Zacks Small-Cap Research
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electroCore, Inc. (ECOR - NASDAQ)

Strong Sales Through VA and NHS Channels

Based on our multiple of earnings model and a 20% discount rate, electroCore is valued at approximately $4.00 per share. Our methodology applies a 20x multiple of earnings to 2026 EPS and discounts the result to beginning of year 2021.

Current Price (11/13/2020)	$1.64
Valuation	**$4.00**

OUTLOOK

electroCore is a commercial company marketing its gammaCore vagus nerve stimulation device in multiple migraine and cluster headache indications. It also has been granted Emergency Use Authorization (EUA) for respiratory-related COVID treatment.

The gammaCore device non-invasively stimulates the vagus nerve which treats headache. The device delivers an electrical pulse to activate the vagus nerve in the neck. Numerous clinical trials have been conducted supporting the efficacy and safety of gammaCore. Additional trials are underway for indications in PTSD, TBI and post-traumatic headache.

Sales are advancing in three segments: VA in the US, NHS in the UK & commercial. Low penetration at the VA, a recent expansion of the NHS program and continued efforts with commercial payors support topline advancement. COVID-related sales may have a material impact in the short term although they may fall as the pandemic dissipates.

Associations with the VA, NHS, CVS, Express Scripts & others combined with the strong safety and efficacy data for gammaCore support a long runway for topline growth in the US, European and Asian markets.

Our valuation assumes first positive earnings in 2025 and employs a multiple of 2026 earnings to generate target price.

SUMMARY DATA

52-Week High	**3.30**
52-Week Low	**0.32**
One-Year Return (%)	**-11.4**
Beta	**1.78**
Average Daily Volume (sh)	**701,646**
Shares Outstanding (mil)	**45.4**
Market Capitalization ($mil)	**74.5**
Short Interest Ratio (days)	**9.3**
Institutional Ownership (%)	**9.9**
Insider Ownership (%)	**26.3**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of USD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	$0.4 A	$0.6 A	$0.7 A	$0.7 A	$2.4 A
2020	$0.7 A	$0.8 A	$1.1 A	$0.8 E	$3.4 E
2021					$5.2 E
2022					$9.6 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2019	-$0.47 A	-$0.41 A	-$0.36 A	-$0.29 A	-$1.54 A
2020	-$0.27 A	-$0.13 A	-$0.10 A	-$0.12 E	-$0.58 E
2021					-$0.39 E
2022					-$0.28 E

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WHAT'S NEW

Third Quarter Operational & Financial Results

electroCore Inc. (NASDAQ: ECOR) released third quarter operational and financial results and filed form 10-Q on November 12, 2020. Revenues surged meaningfully, increasing 58% over prior year levels and 44% sequentially. Costs were also down on a sequential and year over year basis helping drive a material improvement in net income. Other highlights during the quarter and to date included the grant of Emergency Use Authorization (EUA) for gammaCore Sapphire CV for COVID patients, an extension of England's National Health Service (NHS) program to reimburse gammaCore and Veterans' Administration (VA) sponsorship of clinical trials using gammaCore in extended indications.

Revenues of $1.1 million represented VA, NHS and commercial sales, with the rise at the VA in excess of 130% year over year. The strong performance in the VA segment was partly attributable to a large, end of fiscal year order, which may have pulled demand forward. Sales to the NHS were up by 64% as penetration continued to increase with this group. Commercial replenishment revenue was $112,000 in the third quarter, up from $60,000 in 2Q:20.

Gross margin achieved a two-year peak of 67.8% compared to 63.7% in 2Q:20 and 48.2% in 3Q:19, aided by absorption of fixed costs. Research and development costs of $629,000 fell 72% compared to 3Q:19 on the termination of the Premium II clinical trial. Selling, general and administrative expenses declined 44% to $4.6 million as sales and marketing activities were reduced as part of the restructuring that has taken place over the last year.

Net loss was ($4.5) million for 3Q:20, an improvement over the ($10.7) million loss in the comparable period. On a per share basis, loss was ($0.10) on a base of 44.0 million shares outstanding. Cash burn was ($4.6) million in the quarter compared to ($8.2) million in 3Q:19. Cash and equivalents were $26.0 million on September 30, 2020 up from $24.1 million at the beginning of the year.

Emergency Use Authorization

In early April, electroCore submitted an application for Emergency Use Authorization to use gammaCore nVNS therapy for treating respiratory symptoms for COVID-19. Early clinical and non-clinical data was submitted to the FDA which suggested that a benefit for those with respiratory distress. By mid-July, the application was approved based on two studies that found preliminary efficacy from the treatment. These included: VNS for the treatment of acute asthma exacerbations and nVNS for the relief of acute bronchoconstriction due to asthma

A telehealth option was offered to help patients access the therapy. The product will only be available for COVID-related respiratory symptoms during the pandemic and further studies as well as FDA approval will be required for COVID related use after the end of the emergency period. In a further effort to quantify the benefit in COVID patients, two studies, designated SAVIOR 1 and SAVIOR 2, were launched in Spain and Pennsylvania, respectively, evaluating the use of gammaCore Sapphire CV in hospitalized COVID patients. These trials started off with slow enrollment during the summer but have accelerated in the fall as the pandemic resurges with record number of cases. While the sales benefit from gammaCore for COVID related respiratory symptoms is expected to be limited, the EUA approval has provided visibility for the therapy and expanded its recognition as a useful therapy.

National Health Service (NHS) Agreements

In April, electroCore reported that it was granted an extension to its participation in England's NHS Innovation and Technology Payment (ITP) program to run through September 2020. The program was initially launched in April 2019 and electroCore was selected by the ITP program to use the gammaCore product to treat cluster headache in adults. It is the primary program from which revenue in the United Kingdom is sourced. The program funds medical technology products to improve the quality and efficacy of patient care.

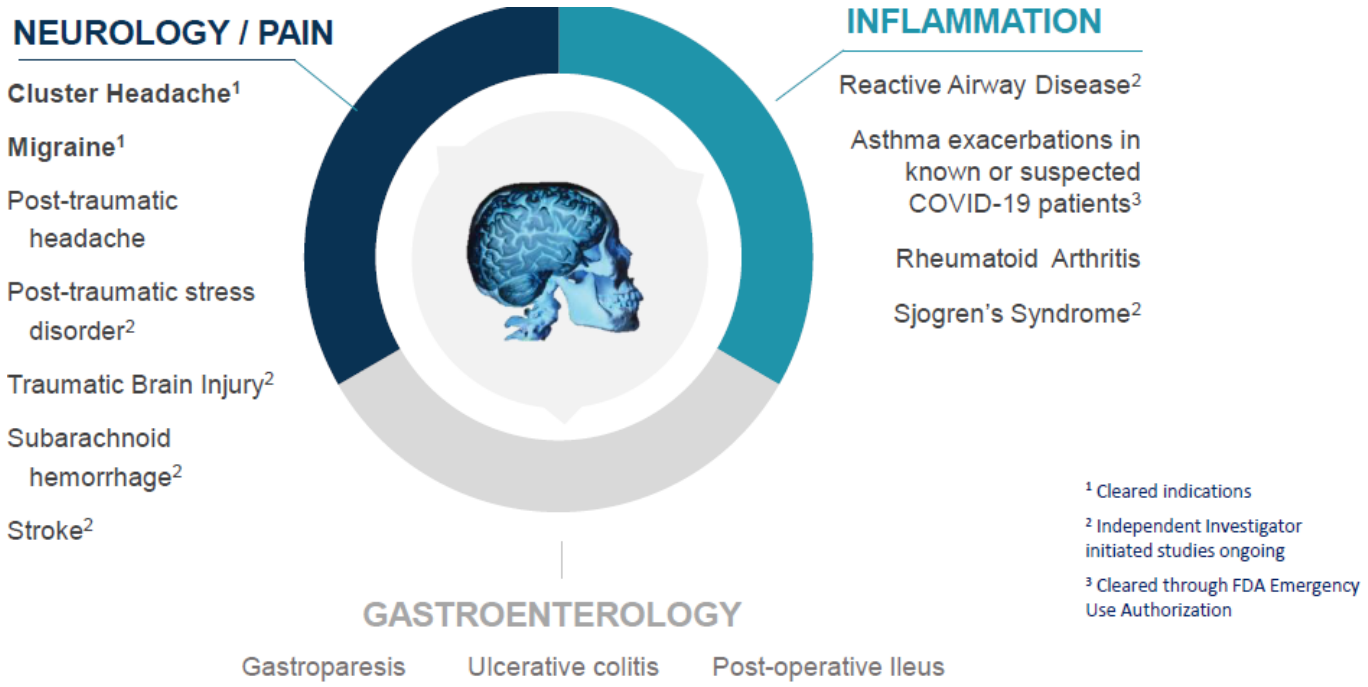
In August, gammaCore was chosen as the sole non-invasive vagus nerve stimulation therapy for patients within NHS England. The contract began on October 1, 2020 and will run for a six month term. It can also be extended by three years until March 31, 2024 in a process that the company is now navigating. The value of the extension is estimated to be approximately $4.6 million. Management is confident that the three year contract will be approved; however, COVID and BREXIT-related disruptions may delay the timing which may require the grant of another

extension which could limit growth to a 10% increase. The product is also available in Scotland from selected NHS Scotland health boards and in Wales and Northern Ireland via private purchase.

Additional VA Studies

The Department of Veteran's Affairs launched and sponsored a study related to non-invasive vagal nerve stimulation in mild traumatic brain injury (mTBI) and post-traumatic stress disorder (PTSD). The work builds on other research[1] that has been published by Dr. Douglas Bremner, the principal investigator for the trial. The study is supported by a VA Merit Award. While the results will not be available for some time, these indications can drive future expansion of gammaCore use into new areas.

Exhibit I – Potential New Indications for gammaCore[2]



Corporate Milestones

electroCore has multiple approved indications and is currently pursuing additional uses in migraine for adolescents and reactive airway disease among other targets which are at varying stages of advancement. Below we list recent milestones and anticipated future events.

- Commercial Launch of gammaCore for:
  - Acute treatment of episodic cluster headaches – 3Q:18
  - Acute treatment of migraine – 3Q:18
  - Prophylactic treatment of cluster headache – 1Q:19
  - Prophylactic treatment of migraine – 1Q:20
  - Emergency Use for respiratory distress in COVID-19 – 3Q:20
- Enrollment in COVID-19 (Savior) trials – 4Q:20
- Clinical publications for PTSD, PTH & TBI – 4Q:20/1Q:21
- Premium II data readout – 4Q:20/1Q:21
- Savior 1 & 2 data readout – 1Q:21/2Q:21
- EU stroke data – 1Q:21/2Q:21
- Distribution partner announcements outside US – 3Q:21/4Q:21

[1] Bremner JD. PTSD and mild traumatic brain injury. In: J. D. Bremner, ed. Posttraumatic Stress Disorder: From Neurobiology to Treatment Hoboken, N.J.: Wiley-Blackwell; 2016: 321-344.
[2] Source: electroCore November 2020 corporate presentation

Summary of Investment Thesis

- Effective, non-invasive, and non-pharmaceutical method to treat migraines
- Portable, simple and rapid solution for headache prevention and treatment
- Indicated for both migraines and cluster headaches
- Existing and expanding relationships with VA hospitals
- Recharge/refill business model
- Supply chain simplicity: direct to customer shipping
- Simple distribution with gammaCore ability to be prescribed through telemedicine
- NHS relationship in UK may provide foundation for further global expansion
    - Continental Europe
    - Asia
- Opportunity for COVID-related sales following EUA award
- Extended indications
    - Stroke
    - Trauma injury related headaches
    - PTSD
    - Mild traumatic brain injury
    - Inflammation

Summary

Third quarter revenue trends for electroCore were strong with a 58% year over year growth rate. While sales benefitted from a bulk buy and other one-time effects, the underlying trend remains positive. Management has guided to full-year revenues of $3.3 to $3.5 million, which suggests 4Q revenues of about $850,000. Trends to date have been favorable as indicated by management, but seasonal purchasing in 3Q and additional holidays in late November and December may result in sequential decline which we anticipate will be reversed in 1Q:21. The company expects approximately $4 million of cash burn in the fourth quarter, less than the $4.6 million consumed in 3Q:20, suggesting at minimum a year and a half runway. If revenue trends persist, it will extend even longer.

The thesis for electroCore for improved penetration into existing channels is playing out as sales through the VA and NHS channels grow at an increasing pace. Commercial revenues are a potential area of improvement as well. A previous distributor exhausted inventory purchased in 2019 and we now expect electroCore to rebuild this channel. The team is also working on expanding the population that has access to pharmacy benefits, including Express Scripts and CVS. Work on obtaining a Healthcare Common Procedure Coding System (HCPCS) code from the center from the Centers for Medicare and Medicaid Services (CMS) is another initiative underway and if granted in January, will provide a streamlined reimbursement effort from commercial and government payors.

electroCore has many factors in its favor, making increased inroads into the VA and NHS. Additional indications that are being investigated by third parites such as those in respiratory distress, traumatic headache, mild traumatic brain injury, PTSD, stroke and inflammatory diseases are longer term opportunities. Third quarter's better than expected revenue and margin result are favorable indicators for continued success. We maintain our target price of $4.00 per share.

PROJECTED FINANCIALS

electroCore, Inc. - Income Statement

electroCore, Inc.	2019 A	Q1 A	Q2 A	Q3 A	Q4 E	2020 E	2021 E	2022 E
Total Revenues ($US '000)	**$2,390**	**$734**	**$753**	**$1,081**	**$850**	**$3,418**	**$5,200**	**$9,650**
YOY Growth	141%	79%	21%	58%	26%	43%	52%	86%
Cost of Goods Sold	$1,157	$298	$273	$348	$323	$1,242	$2,080	$2,895
Product Gross Margin	52%	59.4%	63.7%	67.8%	62%	*64%*	*60%*	*70%*
Research & Development	$9,902	$1,523	$1,031	$629	$720	$3,903	$1,800	$1,000
Selling, General & Administrative	$35,422	$6,561	$5,273	$4,593	$5,000	$21,427	$19,000	$20,000
Restructuring & Other	$1,997	$365	$100	$0	$0	$465	$0	$0
Income from operations	($46,089)	($8,013)	($5,923)	($4,489)	($5,193)	($23,618)	($17,680)	($14,245)
Operating Margin	*-1928%*	*-1092%*	*-787%*	*-415%*	*-611%*	*-691%*	*-340%*	*-148%*
Other Expense	($958)	($54)	($11)	($2)	$0	($67)	$0	$0
Pre-Tax Income	($45,130)	($7,959)	($5,912)	($4,486)	($5,193)	($23,551)	($17,680)	($14,245)
Net Income	**($45,148)**	**($7,959)**	**($4,742)**	**($4,486)**	**($5,193)**	**($22,380)**	**($17,680)**	**($14,245)**
Net Margin	*-1889%*	*-1085%*	*-6.29722626*	*-415%*	*-611%*	*-655%*	*-340%*	*-148%*
Reported EPS	**($1.54)**	**($0.27)**	**($0.13)**	**($0.10)**	**($0.12)**	**($0.58)**	**($0.39)**	**($0.28)**
YOY Growth		*-43.5%*	*-68.6%*	*-72.0%*	*-59.7%*	*-62%*	*-32%*	*-27%*
Basic Shares Outstanding	29,380	29,774	36,659	44,031	44,700	38,791	45,000	50,000

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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HISTORICAL STOCK PRICE

electroCore – Share Price Chart[3]



[3] Source: Zacks Research System

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