Zacks Small-Cap Research

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Viveve Medical (VIVE-NASDAQ)

VIVE: Q4 2017 Preannouncement, Full-Year 2018 Initial Guidance Largely Inline With Our Estimates

We use a 10-year DCF model to value VIVE. We have revenue growing from $7.1M in 2016 to $36M 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 (01/04/18)	$5.19
Valuation	**$11.00**

OUTLOOK

VIVE expects to report sales of 80 consoles, including 57 in the U.S., 2,600 consumable treatment tips and total revenue of $5.1M for the final quarter of 2017. This compares to our estimates (which have now been updated for the preannouncement) of 81 consoles, including 51 in the U.S., 3,471 treatment tips and total revenue of $5.2M. The ~$100k difference to our total revenue number reflects one less console placement and 25% fewer treatment tips, partially offset by seven more consoles sold in the U.S. (which are priced at premium to those sold internationally via third-party distribution). The "miss" on treatment tips is of little concern given that order books can be somewhat variable and we had and continue to expect some short-term volatility in consumables sales.

VIVE also provided initial revenue guidance of $22M to $24M for 2018 – which is inline with our $23M estimate, and implies yoy growth of between 44% and 57%.

Given the Q4 preannouncement and 2018 initial revenue guidance were largely inline with our respective estimates, we have only made insignificant updates to our model. We continue to calculate fair value of VIVE shares at $11.

SUMMARY DATA

52-Week High	**$11.16**
52-Week Low	**$3.75**
One-Year Return (%)	**-18.62**
Beta	**1.04**
Average Daily Volume (sh)	**159,557**
Shares Outstanding (mil)	**19**
Market Capitalization ($mil)	**$101**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**81**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**70.9**
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	4070 A	5098 E	15285 E
2018					23039 E
2019					29712 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	-$0.50 A	-$0.48 E	-$2.06 E
2018					-$1.53 E
2019					$-1.25 E

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

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Q4 2017 Preannouncement, Full-Year 2018 Initial Guidance Largely Inline With Our Estimates:

This morning Viveve announced preliminary unit and consumables sales numbers as well as revenue for the fourth quarter 2017 and provided initial revenue guidance for the full-year 2018, most of which was largely inline with our respective estimates.

VIVE expects to report sales of 80 consoles, including 57 in the U.S., 2,600 consumable treatment tips and total revenue of $5.1M for the final quarter of 2017. This compares to our estimates (which have now been updated for the preannouncement) of 81 consoles, including 51 in the U.S., 3,471 treatment tips and total revenue of $5.2M. The ~$100k difference to our total revenue number reflects one less console placement and 25% fewer treatment tips, partially offset by seven more consoles sold in the U.S. (which are priced at premium to those sold internationally via third-party distribution). The "miss" on treatment tips is of little concern given that order books can be somewhat variable and we had and continue to expect some short-term volatility in consumables sales.

Noteworthy as it relates to expected Q4 console sales is that 57 U.S. and 80 total placements would be respective records and ahead of the prior bests by 21% (vs 47 U.S. placements in Q3 2017) and 33% (vs 60 total placements, also in Q3 2017). Also encouraging is the implied 23 international units that are expected to be booked in Q4 as this is the greatest number of OUS console sales of any other quarter during 2017. We attribute the rapid growth in console sales to a combination of recent expansion of both the U.S. direct sales force as well as the international distribution footprint.

As it relates to the U.S., Viveve's direct sales force grew from 10 in May to 23 as of November (i.e. the latest period for which we have data). We expect incremental future growth of the sales force, combined with additional and recent clinical data supporting the efficacy and safety of Viveve treatment (including sub-analysis data of the VIVEVE I trial which was recently published in the Journal of Women's Health – see our Dec 8, 2017 report) to further catalyze growth of U.S. sales. On the international front, the Viveve System has been approved in at least 60 countries. Initial launch as well as additional regulatory approvals could happen in several new territories throughout 2018 and provide another potential tailwind to OUS sales.

The Q4 revenue guidance of $5.1M implies yoy growth of 108%. It would also be a new record high and 25% ahead of the prior best ($4.1M in Q3 2017). This also implies full-year 2017 revenue growth of 115%.

VIVE also provided initial revenue guidance of $22M to $24M for 2018 – which is inline with our $23M estimate, and implies yoy growth of between 44% and 57%.

Given the Q4 preannouncement and 2018 initial revenue guidance were largely inline with our respective estimates, we have only made insignificant updates to our model. We continue to calculate fair value of VIVE shares at $11.

FINANCIAL MODEL

Viveve Medical, Inc

	2016 A	Q1A	Q2A	Q3A	Q4E	2017 E	2018	2019	2020
Total Revenues	$7,141.0	$3,041.0	$3,076.0	$4,070.0	$5,098.4	$15,285.4	$23,038.6	$29,711.9	$35,991.1
YOY Growth	*393.5%*	*136.8%*	*97.7%*	*120.1%*	*107.9%*	*114.1%*	*50.7%*	*29.0%*	*21.1%*
Cost of Goods Sold	$4,612.0	$1,619.0	$1,837.0	$2,059.0	$2,642.1	$8,157.1	$11,016.5	$12,367.2	$12,870.6
Gross Income	$2,529.0	$1,422.0	$1,239.0	$2,011.0	$2,456.3	$7,128.3	$12,022.1	$17,344.7	$23,120.5
Gross Margin	*35.4%*	*46.8%*	*40.3%*	*49.4%*	*48.2%*	*46.6%*	*52.2%*	*58.4%*	*64.2%*
SG&A	$12,868.0	$5,450.0	$6,862.0	$7,369.0	$7,963.7	$27,644.7	$31,655.1	$35,981.1	$38,510.5
% SG&A	*180.2%*	*179.2%*	*223.1%*	*181.1%*	*156.2%*	*180.9%*	*137.4%*	*121.1%*	*107.0%*
R&D	$8,365.0	$2,388.0	$3,440.0	$3,464.0	$3,008.0	$12,300.0	$12,602.1	$8,794.7	$7,270.2
% R&D	*117.1%*	*78.5%*	*111.8%*	*85.1%*	*59.0%*	*80.5%*	*54.7%*	*29.6%*	*20.2%*
Operating Income	($18,704.0)	($6,416.0)	($9,063.0)	($8,822.0)	($8,515.4)	($32,816.4)	($32,235.1)	($27,431.1)	($22,660.2)
Operating Margin	*-261.9%*	*-211.0%*	*-294.6%*	*-216.8%*	*-167.0%*	*-214.7%*	*-139.9%*	*-92.3%*	*-63.0%*
Total Other Income (Expense)	($1,407.0)	($279.0)	($1,362.0)	($793.0)	($719.9)	($3,153.9)	($3,571.4)	($4,342.8)	($4,504.7)
Pre-Tax Income	($20,111.0)	($6,695.0)	($10,425.0)	($9,615.0)	($9,235.3)	($35,970.3)	($35,806.6)	($31,773.9)	($27,164.9)
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)	($20,111.0)	($6,695.0)	($10,425.0)	($9,615.0)	($9,235.3)	($35,970.3)	($35,806.6)	($31,773.9)	($27,164.9)
YOY Growth	*61.8%*	*82.1%*	*-16.1%*	*134.2%*	*73.7%*	*78.9%*	*-0.5%*	*-11.3%*	*-14.5%*
Net Margin	*-281.6%*	*-220.2%*	*-338.9%*	*-236.2%*	*-181.1%*	*-235.3%*	*-155.4%*	*-106.9%*	*-75.5%*
EPS (continuing ops)	($2.18)	($0.57)	($0.54)	($0.50)	($0.48)	($2.06)	($1.53)	($1.25)	($1.01)
YOY Growth	*-12.2%*	*7.1%*	*-78.3%*	*-9.6%*	*-27.7%*	*-5.6%*	*-25.7%*	*-18.6%*	*-19.3%*
Diluted Shares O/S	9,215	11,664	19,373	19,409	19,420	17,467	23,400	25,500	27,000

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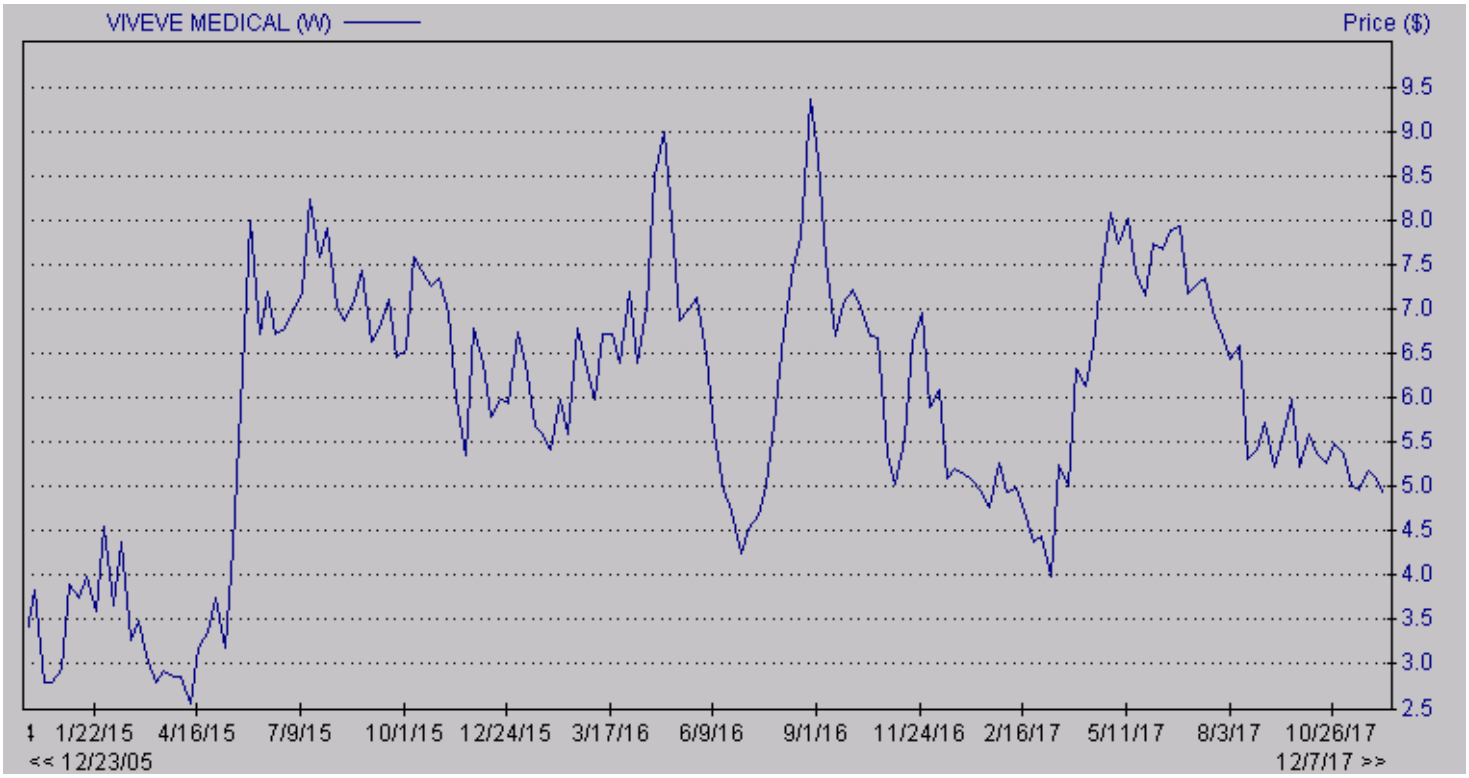

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