ZACKS | Our Research. Your Success.

Aug 27, 2020

Nevro Corp.(NVRO)

$135.15 (As of 08/26/20)

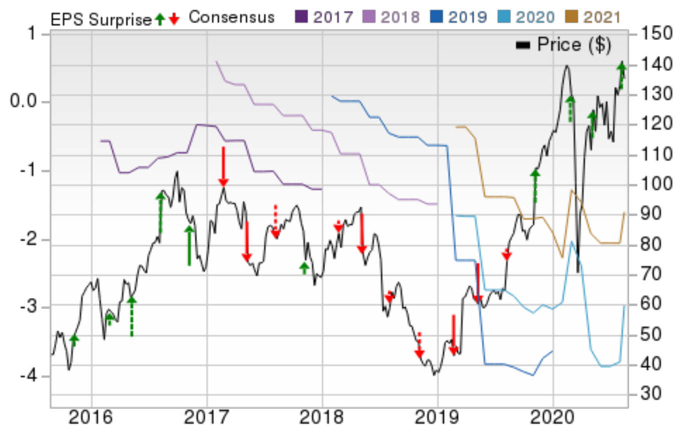
Price Target (6-12 Months): **$142.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/27/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: F | Momentum: B	

Summary

Nevro exited the second quarter on a strong note, with earnings and revenues beating estimates. The company saw sequential improvement in U.S. case volumes in May as well as June. In the month of June, daily U.S. trial and permanent procedure volumes were almost flat with the prior-year period. Reduction in operating expenses is encouraging. The commercial launch of the Senza Omnia SCS System continues to buoy optimism.The CE mark approval for the SCS system during the second quarter is encouraging as well. The company's liquidity position is strong. Over the past year, the stock has outperformed its industry. However, its domestic and international revenues declined on a year-over-year basis in the second quarter. Contraction in gross margin is worrying. Operating loss also widened in the quarter under review.

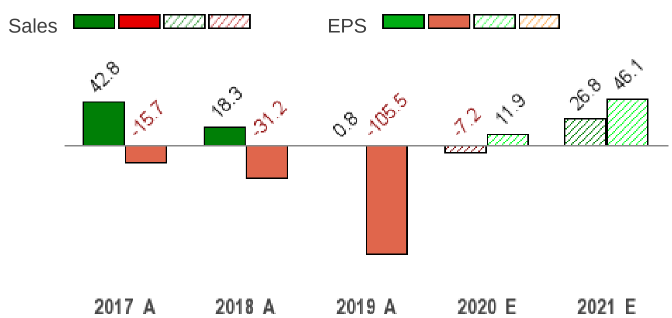
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$148.05 - $65.05**
20 Day Average Volume (sh)	**286,022**
Market Cap	**$4.6 B**
YTD Price Change	**15.0%**
Beta	**0.94**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Instruments**
Zacks Industry Rank	**Bottom 34% (167 out of 252)**
Last EPS Surprise	**26.7%**
Last Sales Surprise	**36.0%**
EPS F1 Est- 4 week change	**21.7%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**12.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	100 E	106 E	114 E	137 E	459 E
2020	87 A	56 A	103 E	115 E	362 E
2019	82 A	94 A	100 A	114 A	390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$0.60 E	-$0.49 E	-$0.46 E	-$0.15 E	-$1.60 E
2020	-$0.78 A	-$1.21 A	-$0.61 E	-$0.39 E	-$2.97 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/26/2020. The reports text is as of 08/27/2020.

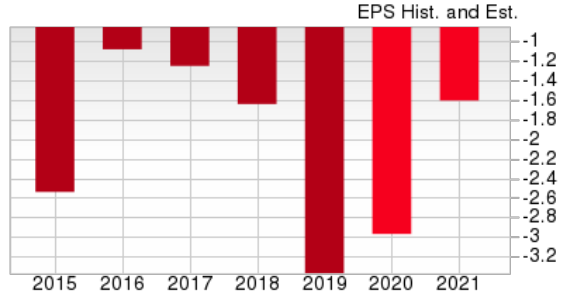
Overview

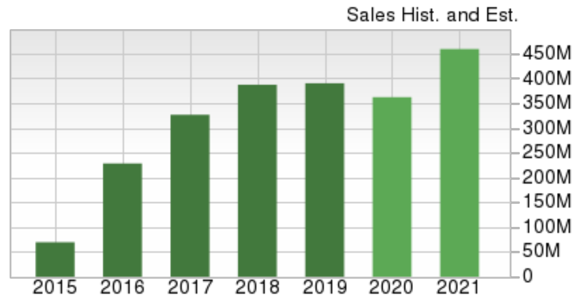
Headquartered in Menlo Park, CA, Nevro Corp. is a medical device company which engages in developing and commercializing a neuromodulation platform for the treatment of chronic pain, primarily in the leg. The company is known for developing and commercializing the Senza spinal cord stimulation (SCS)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

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

▲ **Share Price Up**: Shares of the company surged 64.2% compared with the industry's 23.4% rise over the past year. The company saw sequential improvement in U.S. case volumes in May as well as June.The commercial launch of the Senza Omnia SCS System buoys optimism on the stock. The CE mark approval for the SCS system during the second quarter has also boosted share price.

▲ **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.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. In May 2020, the company announced the receipt of CE mark approval for the Senza Omnia Spinal Cord Stimulation (SCS) system. This next-generation SCS system has been created and developed in close consultation with customers to offer a comprehensive solution for chronic pain. This approval is likely to aid Nevro in strengthening its international presence further.

In the second quarter, the company launched Omnia in Europe and Australia and it is ramping efforts in those markets.

▲ **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.

The 65% decrease in international revenues during the second quarter was due to the impact of COVID-19-related government restrictions on elective procedures implemented in Europe and Australia.

During the second quarter of 2020, international volumes were severely impacted with OUS revenues declining 65% year over year on a constant-currency basis. Management believes that international markets, particularly the U.K. and Australia, are likely to recover at a more uneven pace compared to the United States. However, the company has seen some encouraging early signs of recovery in July.

▲ **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 totraditional 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. Management is optimistic that the gradual shift toward SCS procedures will continue to grow as a percentage of total procedures.

▲ **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.

Through the second quarter, the company continued to invest in R&D to strengthen its product capabilities and expand its total addressable markets with new clinical data and patient indications. On the clinical and regulatory side of things, the company has continued to conduct a strong plethora of remote clinical studies for its 2 large-scale randomized controlled trials. Its PDN study continues to progress and a very high percentage of study subjects in the control arm has crossed over to the SCS treatment arm as permitted by the trial protocol.

▲ **Stable Liquidity Position**: Nevro exited the second quarter of 2020 with cash and cash equivalents and short-term investments amounting to $562 million, substantially up from $248 million in the preceding quarter. Meanwhile, long-term debt came up to $156 million in the second quarter, down from $182 million in the previous quarter. In addition, we may also note that for the second quarter, the company has current-year debt of $164 million on its balance sheet. Thus, we see that the debt levels are lower than the company's cash and cash equivalents. 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:

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

- **Weak Trends:** In the second quarter of 2020, international revenues were $5.4 million, down 65% year over year at constant currency. U.S. revenues in the quarter totaled $51 million, down 35% year over year. Per management, this downside was due to decline in U.S. trials of about 37% and drop in permanent implants of around 34% during the second quarter due to the pandemic.

- **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 Q2 Loss Narrower than Expected, Revenues Beat

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	36.02%
EPS Surprise	26.67%
Quarterly EPS	-1.21
Annual EPS (TTM)	-3.01

Nevro Corp reported second-quarter 2020 loss of $1.21 per share, narrower than the Zacks Consensus Estimate of a loss of $1.65. The company had incurred a loss per share of 91 cents in the year-ago quarter.

Revenues of $56.4 million surpassed the Zacks Consensus Estimate by 36%. The figure however fell 39.7% year over year owing to the impact of COVID-19-related government restrictions on elective procedures implemented globally.

Quarter Highlights

In the quarter under review, international revenues were $5.4 million, down 65% year over year at constant currency.

U.S. revenues for the quarter totaled $51 million, down 35% year over year. Per management, this downside was due to decline in U.S. trials of about 37% and drop in permanent implants of around 34% during the second quarter due to the pandemic.

Margins

Gross profit totaled $35.3 million, down 44.9% year over year. Gross margin was 62.5%, down 583 basis points.

Total operating expenses fell 21.9% year over year to $70.6 million.

Loss from operations was $35.4 million, wider than the year-ago quarter's loss of $26.6 million.

Guidance

Due to the continued economic uncertainties resulting from COVID-19, Nevro has not issued any guidance for 2020.

Valuation

Nevro's shares are up 14.9% and 64.2% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 17.5% and 1.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.4% and 11.2%, respectively.

The S&P 500 index is up 9.4% in the year-to-date period and 23.1% in the past year.

The stock is currently trading at 10.9X Forward 12-months sales, which compares to 4.5X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.7X 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 $142 price target reflects 11.4X 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	10.89	4.52	2.81	3.81
	5-Year High	13.74	4.52	3.42	3.81
	5-Year Low	2.54	2.52	2.23	2.53
	5-Year Median	6.92	3.09	2.89	3.05
P/B TTM	Current	12.39	4.55	3.84	4.71
	5-Year High	20.68	4.77	5.07	4.71
	5-Year Low	4.23	2.75	2.94	2.83
	5-Year Median	9.46	3.90	4.29	3.76

As of 08/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 34% (167 out of 252)

Top Peers

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

Industry Comparison Industry: Medical - Instruments

	NVRO	X Industry	S&P 500	Industry Peers: ARAY	INGN	TNDM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	B	C
Market Cap	4.64 B	133.01 M	23.69 B	205.20 M	637.93 M	6.54 B
# of Analysts	7	2	14	3	5	6
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	B	D
Cash/Price	0.12	0.12	0.07	0.42	0.34	0.06
EV/EBITDA	-49.55	-1.58	13.37	-140.68	11.23	-332.59
PEG Ratio	NA	4.04	3.04	NA	NA	NA
Price/Book (P/B)	12.39	3.49	3.17	3.20	1.82	24.43
Price/Cash Flow (P/CF)	NA	23.41	12.78	112.96	16.88	NA
P/E (F1)	NA	49.53	21.63	NA	NA	NA
Price/Sales (P/S)	12.94	4.42	2.50	0.54	1.93	15.94
Earnings Yield	-2.20%	-3.67%	4.44%	-4.44%	-0.28%	-0.48%
Debt/Equity	0.42	0.13	0.75	3.35	0.02	0.80
Cash Flow ($/share)	-3.16	-0.13	6.94	0.02	1.71	-0.13
Growth Score	F	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	NA%	10.12%	10.41%	NA	19.11%	NA
Proj. EPS Growth (F1/F0)	11.87%	7.56%	-4.92%	-422.22%	-107.10%	-23.81%
Curr. Cash Flow Growth	110.25%	5.66%	5.22%	-353.59%	-40.33%	-93.28%
Hist. Cash Flow Growth (3-5 yrs)	NA%	10.65%	8.50%	14.18%	15.10%	13.65%
Current Ratio	3.25	2.94	1.34	1.96	5.98	4.72
Debt/Capital	29.41%	18.30%	44.18%	77.04%	2.42%	44.31%
Net Margin	-27.22%	-25.57%	10.25%	0.82%	1.96%	-10.29%
Return on Equity	-38.86%	-17.25%	14.66%	-12.86%	2.68%	-12.88%
Sales/Assets	0.67	0.53	0.50	0.80	0.73	1.04
Proj. Sales Growth (F1/F0)	-7.18%	0.00%	-1.45%	1.77%	-13.91%	27.16%
Momentum Score	B	-	-	F	B	C
Daily Price Chg	-1.79%	0.00%	-0.18%	0.45%	-3.15%	-1.33%
1 Week Price Chg	-2.34%	-1.62%	-1.45%	-5.10%	-8.22%	12.58%
4 Week Price Chg	2.12%	-0.12%	2.10%	-0.88%	-7.67%	4.62%
12 Week Price Chg	5.99%	0.00%	3.61%	-5.46%	-24.67%	31.18%
52 Week Price Chg	64.18%	3.10%	3.61%	-14.12%	-37.00%	52.24%
20 Day Average Volume	286,022	244,212	1,883,291	573,680	304,643	861,778
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	21.72%	4.03%	0.93%	-93.33%	-2.70%	41.55%
(F1) EPS Est 12 week change	23.00%	4.63%	3.41%	-93.33%	-2.70%	45.20%
(Q1) EPS Est Mthly Chg	37.01%	3.60%	0.00%	-350.00%	-122.73%	34.74%

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	F
Momentum Score	B
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.