Zacks Small-Cap Research

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Lombard Medical (EVAR-NASDAQ)

EVAR: Readying For Altura / IntelliFlex Launch. Revised U.S. Strategy

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	03/23/2015
Current Price (01/15/16)	$.0.88
Target Price	**$4.00**

OUTLOOK

Aorfix, Lombard's flagship device, is the only AAA stent-graft approved for neck angles greater than 60 degrees – which represents ~20% - 30% of the AAA population. Aorfix has been available in Europe and more recently launched in the U.S. and Japan.

While Aorfix appears to have had meaningful success in the high neck angle indication, it looks to have underperformed expectations in standard anatomy segment. This has resulted in downward revisions to estimates.

EVAR recently acquired Altura, an ultra-low profile AAA stent graft in order to more fully penetrate the low neck angle segment. EVAR is now only company with products on-label for all AAA patient anatomies. Launch of Altura, along with IntelliFlex, EVAR's new low profile delivery system, is imminent. EVAR beefed up Europe sales teams to support launches. U.S. strategy is now one of wringing out efficiencies of sales force instead of expansion.

SUMMARY DATA

52-Week High	**$6.34**
52-Week Low	**$0.76**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**34,082**
Shares Outstanding (mil)	**20**
Market Capitalization ($mil)	**$17**
Short Interest Ratio (days)	**0.07**
Institutional Ownership (%)	**82**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	2.1 A	2.2 A	4.3 A	4.8 A	13.2 A
2015	3.4 A	4.5 A	4.2 A	2.9 E	15.1 E
2016					17.6 E
2017					24.9 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.62 A	-$0.86 A	-$0.52 A	-$0.51 A	-$2.39 A
2015	-$0.59 A	-$0.51 A	-$0.45 A	-$0.52 E	-$2.06 E
2016					-$1.69 E
2017					-$1.02 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT's NEW…

Q4 Revenue Preannouncement: *Q4 Revenue at low end of revised guidance, guiding for 20% growth in 2016. Cuts to U.S. sales force, increasing German / UK headcount for Altura, IntelliFlex launches …*

Earlier this week Lombard announced preliminary Q4 2015 revenue of $2.9M, or $15.1M for the full year. While this represents 14% yoy growth (+18% on constant currency basis) for the full year, it is at the low-end of management's revised guidance (provided with Q3 earnings release) and well below the $18M - $20M the company was shooting for earlier in 2015. The Q4 number, $2.9M, represents contractions of 31% and 39% sequentially (from $4.2M in Q3 2015) and yoy (from $4.8M in Q4 2014), respectively.

As we indicated in our Q3 update, every territory aside from Japan had disappointed compared to our expectations through the first nine months of the year. Japan has been the only significant bright spot, although some of the revenue growth there is from distributor stocking. And while sales in the U.S. are up almost 70% through the first three quarters of the year as compared to the same period in 2014, this is considerably slower growth than what had been expected. In early 2015 Lombard had talked about significantly expanding its U.S. sales force (from ~35 to ~50) but that never materialized.

While anecdotally, Aorfix uptake in high neck angulations (>60 degrees) has been meaningful, we think adoption among less challenging anatomies (i.e. 0 to 60 degrees) is likely falling short of what had been expected given the number of competing stent grafts on the market, including ultra-low diameter (i.e. 14f) devices. We think this reflects the relative weakness in sales, downward guidance and the impetus in acquiring Altura.

As the company's previous indicated intentions, they added headcount to their direct sales forces in Germany and the U.K. to support the launch of IntelliFlex (lower profile delivery system) as well as Altura (recently acquired ultra-low profile, 14f, AAA stent graft). But, in a change in strategy, instead of increasing the size of the direct sales force in the U.S., the company now expects to reduce it and will concentrate their efforts in the most productive territories of the country. While the about-face in the U.S., from one of expansion to now one of contraction/concentration, is revealing of lower adoption of Aorfix (likely in the standard anatomy segment), it should increase efficiency of the sales force and provide some expense containment.

IntelliFlex, which could launch in the U.S. later in Q1 2016 (submitted for FDA clearance in Dec 2015), Europe in Q2 and Japan in 2H 2016, should provide a meaningful additional revenue opportunity. And Altura, which is already CE Marked and is expected to begin rolling out this month (i.e. Jan) in Germany and the U.K., provides the opportunity to take more significant share of the standard anatomy market. We think Altura should be very well received given its ultra-low 14f profile (only TRIV's Ovation Prime and Cordis' InCraft have 14f profiles), simplicity and ease of use. In addition, the standard anatomy segment is 3x – 5x larger than that of the high neck angle segment. With Altura, Lombard expects to target about 20 reference centers for the initial introduction. The gameplan continues to be to roll out Altura to other European countries, such as Spain and Italy, later in 2016. The launch of IntelliFlex and Altura is expected to, per Lombard, push total revenue up by about 20% in 2016. And given that it is an "add-to-the-bag" type product with overlapping rep call-points to Aorfix, Altura should be a seamless fit to, and leverage off of, EVAR's existing sales/marketing infrastructure.

While have made meaningful downward revisions to our modeled revenue commensurate with the recent guidance, we have also cut our forecasted operating expenses given the strategic revisions related to the U.S. sales force. Our modeled net-effect is actually an incremental improvement in near-term operating losses (from lower front-end U.S. sales force ramp expenses) but this is more than offset by higher mid-term operating losses. We continue to look for a much greater inflection of revenue growth in 2017, marked by a full-year of Altura sales. We also continue to forecast launch of Altura in Japan and the U.S. in out-years which should facilitate the company eventually reaching a point of cash flow positive..

We model 10-year revenue CAGR of 22%, gross margin widening from 49% to 71% over that period. We look for OpEx to eventually scale but now (following the Altura acquisition and other recent model revisions) forecast more elongated significant operating losses related to development of Altura for the U.S. and Japanese markets as well as downwardly revised Aorfix related sales. Our 10-year DCF model, which uses an 11% discount rate and 2% terminal growth rate, values EVAR at approximately $5.00/share.

We also look at valuation using comparable 2015 and 2016 EV/revenue multiples of Endologix (2015: 4.0x, 2016: 3.6x) and TriVascular (which is being acquired by ELGX) (2015: 4.3x, 2016: 3.9x). Average 2015 and 2016 EV/revenue multiples values EVAR at approximately $3/share.

Average of DCF and EV/revenue is approximately $4.00/share. We think the recent sell-off is overdone and recommend accumulating the stock up to our $4.00 target price.

FINANCIAL MODEL

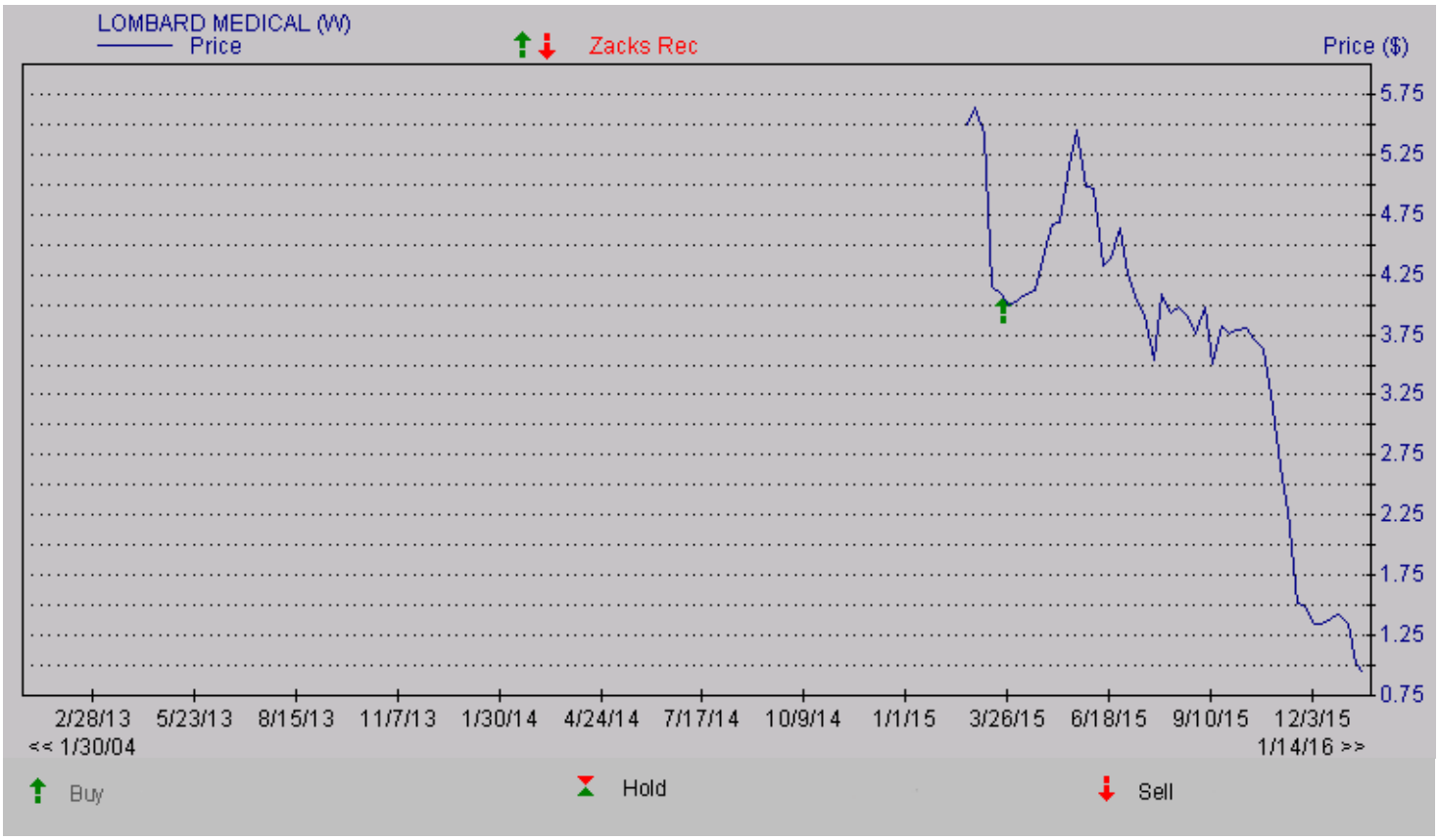
Lombard Medical, Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Total Revenues	$13,277.0	$3,409.0	$4,535.0	$4,227.0	$2,916.0	$15,087.0	$17,621.7	$24,850.2	$31,512.8
YOY Growth	*90.8%*	*65.6%*	*106.8%*	*-1.0%*	*-38.7%*	*13.6%*	*16.8%*	*41.0%*	*26.8%*
Cost of Goods Sold	$7,541.0	$1,828.0	$2,191.0	$2,164.0	$1,539.6	$7,722.6	$8,599.4	$11,157.7	$12,731.2
Gross Income	$5,736.0	$1,581.0	$2,344.0	$2,063.0	$1,376.4	$7,364.4	$9,022.3	$13,692.5	$18,781.6
Gross Margin	*43.2%*	*46.4%*	*51.7%*	*48.8%*	*47.2%*	*48.8%*	*51.2%*	*55.1%*	*59.6%*
Sell, Mktg & Dist	$21,364.0	$6,268.0	$5,679.0	$5,384.0	$5,271.0	$22,602.0	$23,401.0	$25,242.7	$27,059.0
% SM&D	*160.9%*	*183.9%*	*125.2%*	*127.4%*	*180.8%*	*149.8%*	*132.8%*	*101.6%*	*85.9%*
R&D	$9,213.0	$2,442.0	$2,604.0	$2,915.0	$2,687.0	$10,648.0	$12,278.0	$15,481.0	$30,420.0
% R&D	*69.4%*	*71.6%*	*57.4%*	*69.0%*	*92.1%*	*70.6%*	*69.7%*	*62.3%*	*96.5%*
Admin	$9,799.0	$2,628.0	$2,297.0	$3,144.0	$2,884.0	$10,953.0	$11,844.0	$12,345.0	$13,248.0
% Admin	*73.8%*	*77.1%*	*50.7%*	*74.4%*	*98.9%*	*72.6%*	*67.2%*	*49.7%*	*42.0%*
Operating Income	($34,640.0)	($9,757.0)	($8,236.0)	($9,380.0)	($9,465.6)	($36,838.6)	($38,500.7)	($39,376.3)	($51,945.4)
Operating Margin	*-260.9%*	*-286.2%*	*-181.6%*	*-221.9%*	*-324.6%*	*-244.2%*	*-218.5%*	*-158.5%*	*-164.8%*
Total Other Income (Expense)	($1,339.0)	$25.0	($199.0)	($303.0)	($499.0)	($976.0)	($2,094.3)	($2,314.3)	($2,102.5)
Pre-Tax Income	($35,979.0)	($9,732.0)	($8,435.0)	($9,683.0)	($9,964.6)	($37,814.6)	($40,595.0)	($41,690.5)	($54,047.9)
Tax expense (benefit)	($1,227.0)	($189.0)	($239.0)	($1,223.0)	($199.3)	($1,850.3)	($811.9)	($833.8)	($1,081.0)
Tax Rate	*3.4%*	*1.9%*	*2.8%*	*12.6%*	*2.0%*	*4.9%*	*2.0%*	*2.0%*	*2.0%*
Net Income	($34,752.0)	($9,543.0)	($8,196.0)	($8,460.0)	($9,765.4)	($35,964.4)	($39,783.1)	($40,856.7)	($52,967.0)
YOY Growth	*224.7%*	*23.7%*	*-33.9%*	*-0.2%*	*4.3%*	*3.5%*	*10.6%*	*2.7%*	*29.6%*
Net Margin	*-261.7%*	*-279.9%*	*-180.7%*	*-200.1%*	*-334.9%*	*-238.4%*	*-225.8%*	*-164.4%*	*-168.1%*
EPS	($2.39)	($0.59)	($0.51)	($0.45)	($0.52)	($2.06)	($1.69)	($1.02)	($0.85)
YOY Growth	*40.0%*	*-3.3%*	*-66.6%*	*-14.0%*	*0.3%*	*-13.8%*	*-17.8%*	*-39.7%*	*-16.4%*
Diluted Shares O/S	14,556	16,186	16,186	18,720	18,800	17,473	23,500	40,000	62,000

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