Zacks Small-Cap Research

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Viveve Medical (VIVE-NASDAQ)

VIVE: Cash Balance Further Beefed Up With $10M Term Loan

We use a 10-year DCF model to value VIVMD. We have revenue growing from $5.3M in 2016 to $20.0M in 2019 and to approximately $75M in 2026. Other key inputs to our DCF include a 11.5% discount rate and 2% terminal growth rate. Based on our DCF model, VIVMD is valued at approximately $9/share.

Current Price (06/22/16)	$4.73
Valuation	**$9.00**

OUTLOOK

Viveve's flagship product, the Viveve System, is used to treat vaginal laxity and sexual function, 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.

VIVEVE I large, randomized clinical study results confirmed earlier findings that Viveve System significantly improves sexual function and reduces vaginal laxity. 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. Next steps are to conduct U.S. study in support of FDA filing – study could initiate this year.
Our DCF-based valuation values the company at $9/share.

SUMMARY DATA

52-Week High	**$9.00**
52-Week Low	**$4.66**
One-Year Return (%)	**-33.81**
Beta	**0.67**
Average Daily Volume (sh)	**25,598**
Shares Outstanding (mil)	**9**
Market Capitalization ($mil)	**$42**
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 (%)	**-15.4**
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	**High,**
Type of Stock	**Small-Growth**
Industry	**Med Instruments**
Zacks Rank in Industry	**N/A**

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	1284 A	1123 E	1288 E	1561 E	5256 E
2017					10104 E
2018					15349 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	-$0.55 A	-$0.48 E	-$0.37 E	-$0.38 E	-$1.74 E
2017					-$1.14 E
2018					-$0.79 E

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

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WHAT'S NEW…

$10M Term Loan…

Viveve announced the closing of a $10M term loan. The loan comes in two tranches, both of which closed on June 20th and accrue interest at 6.96% + 30-day LIBOR;

- Tranche 1: $7.5M due by January 1, 2020. Begins amortizing principal on July 1, 2017

- Tranche 2: $2.5M due by December 1, 2019. Begins amortizing principal July 1, 2018

$4.5M of the proceeds will be used to retire the existing debt, the remainder will be used for general operating purposes.

VIVE exited Q1 with $5.6M of cash on the balance sheet. Pro forma for this $10M term loan and the approximate $14M (net) raised via the sale of 3.1M common shares @ $5/share (closed June 17th), cash balance would be approximately $25M. The company used ~$3.7M in cash (ex-changes in working capital) in Q1 - at that run-rate current cash balance would be sufficient to fund operations into late 2017.

We have updated our model for the additional interest expense from the new term loan. We are reiterating our $9/share price target.

FINANCIAL MODEL

Viveve Medical, Inc

	2015 A	Q1A	Q2E	Q3E	Q4E	2016 E	2017 E	2018	2019
Total Revenues	$1,447.0	$1,284.0	$1,123.1	$1,287.5	$1,561.1	$5,255.6	$10,103.5	$15,349.0	$20,027.2
YOY Growth	*1507.8%*	*3278.9%*	*1438.5%*	*120.5%*	*107.6%*	*263.2%*	*92.2%*	*51.9%*	*30.5%*
Cost of Goods Sold	$985.0	$936.0	$770.0	$851.0	$1,013.0	$3,570.1	$6,041.3	$8,116.8	$8,740.3
Gross Income	$462.0	$348.0	$353.1	$436.5	$548.0	$1,685.6	$4,062.2	$7,232.2	$11,286.9
Gross Margin	*31.9%*	*27.1%*	*31.4%*	*33.9%*	*35.1%*	*32.1%*	*40.2%*	*47.1%*	*56.4%*
SG&A	$7,464.0	$2,548.0	$2,355.0	$2,555.0	$2,714.0	$10,172.0	$12,225.3	$13,353.7	$14,219.3
% SG&A	*515.8%*	*198.4%*	*209.7%*	*198.5%*	*173.9%*	*193.5%*	*121.0%*	*87.0%*	*71.0%*
R&D	$4,988.0	$1,796.0	$1,744.0	$1,654.0	$1,688.0	$6,882.0	$5,365.0	$4,187.0	$3,664.0
% R&D	*344.7%*	*139.9%*	*155.3%*	*128.5%*	*108.1%*	*130.9%*	*53.1%*	*27.3%*	*18.3%*
Operating Income	($11,990.0)	($3,996.0)	($3,745.9)	($3,772.5)	($3,854.0)	($15,368.4)	($13,528.1)	($10,308.5)	($6,596.4)
Operating Margin	*-828.6%*	*-311.2%*	*-333.5%*	*-293.0%*	*-246.9%*	*-292.4%*	*-133.9%*	*-67.2%*	*-32.9%*
Interest income, net	($415.0)	($108.0)	($142.5)	($187.5)	($187.5)	($625.5)	($709.2)	($481.6)	($146.7)
Other income	($21.0)	($2.0)	$0.0	$0.0	$0.0	($2.0)	$0.0	$0.0	$0.0
Total Other Income (Expense)	($436.0)	($110.0)	($142.5)	($187.5)	($187.5)	($627.5)	($709.2)	($481.6)	($146.7)
Pre-Tax Income	($12,426.0)	($4,106.0)	($3,888.4)	($3,960.0)	($4,041.5)	($15,995.9)	($14,237.2)	($10,790.1)	($6,743.1)
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)	($4,106.0)	($3,888.4)	($3,960.0)	($4,041.5)	($15,995.9)	($14,237.2)	($10,790.1)	($6,743.1)
YOY Growth	*101.1%*	*135.6%*	*-37.1%*	*56.9%*	*34.4%*	*28.7%*	*-11.0%*	*-24.2%*	*-37.5%*
Net Margin	*-858.7%*	*-319.8%*	*-346.2%*	*-307.6%*	*-258.9%*	*-304.4%*	*-140.9%*	*-70.3%*	*-33.7%*
EPS (continuing ops)	($2.48)	($0.55)	($0.48)	($0.37)	($0.38)	($1.74)	($1.14)	($0.79)	($0.47)
YOY Growth	*-75.5%*	*-73.9%*	*-95.3%*	*-66.1%*	*-44.3%*	*-30.2%*	*-34.4%*	*-30.3%*	*-40.4%*
Diluted Shares O/S	5,000	7,493	8,082	10,600	10,700	9,219	12,500	13,600	14,250

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