

Nevro

NVRO 2024 revenue guide at 2-5%

Reiterate Rating: UNDERPERFORM | PO: 17.00 USD | Price: 16.59 USD

2024 revenue guide +2-5% y/y

Q4 revenue was in-line with the preannounced \$116m (+2% y/y). For the first time, NVRO gave 2024 guidance with revenue of \$435m-\$445m (+2-5% y/y) vs Street \$445m. Per NVRO, the SCS market grew LSD-MSDs in Q4 (ex ABT's replacement activity) and NVRO did not want to get ahead of itself for 2024. Guidance also incorporates having two new players in the SCS market. The 2024 guide assumes immaterial Vyrsa revenue in 2024 but NVRO continues to expect Vyrsa to be accretive to the top and bottom lines in 2024 with better traction in the 2H given NVRO is shifting this business from a mostly-distributor to direct model. Q1 rev guide is for \$97m-\$99m (+1-3% y/y) vs Street \$99m. Q1 adj EBITDA guide is for -\$15m to -\$16m, excluding a \$5m-\$6m charge related to the January restructuring. 2024 adj EBITDA guide is -\$8m to -\$14m, including a \$14m-\$15m benefit from the January restructuring.

Additional detail on 2024 guide

NVRO expects normal seasonality in 2024 with Q1 sales down -16% q/q, Q2 up q/q, Q3 flat to down q/q, and a strong Q4. By geography, NVRO expects equal growth globally. By segment, NVRO believes the SCS market grew LSD-MSDs underlying in Q4 and noted the PDN market has been flattish to up LSDs for a couple of quarters. NVRO expects 2024 gross margin to be flat vs 2023 at 68%. NVRO expects 2024 opex of \$390m-\$392m or largely flat vs 2023, including Q1 opex of ~\$105m. Q1 will be the highest opex quarter, given typical seasonality as well as severance, restructuring, and Vyrsa training loaded in the 1H. In R&D, NVRO continues to work on developing new revenue streams that are close to home and that will leverage its sales force, and on expanding into new indications for SCS. We reiterate our Underperform as we think sustainable profits will be difficult to achieve and diversifying away from SCS will take time. We update our model for Q4 results.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.08	(2.56)	(2.45)	(2.07)	(1.51)
EPS Change (YoY)	NM	NM	4.3%	15.5%	27.1%
Consensus EPS (Bloomberg)			(2.47)	(2.03)	(1.75)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	207.4x	NM	NM	NM	NM
EV / EBITDA*	NM	NM	NM	NM	64.7x
Free Cash Flow Yield*	2.8%	-10.4%	-6.4%	-2.3%	-0.3%

* For full definitions of *IQmethod*SM measures, see page 4.

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	443.9	440.0
2025E Rev (m)	473.2	468.5
2026E Rev (m)	509.0	509.9
2024E EPS	-2.36	-2.45
2025E EPS	-1.98	-2.07
2026E EPS	-1.39	-1.51

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Stock Data

Price	16.59 USD
Price Objective	17.00 USD
Date Established	18-Oct-2023
Investment Opinion	C-3-9
52-Week Range	13.98 USD - 39.68 USD
Mrkt Val (mn) / Shares Out (mn)	603 USD / 36.4
Free Float	96.2%
Average Daily Value (mn)	8.25 USD
BofA Ticker / Exchange	NVRO / NYS
Bloomberg / Reuters	NVRO US / NVRO.N
ROE (2024E)	-31.9%
Net Dbt to Eqty (Dec-2023A)	44.1%
ESGMeter TM	Medium

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Acronym glossary on pg. 2

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Timestamp: 22 February 2024 07:25AM EST

iQprofileSM Nevro

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.4%	-15.7%	-16.8%	-14.8%	-10.9%
Return on Equity	0.9%	-29.9%	-31.9%	-29.0%	-21.4%
Operating Margin	1.5%	-23.4%	-20.9%	-16.7%	-11.4%
Free Cash Flow	17	(63)	(38)	(14)	(2)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	8.7x	NM	NM	NM	NM
Asset Replacement Ratio	0.7x	1.3x	0.6x	0.6x	0.7x
Tax Rate	29.6%	5.8%	NM	NM	NM
Net Debt-to-Equity Ratio	20.5%	44.1%	51.7%	48.0%	47.3%
Interest Cover	1.0x	-20.5x	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	406	425	440	468	510
% Change	5.0%	4.6%	3.5%	6.5%	8.9%
Gross Profit	276	290	299	323	357
% Change	3.9%	5.0%	3.1%	8.1%	10.4%
EBITDA	(24)	(18)	(11)	(8)	12
% Change	-38.4%	25.6%	37.2%	23.9%	NM
Net Interest & Other Income	(2)	1	3	3	3
Net Income (Adjusted)	3	(92)	(89)	(75)	(55)
% Change	NM	NM	3.5%	15.5%	27.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3	(92)	(89)	(75)	(55)
Depreciation & Amortization	10	7	14	14	15
Change in Working Capital	(49)	(28)	(17)	(6)	(14)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	60	60	62	62	62
Capital Expenditure	(8)	(9)	(8)	(9)	(10)
Free Cash Flow	17	-63	-38	-14	-2
% Change	NM	NM	38.7%	63.8%	87.6%
Share / Issue Repurchase	6	5	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	120	59	51	67	65
Trade Receivables	79	77	82	87	95
Other Current Assets	364	389	375	347	355
Property, Plant & Equipment	22	28	22	17	12
Other Non-Current Assets	17	16	16	16	16
Total Assets	602	568	546	533	542
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	79	80	84	84	86
Long-Term Debt	187	188	188	188	188
Other Non-Current Liabilities	12	8	8	8	8
Total Liabilities	279	276	280	281	282
Total Equity	324	292	265	253	260
Total Equity & Liabilities	602	568	546	533	542

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

NVRO is a pure-play neuromodulation company focused on the treatment of chronic pain. NVRO has developed the Senza system, a Spinal Cord Stimulation (SCS) system using NVRO's proprietary high frequency therapy (HF10). Traditionally used for lower back/leg pain, NVRO's SCS technology recently received approval for treating painful diabetic neuropathy (PDN).

Investment Rationale

We do not see material upside to estimates and prefer to own higher growth names in medtech in markets that are either less competitive or appear more resilient. We anticipate more difficult share gains for the company moving forward, and believe the PDN opportunity will be slow to develop and ultimately be shared by at least 3 other competitors.

Acronym glossary

SCS = spinal cord stimulation

LSD = low single digit

MSD = mid single digit

PDN = painful diabetic neuropathy

opex = operating expense

R&D = research and development

adj = adjusted

Stock Data

Average Daily Volume 497,552

Quarterly Earnings Estimates

	2023	2024
Q1	-0.98A	-1.03E
Q2	-0.69A	-0.66E
Q3	-0.65A	-0.63E
Q4	-0.25A	-0.13E

Price objective basis & risk

Nevro (NVRO)

Our PO of \$17 is based on a 1.0x 2025 EV/Sales multiple, which represents the low end of the historical 1-5x EV/Sales range smid cap medtech has historically traded at since sustainable profitability seems far out and there's uncertainty with underlying market growth/share. Upside risks are a material acceleration in the SCS market, a setback at a competitor that helps NVRO, strategic activity, or a material inflection in PDN. Downside risks are a slowdown in the core SCS business or SCS market, a failure to expand the market for PDN, or new competitive entrants that take market share.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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Nevro (NVRO) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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