Zacks Small-Cap Research

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Viveve Medical (VIVMD-OTC)

VIVMD: Q1 Revenue +73% As Installed Base Jumps 78%

Current Recommendation	**Buy**
Prior Recommendation	Sell
Date of Last Change	04/20/2016
Current Price (04/21/16)	$6.75
Target Price	**$11.00**

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 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. Distribution agreement in Brazil, which leads the world in cosmetic surgery, just consummated and could be a particularly strong catalyst in 2016.
Our DCF-based valuation values the company at $11/share (post 1 for 8 reverse-split).

SUMMARY DATA

52-Week High	**$9.04**
52-Week Low	**$2.64**
One-Year Return (%)	**91.76**
Beta	**0.75**
Average Daily Volume (sh)	**1138**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$51**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**39**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-27.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	38 A	73 A	584 A	752 A	1447 A
2016	1288 E	884 E	1272 E	1546 E	4989 E
2017					9747 E
2018					14657 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$1.10 A	-$0.68 A	-$0.50 A	-$0.54 A	-$2.48 A
2016	-$0.43 E	-$0.42 E	-$0.39 E	-$0.35 E	-$1.59 E
2017					-$1.00 E
2018					-$0.59 E

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

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Q1 2016 Revenue Preannouncement: *Revenue Jumps 73% Q-o-Q Driven By ~80% Growth in Systems Installed Base…*

Viveve preannounced expected revenue for Q1 of approximately $1.3M. This would represent sequential growth of 73% from Q4 2015 and crushes the $612k in revenue that we had been estimating. This is the third straight quarter in which we have significantly underestimated revenue growth. Most of our misses appear to be related to system placements, as opposed to consumable sales. Viveve expects to book 33 system sales in Q1 – up from 21 in Q4 of last year and well ahead of our 15 unit estimate. The total installed base now sits at 75 systems – growth of 78% since the close of 2015. Viveve also expects to book 474 disposable treatment tips in Q1 – largely inline with our 462 estimate.

While the preannouncement did not provide background on the impetus for the steepening system placement rate, it's possible this included initial shipments to Dynamic Medical Technologies, an exclusive distribution agreement which was penned in January for certain Asian countries. As a reminder, the agreement includes minimum purchase requirements of 47 Viveve systems in 2016, 75 in 2017 and 109 in 2018.

But, we also note that the aggressive onboarding of other third party distribution over the last few quarters which has expanded VIVMF's reach to more than 50 countries had already been a tremendous catalyst to growth throughout 2015 and very well could have played a big part in the most recent quarters' impressive unit placement number. Growth will be further facilitated by the system gaining regulatory clearance in more countries. In March Viveve announced a distribution agreement for Brazil. Brazil could be a particularly strong market for Viveve given that it leads the world in the number of vaginal rejuvenation procedures.

While system placements have grown sequentially over the last three quarters and beat our respective estimates in each of those periods, we continue to take a cautious approach and have made only incremental upward revisions to our modeled installed base. We continue to expect some short-term variability in revenue. We now look for the installed base to grow to 122 units by current year-end, revised from 113 units prior to the Q1 preannouncement. We continue to rate the shares a Buy. Our reverse-split adjusted price target is $11/share.

We have also adjusted our model for the recently announced 1 for 8 reverse stock split which the company effected to meet listing requirements of an anticipated uplisting to NASDAQ. On April 18th the stock began trading under the temporary ticker 'VIVMD' on OTCQB and will trade under 'VIVE' assuming uplisting to NASDAQ.

FINANCIAL MODEL

Viveve Medical, Inc

	2015 A	Q1E	Q2E	Q3E	Q4E	2016 E	2017 E	2018	2019
Total Revenues	$1,447.0	$1,287.9	$883.7	$1,272.0	$1,545.6	$4,989.2	$9,747.1	$14,657.2	$18,618.5
YOY Growth	*1507.8%*	*3289.2%*	*1110.5%*	*117.8%*	*105.5%*	*244.8%*	*95.4%*	*50.4%*	*27.0%*
Cost of Goods Sold	$985.0	$770.3	$511.9	$741.1	$896.8	$2,920.1	$4,952.5	$6,495.0	$7,540.2
Gross Income	$462.0	$517.6	$371.8	$531.0	$648.8	$2,069.2	$4,794.6	$8,162.2	$11,078.3
Gross Margin	*31.9%*	*40.2%*	*42.1%*	*41.7%*	*42.0%*	*41.5%*	*49.2%*	*55.7%*	*59.5%*
SG&A	$7,464.0	$2,098.0	$1,964.0	$2,116.0	$2,415.0	$8,593.0	$9,493.7	$10,113.4	$11,022.2
% SG&A	*515.8%*	*162.9%*	*222.3%*	*166.3%*	*156.2%*	*172.2%*	*97.4%*	*69.0%*	*59.2%*
R&D	$4,988.0	$1,498.0	$1,444.0	$1,287.0	$1,155.0	$5,384.0	$4,224.0	$3,897.0	$3,664.0
% R&D	*344.7%*	*116.3%*	*163.4%*	*101.2%*	*74.7%*	*107.9%*	*43.3%*	*26.6%*	*19.7%*
Operating Income	($11,990.0)	($3,078.4)	($3,036.2)	($2,872.0)	($2,921.2)	($11,907.8)	($8,923.1)	($5,848.3)	($3,607.9)
Operating Margin	*-828.6%*	*-239.0%*	*-343.6%*	*-225.8%*	*-189.0%*	*-238.7%*	*-91.5%*	*-39.9%*	*-19.4%*
Total Other Income (Expense)	($436.0)	($142.0)	($142.0)	($109.3)	($102.8)	($496.1)	($345.5)	($52.5)	$0.0
Pre-Tax Income	($12,426.0)	($3,220.4)	($3,178.2)	($2,981.4)	($3,024.0)	($12,403.9)	($9,268.6)	($5,900.8)	($3,607.9)
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)	($12,426.0)	($3,220.4)	($3,178.2)	($2,981.4)	($3,024.0)	($12,403.9)	($9,268.6)	($5,900.8)	($3,607.9)
YOY Growth	*101.1%*	*84.8%*	*-48.6%*	*18.1%*	*0.6%*	*-0.2%*	*-25.3%*	*-36.3%*	*-38.9%*
Net Margin	*-858.7%*	*-250.1%*	*-359.7%*	*-234.4%*	*-195.6%*	*-248.6%*	*-95.1%*	*-40.3%*	*-19.4%*
EPS (continuing ops)	($2.48)	($0.43)	($0.42)	($0.39)	($0.35)	($1.59)	($1.00)	($0.59)	($0.35)
YOY Growth	*-75.5%*	*-79.5%*	*-95.8%*	*-64.6%*	*-47.8%*	*-35.9%*	*-37.3%*	*-40.9%*	*-40.3%*
Diluted Shares O/S	5,000	7,481	7,498	7,651	8,530	7,790	9,281	10,000	10,250

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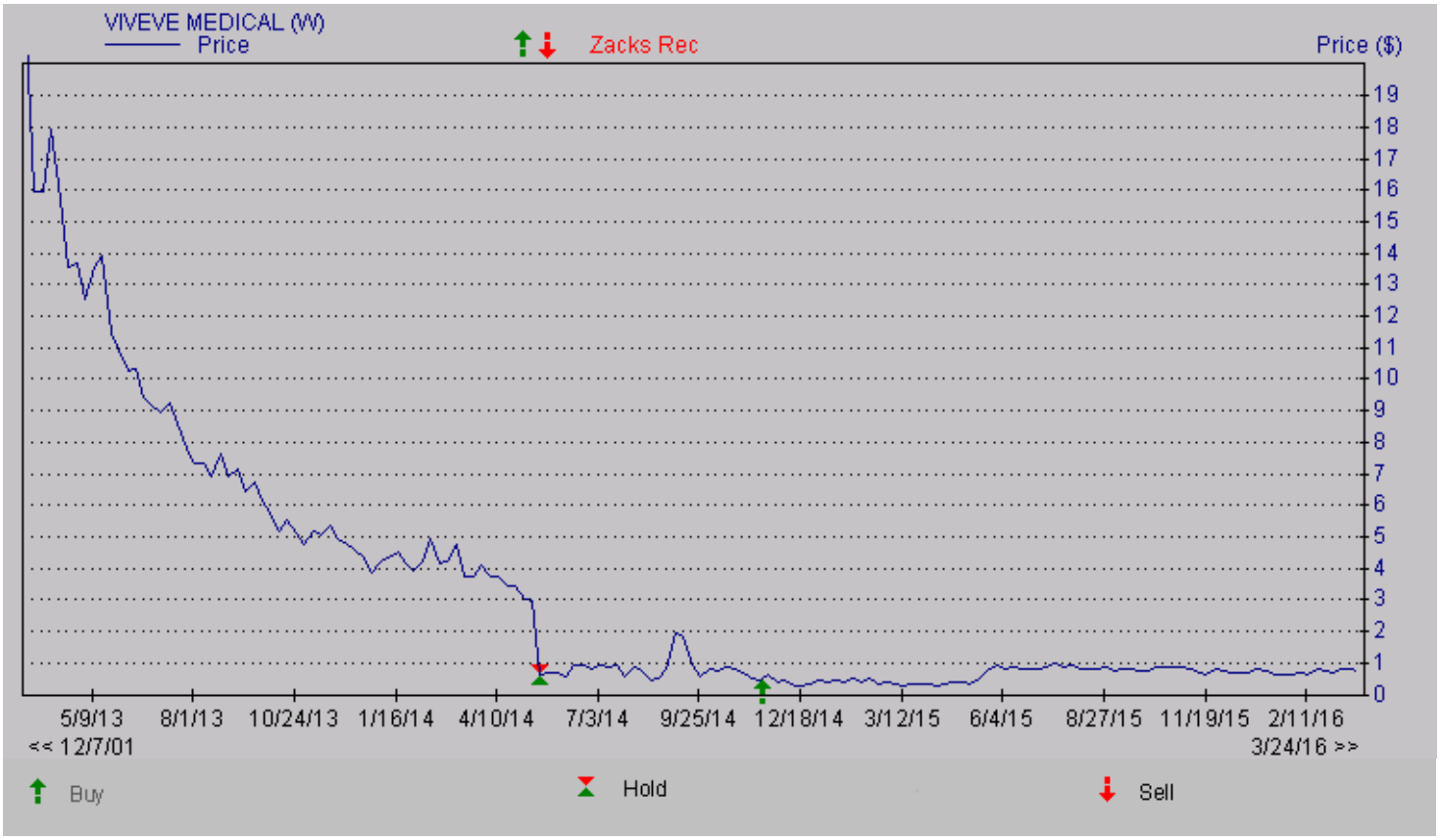

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 28.3%, Hold/Neutral- 49.6%, Sell/Underperform – 15.1%. Data is as of midnight on the business day immediately prior to this publication.