Zacks Small-Cap Research

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Viveve Medical (VIVMF-OTC)

VIVMF: Asian Distribution Agreement Prompts Upward Revision to Revenue Estimates

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	11/18/2014
Current Price (01/26/16)	$0.70
Target Price	**$1.35**

OUTLOOK

Viveve's flagship product, the Viveve System, is used to treat vaginal laxity, a condition which is often caused by vaginal childbirth and one in which about 50% of women that have undergone normal vaginal delivery hold as a concern. Other methods exist to address vaginal laxity although they suffer from certain drawbacks.

Clinical trial data has shown that the Viveve treatment was able to restore vaginal tightness to pre-childbirth levels in 100% of patients with statistically significant efficacy. A sham-controlled study could have full results in Q1 2016. This marketing study, along with data from previous studies and the recent significantly beefed-up distribution is expected to help accelerate the roll-out of the Viveve System.
International revenue is already on a tear, jumping sequentially 800% in Q3 and 28% in Q4 2015.
Our DCF-based valuation values the company at $1.35/share.

SUMMARY DATA

52-Week High	**$1.15**
52-Week Low	**$0.30**
One-Year Return (%)	**45.83**
Beta	**0.69**
Average Daily Volume (sh)	**13,053**
Shares Outstanding (mil)	**60**
Market Capitalization ($mil)	**$42**
Short Interest Ratio (days)	**1.07**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**39**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-36.3**
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-Growth**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014					90 A
2015	38 A	73 A	584 A	750 E	1443 E
2016					4789 E
2017					9414 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014					-$1.27 A
2015	-$0.14 A	-$0.08 A	-$0.06 A	-$0.06 E	-$0.30 E
2016					-$0.16 E
2017					-$0.10 E

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

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Asia Distribution: Minimum Purchase Agreement Results in Upward Revisions to Our Revenue Estimates …

More highly positive news came this morning when VIVMF announced consummation of an Asian distribution agreement with Dynamic Medical Technologies (DMT), a Taipei, Taiwan based supplier of medical devices to countries in Asia Pacific. Terms of the agreement call for DMT to purchase a minimum of 231 Viveve consoles including 47 in 2016, 75 in 2017 and 109 in 2018. Prior to this announcement we had modeled a total of 90, 135 and 165 console sales in 2016, 2017 and 2018, respectively. And while these estimates were based on the assumption that VIVMF would score additional distribution contracts and the system would gain regulatory approval in more territories, we think this deal with DMT will more likely than not prove our unit sales estimates low. As such, we have since bumped up our estimates for these three years by another 10 unit placements each – while still arguably conservative, our model is dynamic and will be updated with additional news flow.

Most importantly, the aggressive onboarding of third party distribution over the last few quarters and recent ramping sales indicates substantial demand for the Viveve System. And just as important is that, based on prior discussions with management, we believe that revenue is largely being driven by pull-through demand with little attributable to distributor stocking. Currently VIVMF has distribution agreements covering 50 countries and regulatory approval in 22 of those.

We are reiterating our Buy recommendation on the stock and our $1.35/share price target.

FINANCIAL MODEL

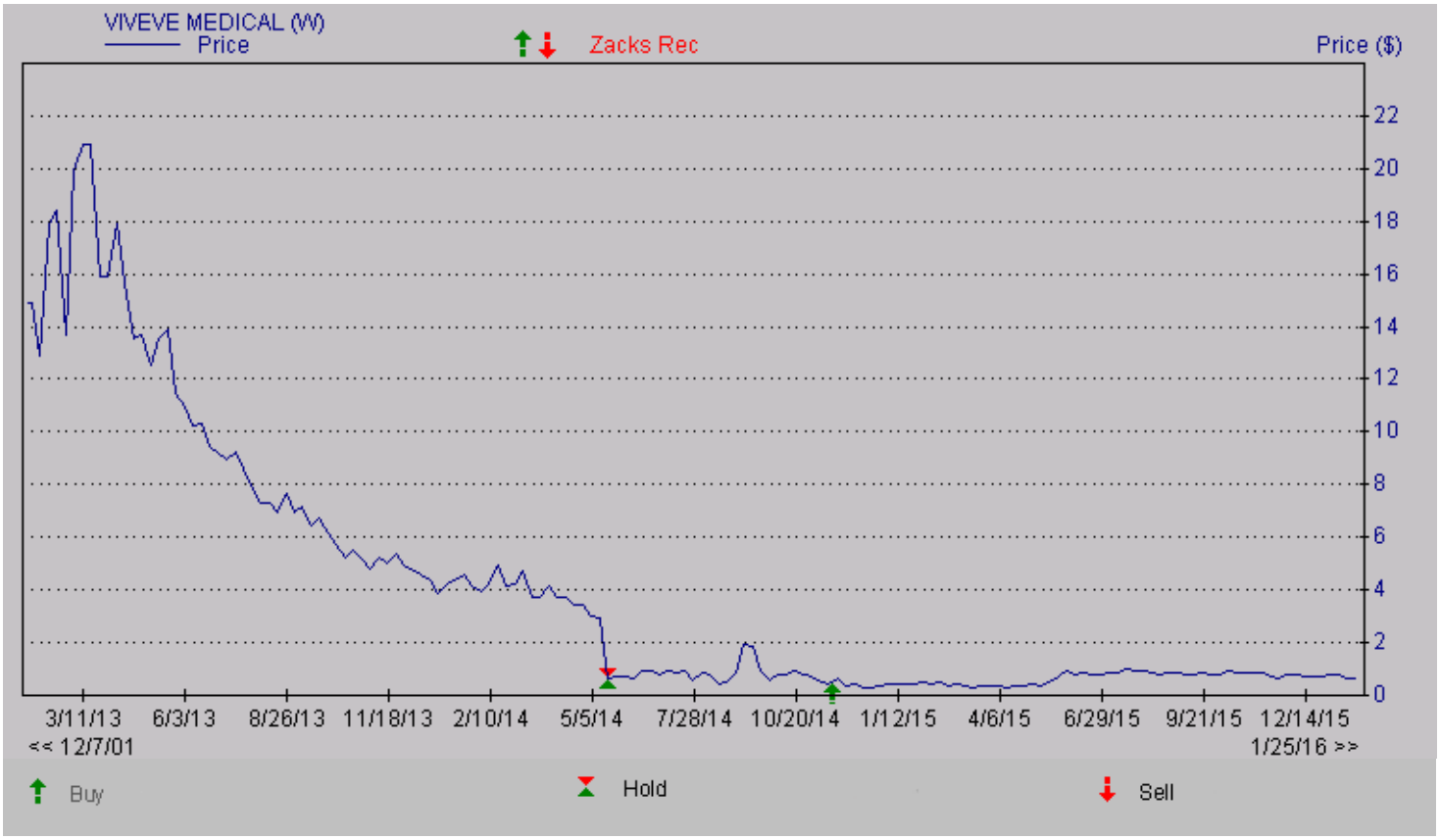
Viveve Medical, Inc

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018
Total Revenues	$90.0	$38.0	$73.0	$584.0	$747.9	$1,442.9	$4,789.2	$9,414.4	$13,304.5
YOY Growth	*-40.8%*	*-75.0%*	*54.4%*	*1134.8%*	-	*1503.2%*	*231.9%*	*96.6%*	*41.3%*
Cost of Goods Sold	$50.0	$50.0	$53.0	$417.0	$512.1	$1,032.1	$2,665.1	$4,577.8	$5,514.1
Gross Income	$40.0	($12.0)	$20.0	$167.0	$235.7	$410.7	$2,124.1	$4,836.7	$7,790.4
Gross Margin	*44.4%*	*-31.6%*	*27.4%*	*28.6%*	*31.5%*	*28.5%*	*44.4%*	*51.4%*	*58.6%*
SG&A	$4,276.0	$1,577.0	$1,821.0	$1,757.0	$1,879.0	$7,034.0	$7,894.0	$8,661.3	$9,180.1
% SG&A	*4751.1%*	*4150.0%*	*2494.5%*	*300.9%*	*251.3%*	*487.5%*	*164.8%*	*92.0%*	*69.0%*
R&D	$1,426.0	$845.0	$1,086.0	$1,515.0	$1,389.0	$4,835.0	$3,915.0	$2,911.0	$2,121.0
% R&D	*1584.4%*	*2223.7%*	*1487.7%*	*259.4%*	*185.7%*	*335.1%*	*81.7%*	*30.9%*	*15.9%*
Operating Income	($5,662.0)	($2,434.0)	($2,887.0)	($3,105.0)	($3,032.3)	($11,458.3)	($9,684.9)	($6,735.6)	($3,510.7)
Operating Margin	*-6291.1%*	*-6405.3%*	*-3954.8%*	*-531.7%*	*-405.5%*	*-794.1%*	*-202.2%*	*-71.5%*	*-26.4%*
Total Other Income (Expense)	($518.0)	($90.0)	($119.0)	($114.0)	($142.0)	($465.0)	($496.1)	($345.5)	($52.5)
Pre-Tax Income	($6,180.0)	($2,524.0)	($3,006.0)	($3,219.0)	($3,174.3)	($11,923.3)	($10,181.1)	($7,081.1)	($3,563.2)
Tax expense (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-
Net Income (continuing ops)	($6,180.0)	($2,524.0)	($3,006.0)	($3,219.0)	($3,174.3)	($11,923.3)	($10,181.1)	($7,081.1)	($3,563.2)
YOY Growth	*48.9%*	*-39.2%*	*275.0%*	*301.6%*	*180.5%*	*92.9%*	*-14.6%*	*-30.4%*	*-49.7%*
Net Margin	*-6866.7%*	*-6642.1%*	*-4117.8%*	*-551.2%*	*-424.5%*	*-826.4%*	*-212.6%*	*-75.2%*	*-26.8%*
EPS (continuing ops)	($1.27)	($0.14)	($0.08)	($0.06)	($0.06)	($0.30)	($0.16)	($0.10)	($0.05)
YOY Growth	*128.9%*	*-75.2%*	-	*-68.7%*	*-79.6%*	*-76.5%*	*-45.7%*	*-38.3%*	*-54.2%*
Diluted Shares O/S	4,866	18,341	35,441	51,344	54,990	40,029	63,000	71,000	78,000

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