than-expected approval in Australia during the first quarter. The company is currently awaiting a CE Mark approval for the platform in Europe 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.

Despite a decline in international revenues in the first quarter, the company expects to see continued sequential improvement of the same in the second quarter, particularly in the month of May, and again in June as procedures are restored in the United States, parts of Europe, and Australia.

▲ **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).

During the first quarter of 2020, the company announced positive developments related to its intellectual property litigations. The company saw two developments that reflected the strength in its intellectual property portfolio and determination to safeguard its investment in the objective to support high frequency SCS therapy.

▲ **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 recently announced the Omnia launch, a product which delivers HF10 SCS therapy. The company expects meaningful contribution from the platform in 2020. In January 2020, the company announced a series of data presentations supporting the use of its HF10 therapy for patients suffering from chronic pain.

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.

▲ **Stable Liquidity Position:** Nevro exited the first quarter of 2020 with cash and cash equivalents and short-term investments amounting to \$248 million, up from \$238 million sequentially. Meanwhile, long-term debt came up to \$162.4 million in the first quarter, up from \$160.3 million in the previous quarter, which is somewhat lower than the quarter's cash and cash equivalent level indicating strong solvency. In addition, we may also note that, the company has no current-year debt on its balance sheet. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

▼ **Weak Trends:** In the first quarter of 2020, Nevro's international revenues declined 26% year over year and 23% at constant currency. This was owing to the impact of COVID-19-related government restrictions on elective procedures implemented in Europe and Australia during the second half of the first quarter. The company also incurred operating loss of \$23.1 million during the quarter.

▼ **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.

Stiff rivalry and issues in revenues from Australia mar the company's prospects.

Last Earnings Report

Nevro Earnings and Revenues Beat Estimates in Q1

Nevro Corp reported first-quarter 2020 loss of 78 cents per share, narrower than the Zacks Consensus Estimate of a loss of \$1.03. The company had incurred a loss of \$1.45 in the year-ago quarter.

The company posted revenues of \$87.5 million, which surpassed the Zacks Consensus Estimate by 0.9%. The figure also rose 6.6% year over year.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	0.98%
EPS Surprise	24.27%
Quarterly EPS	-0.78
Annual EPS (TTM)	-2.71

Quarter Highlights

In the quarter under review, international revenues were \$12.2 million, down 26% year over year and 23% at constant currency. This was owing to the impact of COVID-19-related government restrictions on elective procedures implemented in Europe and Australia during the second half of the first quarter.

U.S. revenues for the quarter totaled \$75.3 million, up 14% year over year. Per management, revenues gained from 7% year-over-year growth in U.S. trials and 12% increase in permanent implant.

Margins

Gross profit totaled \$60.5 million, up 13.8% year over year. Gross margin was 69.2%, up 445 basis points.

Total operating expenses fell 12.4% year over year to \$83.6 million. Research and development expenses totaled \$12.2 million, down 13.6%.

Sales, general and administrative expenses fell 12.2% to \$71.4 million.

Loss from operations was \$23.1 million, narrower than the year-ago quarter's loss of \$42.3 million.

Guidance

Due to the economic uncertainties resulting from COVID-19, Nevro withdrew its annual guidance for 2020 on Apr 1.

Valuation

Nevro's shares are up 0.1% and 86.1% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 4.4% in the year-to-date period while that in the Zacks Medical sector are down 1.7%. Over the past year, the Zacks sub-industry and sector are up 86.1% and 4.7%, respectively.

The S&P 500 index is down 3.8% in the year-to-date period while up 4.1% in the past year.

The stock is currently trading at 10.5X Forward 12-months sales, which compares to 4.2X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.4X and as low as 2.5X, with a 5-year median of 6.9X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 11X 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	10.48	4.18	2.77	3.47
	5-Year High	15.36	4.18	3.74	3.47
	5-Year Low	2.54	2.53	2.21	2.53
	5-Year Median	6.92	3.01	2.9	3.02
P/B TTM	Current	18.61	4.06	4.27	4.24
	5-Year High	20.68	4.69	5.06	4.56
	5-Year Low	4.15	2.71	2.93	2.83
	5-Year Median	9.3	3.83	4.27	3.69

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
OPKO Health, Inc. (OPK)	Outperform	2
AngioDynamics, Inc. (ANGO)	Neutral	3
Accuray Incorporated (ARAY)	Neutral	3
Inogen, Inc (INGN)	Neutral	3
Luminex Corporation (LMNX)	Neutral	1
Natus Medical Incorporated (NTUS)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	4
Tandem Diabetes Care, Inc. (TNDM)	Neutral	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	NVRO	X Industry	S&P 500	ARAY	INGN	TNDM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	F	F
Market Cap	4.00 B	128.34 M	21.87 B	192.80 M	790.63 M	5.94 B
# of Analysts	7	2	14	1	5	5
Dividend Yield	0.00%	0.00%	1.94%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	C	F
Cash/Price	0.06	0.09	0.07	0.46	0.27	0.03
EV/EBITDA	-46.09	-1.45	12.69	-136.67	15.52	-305.08
PEG Ratio	NA	4.15	2.86	NA	NA	NA
Price/Book (P/B)	18.60	3.50	2.98	3.22	2.28	28.69
Price/Cash Flow (P/CF)	NA	21.14	11.63	NA	20.94	NA
P/E (F1)	NA	45.55	21.27	NA	NA	NA
Price/Sales (P/S)	10.12	3.77	2.27	0.48	2.19	15.07
Earnings Yield	-3.28%	-4.91%	4.48%	-2.35%	-0.20%	-0.55%
Debt/Equity	0.85	0.09	0.76	3.62	0.03	0.09
Cash Flow (\$/share)	-3.16	-0.13	6.94	-0.01	1.71	-0.13
Growth Score	A	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	NA%	13.55%	10.93%	NA	32.40%	NA
Proj. EPS Growth (F1/F0)	-14.45%	-4.42%	-9.61%	-200.00%	-106.92%	-28.10%
Curr. Cash Flow Growth	110.25%	6.40%	5.51%	-94.34%	-40.33%	-93.28%
Hist. Cash Flow Growth (3-5 yrs)	NA%	11.48%	8.62%	14.18%	15.10%	13.65%
Current Ratio	6.79	2.51	1.30	1.95	5.43	2.82
Debt/Capital	45.82%	13.78%	44.46%	78.34%	2.56%	8.62%
Net Margin	-21.36%	-15.65%	10.62%	0.64%	3.90%	-4.22%
Return on Equity	-40.67%	-17.44%	15.75%	-14.83%	4.93%	-9.39%
Sales/Assets	0.87	0.56	0.55	0.87	0.82	1.30
Proj. Sales Growth (F1/F0)	-19.59%	0.00%	-2.57%	2.75%	-5.01%	14.84%
Momentum Score	A	-	-	B	D	B
Daily Price Chg	-1.48%	0.00%	-0.32%	4.93%	0.96%	-0.04%
1 Week Price Chg	-9.74%	-2.76%	-3.90%	-3.51%	1.14%	-4.63%
4 Week Price Chg	-7.69%	-1.07%	-4.56%	-10.50%	-6.57%	20.82%
12 Week Price Chg	8.69%	16.67%	9.62%	5.97%	-29.77%	49.41%
52 Week Price Chg	86.09%	-19.07%	-7.80%	-44.82%	-45.15%	56.06%
20 Day Average Volume	387,438	259,153	2,688,665	733,215	321,456	1,665,305
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.25%
(F1) EPS Est 12 week change	-6.80%	-15.00%	-9.63%	0.00%	-110.60%	-376.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	4.94%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	A
Momentum Score	A
VGM Score	B

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.

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