

Nevro Corp.(NVRO)

\$116.78 (As of 04/22/20)

Price Target (6-12 Months): **\$134.00**

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. The stock has outperformed the industry in the past year. However, increased operating expenses and coronavirus outbreak raise concerns.

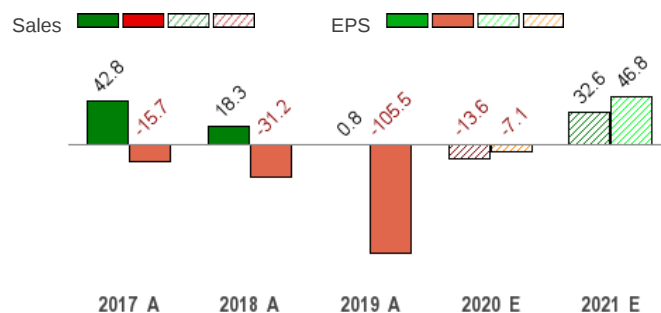
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.05 - \$54.00
20 Day Average Volume (sh)	590,666
Market Cap	\$3.7 B
YTD Price Change	-0.7%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 11% (27 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.0%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-64.9%
Expected Report Date	05/05/2020
Earnings ESP	-5.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	101 E	111 E	111 E	134 E	447 E
2020	87 E	57 E	83 E	114 E	337 E
2019	82 A	94 A	100 A	114 A	390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.65 E	-\$0.48 E	-\$0.42 E	-\$0.08 E	-\$1.92 E
2020	-\$0.98 E	-\$1.24 E	-\$0.85 E	-\$0.56 E	-\$3.61 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	9.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/22/2020. The reports text is as of 04/23/2020.

Overview

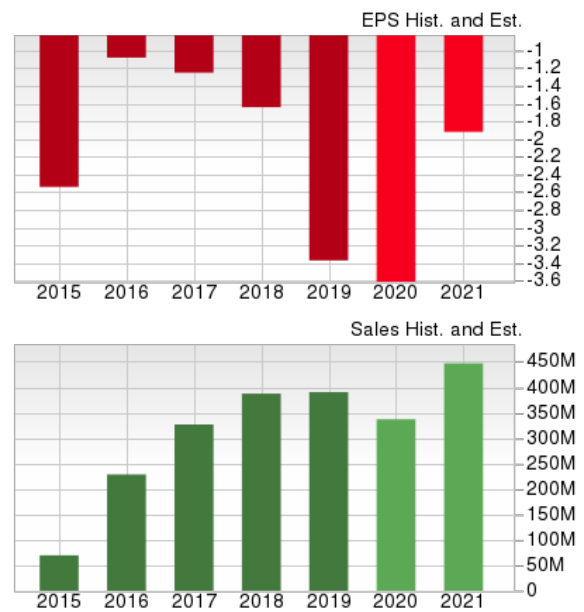
Headquartered in Menlo Park, CA, Nevro Corp. is a medical device company which engages in developing and commercializing a neuromodulation platform for the treatment of chronic pain, primarily in the leg. The company is known for developing and commercializing the Senza spinal cord stimulation (SCS)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

▲ **Share Price Up:** Shares of the company surged 90.9% compared with the industry's 0.2% rise over the past year. 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 on the stock.

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

▲ **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.

▲ **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

- **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. 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 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 0.7% in the year-to-date period but up 90.8% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 7.4% and 6.6% in the year-to-date period. Over the past year, stocks in the Zacks sub-industry and sector are up 0.2% and down 0.1%, respectively.

The S&P 500 index is down 15.2% in the year-to-date period and 7% in the past year.

The stock is currently trading at 8.2X Forward 12-months sales, which compares to 3.5X for the Zacks sub-industry, 2.6X for the Zacks sector and 3.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.3X 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 \$134 price target reflects 9.4X 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	8.19	3.47	2.64	3.05
	5-Year High	19.29	3.66	3.84	3.44
	5-Year Low	2.54	2.18	2.25	2.54
	5-Year Median	6.91	2.60	2.96	3.01
P/B TTM	Current	17.18	3.19	3.61	3.80
	5-Year High	20.68	4.23	5.05	4.55
	5-Year Low	4.15	2.47	2.91	2.84
	5-Year Median	9.08	3.35	4.29	3.64

As of 04/22/2020

Industry Analysis Zacks Industry Rank: Top 11% (27 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABIOMED, Inc. (ABMD)	Neutral	4
Abbott Laboratories (ABT)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	3
Boston Scientific Corporation (BSX)	Neutral	3
Cardiovascular Systems, Inc. (CSII)	Neutral	4
Integer Holdings Corporation (ITGR)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
Penumbra, Inc. (PEN)	Neutral	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	NVRO	X Industry	S&P 500	ABT	BSX	PEN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	F	-	-	D	D	D
Market Cap	3.74 B	111.64 M	18.94 B	168.37 B	49.55 B	6.34 B
# of Analysts	7	2	14	10	11	3
Dividend Yield	0.00%	0.00%	2.23%	1.51%	0.00%	0.00%
Value Score	D	-	-	D	D	F
Cash/Price	0.06	0.10	0.05	0.02	0.00	0.03
EV/EBITDA	-43.12	-0.72	11.56	23.31	25.45	106.80
PEG Ratio	NA	2.91	2.20	4.32	2.69	NA
Price/Book (P/B)	16.74	2.97	2.58	5.39	3.56	12.99
Price/Cash Flow (P/CF)	NA	19.83	10.22	19.14	14.77	144.43
P/E (F1)	NA	31.30	17.79	33.95	26.94	345.36
Price/Sales (P/S)	9.58	3.00	1.99	5.25	4.62	11.57
Earnings Yield	-3.09%	-3.09%	5.49%	2.94%	3.72%	0.29%
Debt/Equity	0.84	0.09	0.72	0.53	0.62	0.15
Cash Flow (\$/share)	-3.16	-0.13	7.01	4.99	2.40	1.25
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	NA%	13.63%	10.92%	10.11%	14.77%	1,027.52%
Proj. EPS Growth (F1/F0)	-7.16%	14.74%	-4.22%	-13.21%	-16.63%	-46.60%
Curr. Cash Flow Growth	110.25%	4.95%	5.93%	4.54%	12.08%	77.16%
Hist. Cash Flow Growth (3-5 yrs)	NA%	11.46%	8.55%	11.80%	10.33%	250.42%
Current Ratio	5.98	2.55	1.24	1.44	0.97	5.09
Debt/Capital	45.52%	14.13%	43.79%	34.74%	38.24%	13.22%
Net Margin	-26.57%	-13.83%	11.55%	11.15%	43.78%	8.85%
Return on Equity	-49.96%	-16.98%	16.74%	18.42%	21.15%	7.72%
Sales/Assets	0.86	0.58	0.54	0.47	0.41	0.90
Proj. Sales Growth (F1/F0)	-13.65%	2.27%	-0.39%	-2.16%	-1.74%	5.66%
Momentum Score	F	-	-	F	D	D
Daily Price Chg	1.57%	0.26%	1.83%	1.52%	1.26%	-0.14%
1 Week Price Chg	7.87%	3.23%	0.42%	11.59%	3.96%	9.29%
4 Week Price Chg	27.91%	11.35%	10.68%	34.95%	18.62%	22.99%
12 Week Price Chg	-16.11%	-17.48%	-20.87%	7.11%	-19.25%	1.75%
52 Week Price Chg	90.88%	-26.67%	-15.29%	24.40%	0.14%	35.54%
20 Day Average Volume	590,666	201,292	2,886,084	13,808,014	12,322,062	271,161
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	3.05%	0.00%	0.00%
(F1) EPS Est 4 week change	-64.91%	-1.72%	-6.36%	-21.85%	-24.22%	-56.63%
(F1) EPS Est 12 week change	-20.03%	-8.64%	-11.38%	-21.85%	-26.56%	-54.23%
(Q1) EPS Est Mthly Chg	-141.37%	0.00%	-9.71%	-53.93%	-61.36%	-154.24%

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	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.

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