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Viveve Medical (VIVE-NASDAQ)

VIVE: Q3 Revenue Beats, Implies Strong Q4

We use a 10-year DCF model to value VIVE. We have revenue growing from $7.1M in 2016 to $33.9M in 2020 and to approximately $95M in 2026. Other key inputs to our DCF include a 11% discount rate and 2% terminal growth rate. Based on our DCF model, VIVE is valued at approximately $11/share.

Current Price (10/20/17)	$5.28
Valuation	**$11.00**

OUTLOOK

VIVE preannounced Q3 revenue and console and treatment tip unit sales. Revenue, expected to come in at approximately $4.1, compares to our $3.7M estimate. Meanwhile, VIVE expects to report that there were 60 consoles (geographic breakdown not disclosed) placed and about 2,700 treatment tips sold – compared to our 60 (26 U.S., 34 int'l) and 2,900 estimates. Given that the treatment tips are relatively inexpensive, we think the ~400k beat to revenue may mostly relate to a (actual vs. estimated) difference in geographic sales mix – with the proportional mix favoring the U.S. (where VIVE sells direct and benefits from higher pricing).

The bulk of DMT's minimum purchase quota may remain unfulfilled – which would imply that Q4 2017 could be extraordinarily strong from an OUS consoles sales standpoint. The Viveve System just received (October 10th) regulatory clearance in Taiwan – so we think it's likely that some of DMT's sales will be to that region in Q4.

Regulatory approvals were also recently obtained in several other markets as VIVE continues their rapid global expansion.

Model updates: moving estimated 2017 revenue up from $14.8M to $15.4M.

SUMMARY DATA

52-Week High	**$11.16**
52-Week Low	**$3.75**
One-Year Return (%)	**-22.80**
Beta	**-0.49**
Average Daily Volume (sh)	**176,211**
Shares Outstanding (mil)	**19**
Market Capitalization ($mil)	**$102**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**66**
Insider Ownership (%)	**35**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**54.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 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)
2016	1284 A	1556 A	1849 A	2452 A	7141 A
2017	3041 A	3073 A	4100 E	5147 E	15362 E
2018					25207 E
2019					32859 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.55 A	-$0.66 A	-$0.46 A	-$0.55 A	-$2.18 A
2017	-$0.57 A	-$0.54 A	-$0.48 E	-$0.48 E	-$2.03 E
2018					-$1.38 E
2019					-1.11 E

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

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Q3 2017 Preannouncement
Earlier this week VIVE preannounced Q3 revenue and console and treatment tip unit sales. Revenue, expected to come in at approximately $4.1, compares to our $3.7M estimate. Meanwhile, VIVE expects to report that there were 60 consoles (geographic breakdown not disclosed) placed and about 2,700 treatment tips sold – compared to our 60 (26 U.S., 34 int'l) and 2,900 estimates. Given that the treatment tips are relatively inexpensive, we think the ~400k beat to revenue may mostly relate to a (actual vs. estimated) difference in geographic sales mix – with the proportional mix favoring the U.S. (where VIVE sells direct and benefits from higher pricing).

If that is indeed the case, there may also be other benefits – one being a relatively beefy gross margin and the other having to do with DMT, Viveve's distributor in China and other parts of Asia (including Taiwan). DMT is obligated to purchase a minimum of 75 systems in 2017 – but as of the close of Q2 the indication was that most (perhaps all) of this minimum had remained outstanding. And while we do not know how many systems were sold OUS (throughout all of VIVE's ex-U.S. territories) in Q3, based on the preannounced revenue and unit sales, we now estimate that it was about 18 systems (we had previously modeled 35 OUS system sales in Q3). That would mean the bulk of DMT's minimum purchase quota would still remain unfulfilled – which would in-turn imply that Q4 2017 could be extraordinarily strong from a OUS consoles sales standpoint. The Viveve System just received (October 10th) regulatory clearance in Taiwan – so we think it's likely that some of DMT's sales will be to that region in Q4.

VIVE Continues Rapid Global Expansion
Speaking of OUS sales, VIVE continues its rapid spread across the globe. Since the beginning of 2017, the Viveve System has gained regulatory approval/clearance in nine new markets, including several in just the last six weeks. In addition to Taiwan, the most recent approvals came in Bahrain, Kuwait, Qatar (sold through Medica, VIVE's Middle East distributor) and Mexico (sold through Vitre-Tech). The Viveve System is now approved for sale in more than 50 countries.

Model Updates
We have updated our model which, in addition to the adjustments for the Q3 numbers, also includes an upward revision to Q4 total revenue given our supposition that OUS placements (particularly in DMTs markets) will be greater than we had previously forecasted. The updates have resulted in our 2017 full-year revenue estimate moving from $14.8M to $15.4M.

DCF Values VIVE at $11/share

We use a 10-year DCF model to value VIVE. We have revenue growing from $7.1M in 2016 to $33.9M in 2020 and to approximately $95M in 2026 (for reference, Thermage's sales were $50M+ at second year after ThermaCool launch).

Other key inputs to our DCF include a 11% discount rate and 2% terminal growth rate. Based on our DCF model, VIVE is valued at approximately $11/share. Our outlook and financial estimates are subject to change based on progress with expansion of distribution, results of clinical trial data and regulatory approvals, among other events.

FINANCIAL MODEL

Viveve Medical, Inc

	2016 A	Q1A	Q2A	Q3E	Q4E	2017 E	2018	2019	2020
Total Revenues	$7,141.0	$3,041.0	$3,073.2	$4,100.4	$5,147.0	$15,361.7	$25,207.0	$32,859.0	$39,909.5
YOY Growth	*393.5%*	*136.8%*	*97.5%*	*121.8%*	*109.9%*	*115.1%*	*64.1%*	*30.4%*	*21.5%*
Cost of Goods Sold	$4,612.0	$1,619.0	$1,837.0	$2,154.0	$2,809.5	$8,419.5	$11,996.4	$13,358.3	$13,920.0
Gross Income	$2,529.0	$1,422.0	$1,236.2	$1,946.4	$2,337.5	$6,942.1	$13,210.6	$19,500.7	$25,989.4
Gross Margin	*35.4%*	*46.8%*	*40.2%*	*47.5%*	*45.4%*	*45.2%*	*52.4%*	*59.3%*	*65.1%*
SG&A	$12,868.0	$5,450.0	$6,862.0	$7,717.0	$8,039.7	$28,068.7	$31,685.2	$36,210.6	$40,787.5
% SG&A	*180.2%*	*179.2%*	*223.3%*	*188.2%*	*156.2%*	*182.7%*	*125.7%*	*110.2%*	*102.2%*
R&D	$8,365.0	$2,388.0	$3,440.0	$2,853.9	$3,005.9	$11,687.8	$10,536.5	$7,459.0	$6,385.5
% R&D	*117.1%*	*78.5%*	*74.2%*	*69.6%*	*58.4%*	*76.1%*	*41.8%*	*22.7%*	*16.0%*
Operating Income	($18,704.0)	($6,416.0)	($9,065.8)	($8,624.5)	($8,708.0)	($32,814.3)	($29,011.2)	($24,168.9)	($21,183.6)
Operating Margin	*-261.9%*	*-211.0%*	*-295.0%*	*-210.3%*	*-169.2%*	*-213.6%*	*-115.1%*	*-73.6%*	*-53.1%*
Total Other Income (Expense)	($1,407.0)	($279.0)	($1,362.0)	($640.0)	($646.3)	($2,927.3)	($3,276.9)	($4,048.3)	($4,210.2)
Pre-Tax Income	($20,111.0)	($6,695.0)	($10,427.8)	($9,264.5)	($9,354.3)	($35,741.6)	($32,288.1)	($28,217.2)	($25,393.8)
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)	($20,111.0)	($6,695.0)	($10,427.8)	($9,264.5)	($9,354.3)	($35,741.6)	($32,288.1)	($28,217.2)	($25,393.8)
YOY Growth	*61.8%*	*82.1%*	*-16.1%*	*125.6%*	*76.0%*	*77.7%*	*-9.7%*	*-12.6%*	*-10.0%*
Net Margin	*-281.6%*	*-220.2%*	*-339.3%*	*-225.9%*	*-181.7%*	*-232.7%*	*-128.1%*	*-85.9%*	*-63.6%*
EPS (continuing ops)	($2.18)	($0.57)	($0.54)	($0.48)	($0.48)	($2.04)	($1.38)	($1.11)	($0.94)
YOY Growth	*-12.2%*	*7.1%*	*-78.3%*	*-13.1%*	*-27.1%*	*-6.4%*	*-32.5%*	*-19.8%*	*-15.0%*
Diluted Shares O/S	9,215	11,664	19,373	19,450	19,500	17,497	23,400	25,500	27,000

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