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Zacks Small-Cap Research

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SANUWAVE Health (SNWV-OTC)

SNWV: Initiates U.S. dermaPACE Roll-Out Strategy

With the updates to our model, we have SNWV generating approximately $22M (when including JV revenue – which on GAAP basis will be accounted for as a component in equity interest calculation) in revenue in 2020 - based on the SNN comp 2020 3.5x P/S multiple, this values SNWV at about $0.55/share

Current Price (02/16/18)	$0.25
Valuation	**$0.55**

OUTLOOK

During the dermaPACE FDA approval update call in early January management provided a framework of their initial U.S. commercialization strategy – the focus was on operational and financial efficiency, that is, to be able to quickly come to market and to do so in a shareholder-friendly fashion. The plan included securing non-dilutive financing and then commencing sales through already-established relationships.

SNWV has already made substantive progress in both areas. On February 12th they announced consummation of a $1M equipment financing line (terms not disclosed) with NFS Leasing. This equipment financing relates to units in which SNWV retains ownership to and which will be placed (domestically) as part of the company's per-procedure revenue model. Given that the equipment financing, like credit lines, will charge on incremental draws, it should be more cost-efficient than an outright debt sale and less dilutive than an equity raise. It also helps to temper additional balance sheet risk for SNWV, particularly given the significant uncertainty surrounding initial rates of adoption and utilization of dermaPACE.

SUMMARY DATA

52-Week High	**$0.28**
52-Week Low	**$0.08**
One-Year Return (%)	**56.74**
Beta	**-0.99**
Average Daily Volume (sh)	**349,258**
Shares Outstanding (mil)	**139**
Market Capitalization ($mil)	**$34**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**23**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**13.0**
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	**High,**
Type of Stock	**N/A**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	269 A	203 A	256 A	648 A	1,376 A
2017	150 A	111 A	162 A	252 E	584 E
2018					3,496 E
2019					9,726 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.02 A	-$0.01 A	-$0.01 A	-$0.02 A	-$0.06 A
2017	-$0.00 A	-$0.01 A	-$0.01 A	-$0.01 E	-$0.03 E
2018					-$0.02 E
2019					-$0.02 E

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

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SNWV Initiates U.S. dermaPACE Roll-Out Strategy

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As it relates to their initial U.S.-based dermaPACE sales efforts – the following day SNWV announced a commercialization partnership with Premier Shockwave focused on the VA, Indian Health Service (HIS) and U.S. military treatment facilities. Relative to Premier's capabilities in reaching these markets, SNWV's press release notes that, "Premier Shockwave, Inc. is the leading shockwave company for podiatric and orthopedic applications in the United States and currently serves over 30 VA Hospitals and Military Treatment Facilities in the continental United States and Alaska."

SNWV has had a long relationship with Premier Shockwave, which currently offers orthopedic pain therapy (for ailments such as tennis elbow and plantar fasciitis) via treatment with SANUWAVE's OssaTron device. Mike Stolarski, principal of Premier, has similarly had a long relationship with SNWV, including serving (from 2005 – 2008) as the company's V.P. of Business Development prior to joining SNWV's board of directors in 2016.

Under this new deal, Premier will purchase the dermaPACE equipment from SNWV and then be responsible for placing the machines. Per-procedure revenue will be split between SNWV and Premier. While detailed terms were not disclosed, we think a small margin on the equipment and somewhere in the range of 5% - 15% of the per-procedure fee would not be unreasonable for SNWV.

Per the P.R., the agreement calls for Premier to purchase at least 100 units over three years. Entry into the VA channel will first require acceptance on the GSA Schedules. IHS's Biomedical Equipment Governance Committees oversee medical equipment purchasing and related decisions for that organization. We hope to know more about anticipated timelines related to initial sales to Premier as well as expectations as to when launch into these channels might start.

While we think this partnership could (over time) prove meaningful from a revenue, cash flow and margin perspective, news of the deal has not prompted us to make any changes to our model. More significant, at least in the very near-term, is that the partnership might facilitate initial entry of dermaPACE into the U.S., provide early awareness and, hopefully, begin to generate clinical experience. Positive clinical experience and usage can be critical in helping to drive further adoption as well as (eventually) for reimbursement-related purposes.

Valuation

We have used P/S comp as our valuation methodology – for consistency, we continue to use that. Smith & Nephew has traded at approximately 3.5x analyst's 2020 forecasted revenue. With the updates to our model, we have SNWV generating approximately $22M (when including JV revenue – which on GAAP basis will be accounted for as a component in equity interest calculation) in revenue in 2020 - based on the SNN comp 2020 3.5x P/S multiple, this values SNWV at about $0.55/share.

FINANCIAL MODEL

SANUWAVE Health, Inc.

	2015 A	Q1 A	Q2 A	Q3 A	Q4 A	2016 A	Q1 A	Q2 A	Q3 A	Q4E	2017 E	2018 E	2019 E	2020 E
Total Revenues	$965.5	$269.3	$203.4	$255.7	$647.7	$1,376.1	$149.6	$111.0	$161.6	$251.8	$584.0	$3,496.0	$9,726.0	$19,675.0
YOY Growth	*13.9%*	*28.0%*	*-15.2%*	*78.0%*	*74.3%*	*42.5%*	*-44.5%*	*-45.4%*	*-36.8%*	*-61.1%*	*-57.6%*	*498.6%*	*178.2%*	*102.3%*
Cost of Revenues	$285.0	$73.2	$78.0	$98.7	$315.3	$565.1	$55.14	$24.7	$61.7	$141.6	$283.1	$966.3	$3,036.9	$4,858.1
Gross Income	$680.5	$196.1	$125.4	$157.0	$332.4	$810.9	$94.4	$86.4	$99.9	$110.2	$300.9	$2,529.7	$6,689.1	$14,816.9
Gross Margin	*70.5%*	*72.8%*	*61.7%*	*61.4%*	*51.3%*	*58.9%*	*63.1%*	*77.8%*	*62.6%*	*58.2%*	*51.5%*	*72.4%*	*68.8%*	*75.3%*
R&D	$2,172.9	$310.0	$476.2	$266.5	$76.0	$1,128.6	$260.3	$437.9	$266.8	$297.0	$1,262.1	$1,854.0	$2,026.0	$2,285.0
%R&D	*225.0%*	*115.1%*	*234.1%*	*104.2%*	*11.7%*	*82.0%*	*174.1%*	*394.4%*	*165.1%*	*118.0%*	*216.1%*	*53.0%*	*20.8%*	*11.6%*
SG&A	$2,735.1	$499.1	$589.9	$645.9	$938.9	$2,673.8	$448.6	$951.9	$475.4	$692.0	$2,567.9	$3,551.9	$7,625.2	$14,657.9
% G&A	*283.3%*	*185.3%*	*290.0%*	*252.6%*	*145.0%*	*194.3%*	*299.9%*	*857.2%*	*294.2%*	*274.8%*	*128.0%*	*101.6%*	*78.4%*	*74.5%*
Depreciation	$3.6	$0.8	$0.8	$1.6	$16.6	$19.9	$6.1	$6.0	$5.5	$6.0	$23.5	$45.0	$75.0	$75.0
Amortization	$306.7	$76.7	$76.7	$76.7	$76.7	$306.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Write down of assets	($100.0)	$0.0	$0.0	$0.0	($1.6)	($1.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($4,437.8)	($690.5)	($1,018.2)	($833.6)	($774.3)	($3,316.5)	($620.6)	($1,309.4)	($647.8)	($884.8)	($3,552.7)	($2,921.2)	($3,037.1)	($2,201.0)
Operating Margin	*-459.6%*	*-256.4%*	*-500.6%*	*-326.1%*	*-119.5%*	*-241.0%*	*-415.0%*	*-1179.2%*	*-400.9%*	*-351.4%*	*-608.3%*	*-83.6%*	*-31.2%*	*-11.2%*
Total Other Expense	($372.5)	($1,034.1)	($104.0)	($306.2)	($1,677.3)	($3,121.5)	$127.1	($106.5)	($203.5)	($235.0)	($418.0)	($1,275.0)	($1,300.0)	($1,300.0)
Pre-Tax Income	($4,810.2)	($1,724.6)	($1,122.1)	($1,139.8)	($2,451.5)	($6,438.0)	($493.5)	($1,415.9)	($851.3)	($1,119.8)	($3,970.6)	($4,196.2)	($4,337.1)	($3,501.0)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	($4,823.7)	($1,721.6)	($1,127.8)	($1,142.1)	($2,465.5)	($6,456.9)	($493.5)	($1,415.9)	($851.3)	($1,119.8)	($3,970.6)	($4,204.7)	($3,787.3)	($2,958.3)
YOY Growth	*-19.5%*	*46.9%*	*-25.9%*	*14%*	*145.9%*	*33.9%*	*-71.3%*	*25.5%*	*-25.5%*	*-54.6%*	*-38.5%*	*5.9%*	*-9.9%*	*-21.9%*
Net Margin	*-499.6%*	*-639.2%*	*-554.5%*	*-446.7%*	*-380.7%*	*-469.2%*	*-330.0%*	*-1275.1%*	*-526.9%*	*-444.7%*	*-679.9%*	*-120.3%*	*-38.9%*	*-15.0%*
EPS (continuing ops)	($0.08)	($0.02)	($0.01)	($0.01)	($0.02)	($0.06)	($0.00)	($0.01)	($0.01)	($0.01)	($0.03)	($0.02)	($0.02)	($0.01)
Diluted Shares O/S	63,025	75,220	102,646	115,529	137,084	107,620	138,042	138,993	139,100	139,250	138,846	190,000	215,000	225,000

Brian Marckx, CFA

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