

## Nevro Corp.(NVRO)

**\$123.80** (As of 01/16/20)

Price Target (6-12 Months): **\$130.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: C

## Summary

Nevro has outperformed the industry in a year's time. The company's domestic and international revenues surged on a year-over-year basis. Higher demand for implants resulted in the solid quarterly show. The commercial launch of the Senza Omnia SCS System is a positive. 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 raised guidance for 2019 holds promise. On the flip side, operating expenses increased and gross margin contracted in the quarter. International revenues were impacted by headwinds in Australia. Also, the stock is overvalued at the moment.

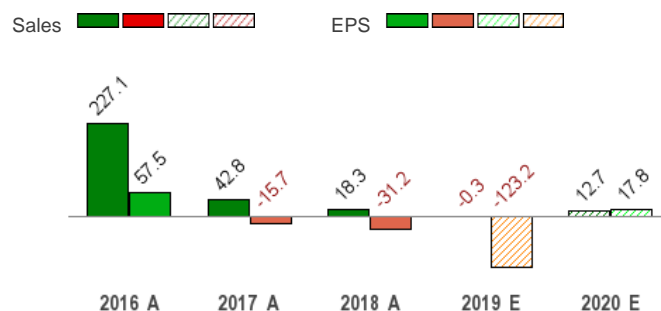
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$124.84 - \$40.71
20 Day Average Volume (sh)	369,921
Market Cap	\$3.8 B
YTD Price Change	5.3%
Beta	0.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Instruments</a>
Zacks Industry Rank	Bottom 35% (164 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.8%
Last Sales Surprise	6.2%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	02/20/2020
Earnings ESP	-3.7%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	98 E	106 E	106 E	122 E	435 E
2019	82 A	94 A	100 A	114 E	386 E
2018	88 A	96 A	96 A	108 A	387 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$1.06 E	-\$0.80 E	-\$0.65 E	-\$0.52 E	-\$3.01 E
2019	-\$1.45 A	-\$0.91 A	-\$0.58 A	-\$0.68 E	-\$3.66 E
2018	-\$0.59 A	-\$0.35 A	-\$0.37 A	-\$0.32 A	-\$1.64 A

\*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	10.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## Overview

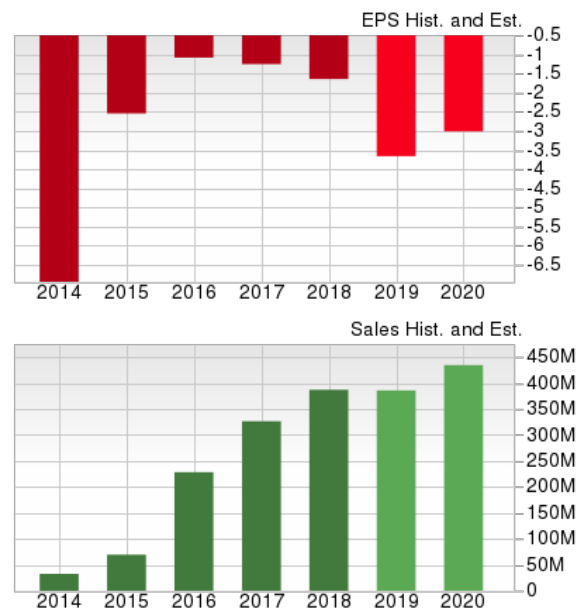
Headquartered in Menlo Park, CA, Nevro Corp. is a medical device company which engages in developing and commercializing a neuromodulation platform for the treatment of chronic pain, primarily in the leg. The company is known for developing and commercializing the Senza spinal cord stimulation (SCS) 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.

### 2018 at a Glance

Full-year revenues totaled \$387.3 million, up 18.6% from 2017. Adjusted loss per share in 2018 was \$1.64 compared with a loss of \$1.25 of 2017.



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## Reasons To Buy:

- ▲ **Shares Up:** Over the past year, shares of Nevro have skyrocketed 191.3% outperforming the industry's 13.8% rise. The current level also outpaces the S&P 500 index's 22.2% rally. Solid prospects of the flagship Senza platform and a promising guidance for 2019 drive the stock.
- ▲ **Guidance Promising:** Buoyed by a strong third-quarter show, Nevro raised its revenue guidance for 2019.

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

The company now expects revenues in the range of \$368-\$374 million compared with the previous expectation of \$383-\$386 million. Gross margin is expected in the range of 68-70%, as a percentage of revenues.

- ▲ **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 the third quarter, 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 third quarter of 2019, international revenues were \$16 million, flat year over year but up 5% 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 \$13 million, up 4.3% year over year, in the third 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.

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## Reasons To Sell:

- ▼ **Valuation Looks Dull:** Nevro is currently trading at a forward P/S (TTM basis) ratio of 9.98 over the past year, which compares with 3.56 and 3.87 for the S&P 500 index and the industry, respectively.
- ▼ **Weak Trends:** In the third quarter of 2019, Nevro's loss per share widened on a year-over-year basis. Also, surge in operating expenses and contraction in gross margin are discouraging. Nevro's gross margin was 69.8% in the quarter, down 50 basis points. Additionally, revenues in Europe saw low double-digit growth, impacted by softness in Australia.
- ▼ **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.

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

In fact, the company's international sales are subject to regulatory requirements in the countries in which its products are sold.

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## Last Earnings Report

### Nevro Q3 Loss Narrower Than Expected, 2019 Guidance Raised

Nevro reported third-quarter 2019 loss of 58 cents per share, narrower than the Zacks Consensus Estimate of a loss of 85 cents. The company had incurred a loss of 37 cents in the year-ago quarter.

The company posted revenues of \$100.2 million, which surpassed the Zacks Consensus Estimate by 6.2%. The figure also rose 4.7% year over year.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	6.21%
EPS Surprise	31.76%
Quarterly EPS	-0.58
Annual EPS (TTM)	-3.26

### Quarter Highlights

In the quarter under review, international revenues were \$16 million, flat year over year but up 5% at constant currency.

U.S. revenues for the quarter totaled \$100.2 million, up 5% year over year. The upside was primarily driven by SCS procedure growth.

Additionally, U.S. patient trials and permanent implants each grew 18% on a year-over-year basis. The company also launched the Senza Omnia SCS System commercially in the United States.

### Margins

Gross profit totaled \$69.9 million, up 4% year over year. Gross margin was 69.8%, down 50 basis points.

Operating expenses rose 12.3% year over year to \$85.9 million. Research and development expenses totaled \$13 million, up 4.3% year over year.

Sales, general and administrative expenses were up 13.9% year over year to \$72.9 million.

### Guidance

Nevro raised its revenue guidance for 2019.

The company now expects revenues in the range of \$368-\$374 million compared with the previous expectation of \$383-\$386 million.

Gross margin is expected in the range of 68-70% as a percentage of revenues.

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## Valuation

Nevro Corp.'s shares are up 95.7% and 191.3% in the past six months and in the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 6.3% and 7.3% in the past six months. Over the past year, stocks in the Zacks sub-industry and sector are up 13.7% and 4.3% respectively.

The S&P 500 index is up 10.5% in the past six months and 22.2% in the past year.

The stock is currently trading at 8.83X Forward 12-months sales, which compares to 3.67X for the Zacks sub-industry, 2.87X for the Zacks sector and 3.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.45X and as low as 2.54X, with a 5-year median of 6.99X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$130 price target reflects 9.27X 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	8.83	3.67	2.87	3.53
	5-Year High	28.45	3.67	3.81	3.53
	5-Year Low	2.54	2.16	2.42	2.54
	5-Year Median	6.99	2.51	2.93	3
P/B TTM	Current	19.38	4.2	4.58	4.5
	5-Year High	19.38	4.21	5.02	4.5
	5-Year Low	4.15	2.54	3.42	2.85
	5-Year Median	8.85	3.3	4.28	3.61

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 254)



## Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	NVRO Neutral	X Industry	S&P 500	ABT Neutral	BSX Neutral	PEN Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>C</b>	<b>A</b>	<b>B</b>
Market Cap	3.84 B	120.39 M	24.61 B	156.12 B	60.21 B	5.60 B
# of Analysts	8	2	13	10	11	2
Dividend Yield	0.00%	0.00%	1.74%	1.63%	0.00%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Cash/Price	0.06	0.09	0.04	0.03	0.00	0.03
EV/EBITDA	-106.92	-0.54	14.24	24.17	26.82	715.99
PEG Ratio	NA	2.67	2.07	2.26	2.11	7.49
Price/Book (P/B)	19.30	4.45	3.38	4.88	6.21	12.00
Price/Cash Flow (P/CF)	NA	23.84	13.75	18.37	20.00	225.92
P/E (F1)	NA	30.54	19.09	24.45	24.06	140.32
Price/Sales (P/S)	10.00	3.38	2.68	4.98	5.79	10.71
Earnings Yield	-2.43%	-0.66%	5.24%	4.09%	4.17%	0.71%
Debt/Equity	0.91	0.10	0.72	0.55	0.99	0.10
Cash Flow (\$/share)	-1.54	-0.06	6.94	4.81	2.16	0.71
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	NA%	13.24%	10.56%	7.68%	15.02%	1,210.20%
Proj. EPS Growth (F1/F0)	17.71%	20.35%	7.57%	11.31%	14.63%	20.35%
Curr. Cash Flow Growth	35.92%	9.84%	14.73%	1.30%	14.92%	487.13%
Hist. Cash Flow Growth (3-5 yrs)	-29.94%	8.78%	9.00%	11.45%	6.75%	38.78%
Current Ratio	5.87	2.68	1.24	1.54	1.14	5.24
Debt/Capital	47.55%	17.32%	42.99%	35.52%	49.72%	8.86%
Net Margin	-25.94%	-15.15%	11.14%	10.50%	10.49%	8.69%
Return on Equity	-46.35%	-17.95%	17.16%	17.65%	23.10%	7.23%
Sales/Assets	0.84	0.60	0.55	0.46	0.43	0.92
Proj. Sales Growth (F1/F0)	12.25%	11.70%	4.16%	6.63%	11.82%	19.20%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>A</b>	<b>B</b>
Daily Price Chg	4.68%	0.30%	0.89%	1.03%	1.48%	0.44%
1 Week Price Chg	-0.62%	0.68%	0.39%	-0.62%	1.53%	0.78%
4 Week Price Chg	11.03%	3.64%	2.65%	1.06%	-3.64%	0.84%
12 Week Price Chg	46.89%	4.40%	7.55%	8.51%	6.56%	6.95%
52 Week Price Chg	181.11%	-7.81%	22.12%	25.18%	17.36%	15.88%
20 Day Average Volume	369,921	117,754	1,536,375	4,349,108	6,365,427	287,519
(F1) EPS Est 1 week change	-0.08%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.93%	0.00%	0.00%	0.00%	0.20%	0.00%
(F1) EPS Est 12 week change	-0.57%	0.09%	-0.40%	-0.25%	0.59%	-3.38%
(Q1) EPS Est Mthly Chg	-2.35%	0.00%	0.00%	0.00%	0.00%	0.00%

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## 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.

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### 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	<b>D</b>
Growth Score	<b>D</b>
Momentum Score	<b>C</b>
VGM Score	<b>F</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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