Zacks Small-Cap Research

January 7, 2016
Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com
10 S. Riverside Plaza, Ste 1600, Chicago, IL 60606

Viveve Medical (VIVMF-OTC)

VIVMF: Revenue Remains On A Tear, Up 28% in Q4

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	11/18/2014
Current Price (01/07/16)	$0.75
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	**$0.30**
One-Year Return (%)	**66.67**
Beta	**0.69**
Average Daily Volume (sh)	**13,294**
Shares Outstanding (mil)	**60**
Market Capitalization ($mil)	**$45**
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					4363 E
2017					8762 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**

© Copyright 2016, Zacks Investment Research. All Rights Reserved.

Q4 2015 Revenue Preannouncement: Revenue On A Tear, Increases 28% in Q4, Follows Q3's 8-Fold Jump…

Viveve preannounced expected revenue for Q4 of approximately $750k. This would represent sequential growth of 28% from Q3. Revenue remains on a tear. As a reminder Q3 saw sales jumped to $584k, an 8-fold increase from Q2. The rate of revenue acceleration remains well ahead of what we had been anticipating – we modeled just $145k in Q3, after which we made significant upward revisions to our revenue estimates. Clearly we again underestimated the growth rate as we had penciled in $523k for Q4 – which will be well below actual (assuming this preliminary number holds).

The beat to our number is in unit placements - while we were looking for 12 system sales in Q4, Viveve expects to book 21. This is partially offset by lower than estimated (217A vs 396E) treatment tip sales. We, however, would read nothing into the "miss" on consumables given (as we have noted previously) that we had expected that calculated utilization rates would be variable, particularly over shorter measurement horizons.

We think it is clear that the aggressive onboarding of third party distribution over the last few quarters, which most recently included partners for Turkey and Azerbaijan, expanding VIVMF's reach to 45 countries (many of which still require gaining regulatory approvals), is paying dividends and should bode well for further unit placements, consumables sales and revenue growth.

Importantly, based on prior discussions with management, we believe that revenue is largely being driven by pull-through demand with little attributable to distributor stocking. We have updated our model. We are maintaining our $1.35/share price target and Buy recommendation.

FINANCIAL MODEL

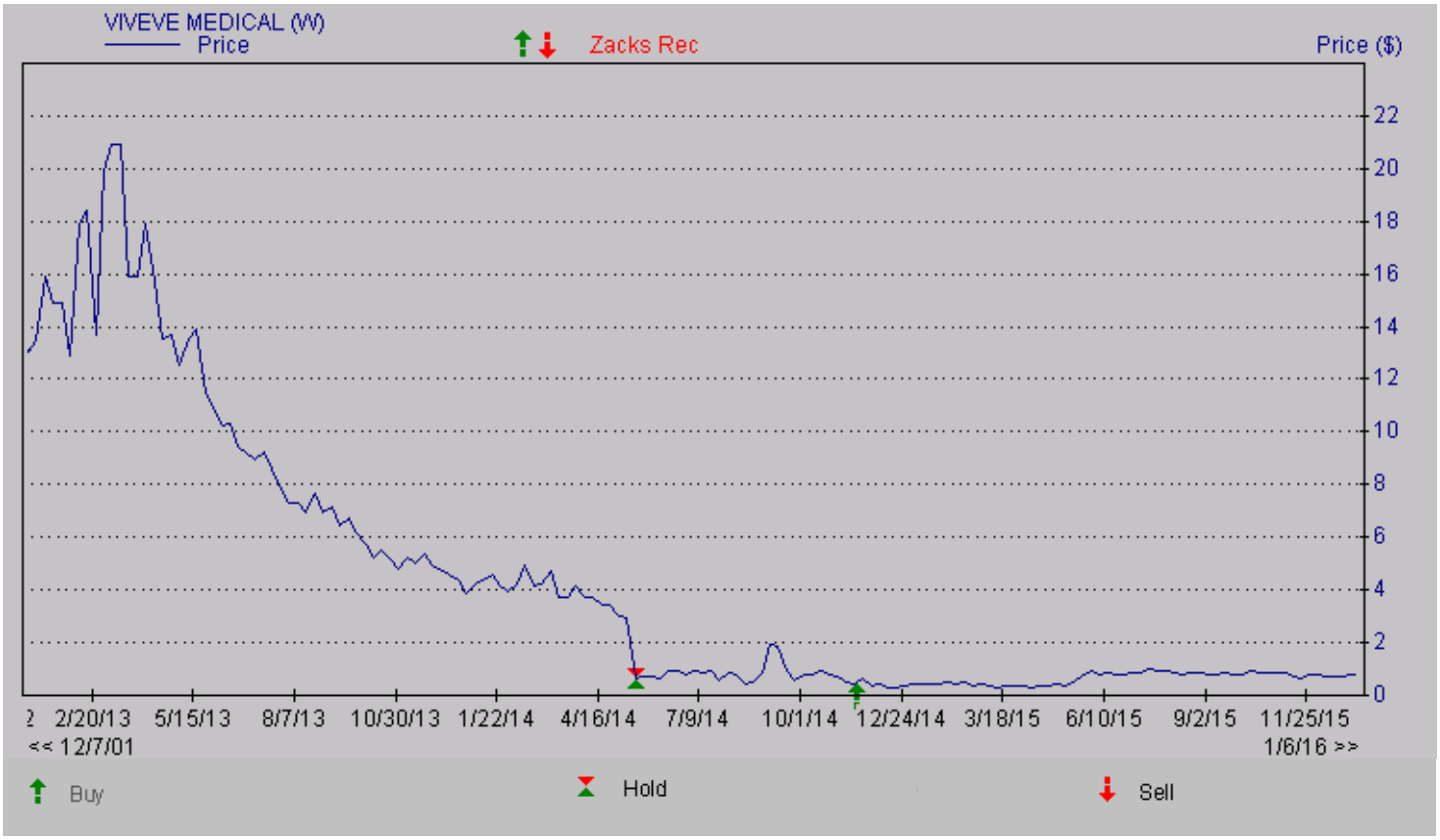
Viveve Medical, Inc

	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	$4,363.2	$8,762.0	$12,488.3
YOY Growth	*-40.8%*	*-75.0%*	*54.4%*	*1134.8%*	*-*	*1503.2%*	*202.4%*	*100.8%*	*42.5%*
Cost of Goods Sold	$50.0	$50.0	$53.0	$417.0	$512.1	$1,032.1	$2,422.4	$4,260.8	$5,179.4
Gross Income	$40.0	($12.0)	$20.0	$167.0	$235.7	$410.7	$1,940.8	$4,501.2	$7,308.9
Gross Margin	*44.4%*	*-31.6%*	*27.4%*	*28.6%*	*31.5%*	*28.5%*	*44.5%*	*51.4%*	*58.5%*
SG&A	$4,276.0	$1,577.0	$1,821.0	$1,757.0	$1,879.0	$7,034.0	$7,894.0	$8,586.8	$8,991.6
% SG&A	*4751.1%*	*4150.0%*	*2494.5%*	*300.9%*	*251.3%*	*487.5%*	*180.9%*	*98.0%*	*72.0%*
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%*	*89.7%*	*33.2%*	*17.0%*
Operating Income	($5,662.0)	($2,434.0)	($2,887.0)	($3,105.0)	($3,032.3)	($11,458.3)	($9,868.2)	($6,996.6)	($3,803.7)
Operating Margin	*-6291.1%*	*-6405.3%*	*-3954.8%*	*-531.7%*	*-405.5%*	*-794.1%*	*-226.2%*	*-79.9%*	*-30.5%*
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)	($10,364.4)	($7,342.1)	($3,856.2)
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)	($10,364.4)	($7,342.1)	($3,856.2)
YOY Growth	*48.9%*	*-39.2%*	*275.0%*	*301.6%*	*180.5%*	*92.9%*	*-13.1%*	*-29.2%*	*-47.5%*
Net Margin	*-6866.7%*	*-6642.1%*	*-4117.8%*	*-551.2%*	*-424.5%*	*-826.4%*	*-237.5%*	*-83.8%*	*-30.9%*
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%*	*-44.8%*	*-37.1%*	*-52.2%*
Diluted Shares O/S	4,866	18,341	35,441	51,344	54,990	40,029	63,000	71,000	78,000

Brian Marckx, CFA

© Copyright 2016, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Marckx, CFA, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or

© Copyright 2016, Zacks Investment Research. All Rights Reserved.

co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1223 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 25.7%, Hold/Neutral- 51.6%, Sell/Underperform – 18.3%. Data is as of midnight on the business day immediately prior to this publication.