

Procept BioRobotics Corporation

Prelim Q4 revenue beats Street on strong utilization

Reiterate Rating: BUY | PO: 52.00 USD | Price: 42.21 USD

Q4 rev 6% ahead of Street; systems & handpieces beat

Procept BioRobotics (PRCT) announced preliminary Q4 revenue of \$43.3-43.6m (+82% y/y), which beat the Street by 6%. Systems beat the Street by 2 (44 vs 42). Handpieces beat the Street by 7% (~6,400 vs 6,006). Utilization was 7.3 vs the Street's 6.7. PRCT did not provide 2024 guidance, but we did not expect it. Management appears confident with current 2024 Street estimates, and we still think an inline revenue guide to start the year (like 2023) is likely. We believe the strong Q4 results should be enough to give investors confidence that PRCT can beat and raise throughout 2024. We tweak our estimates for the preliminary Q4 results. We reiterate our Buy and \$52 PO as we see upside to 2024 estimates on increased Aquablation adoption.

Utilization up 14% over 4Q22

Handpieces sold were ~6,400, +116% y/y and up 31% over last quarter. Utilization (handpieces per system per month) was 7.3 in Q4, up 14% y/y and sequentially, demonstrating PRCT's increasing adoption. Handpiece ASP in Q4 was stable at more than \$3,100 per handpiece. For the full year 2023, utilization was 6.6, up 14% over 2022 and 10% higher than the initial guide of 6. For 2024, the Street is only modeling 3% utilization growth (6.8 vs 6.6) which we think looks conservative given this year's growth and the company's momentum over the last several quarters.

Systems beat expectations (44 vs 42); ASP \$375k

The 44 system sales this quarter beat the Street by 2 and were 16 more than 4Q22. Importantly, the system ramp in 2023 was as management expected to start the year with a seasonally stronger Q2 and Q4. This suggests to us that PRCT likely has better visibility into its sales funnel than what they get credit for. Q4 system ASP was \$375k (highest of the year), however, this will continue to vary from quarter to quarter. Looking ahead to 2024, PRCT expects similar seasonality and system sales should again track to a 45/55% split between 1H and 2H. Management seems comfortable with the 184 system sales in 2024 that the Street currently models. We think consensus system sales seems reasonable given the 2023 ramp and the capital sales rep adds.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(3.63)	(1.96)	(2.12)	(1.98)	(1.59)
EPS Change (YoY)	74.8%	46.0%	-8.2%	6.6%	19.7%
Consensus EPS (Bloomberg)			(2.13)	(1.85)	(1.14)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-2,717.6%	-3,895.5%	-5,918.7%	-4,868.2%	-3,593.2%

* For full definitions of *IQmethod*SM measures, see page 5.

08 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	133,525.5	136,073.2
2024E Rev (m)	202,777.6	203,639.0
2025E Rev (m)	296,538.6	296,539.0

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Stock Data

Price	42.21 USD
Price Objective	52.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-1-9
52-Week Range	24.83 USD - 43.90 USD
Mkt Val (mn) / Shares Out (mn)	2,132 USD / 50.5
Free Float	85.9%
Average Daily Value (mn)	20.42 USD
BofA Ticker / Exchange	PRCT / NAS
Bloomberg / Reuters	PRCT US / PRCT.OQ
ROE (2023E)	-41.4%
Net Dbt to Eqty (Dec-2022A)	-87.0%
ESGMeter™	NLA

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Glossary

ASP – average selling price

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Timestamp: 08 January 2024 10:17PM EST

iQprofileSM Procept BioRobotics Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-22.2%	-24.4%	-28.1%	-26.9%	-25.9%
Return on Equity	-141.3%	-37.5%	-41.4%	-39.6%	-40.8%
Operating Margin	-155.8%	-107.6%	-75.0%	-50.4%	-28.0%
Free Cash Flow	(57,926)	(83,035)	(126,160)	(103,768)	(76,590)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.2x	0.9x	5.5x	3.3x	2.7x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-95.2%	-87.0%	-73.6%	-49.3%	-16.7%
Interest Cover	-9.5x	-12.7x	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	34,518	75,014	136,073	203,639	296,539
% Change	347.2%	117.3%	81.4%	49.7%	45.6%
Gross Profit	15,934	37,085	74,351	121,627	192,750
% Change	NM	132.7%	100.5%	63.6%	58.5%
EBITDA	(46,561)	(69,950)	(75,486)	(60,744)	(28,237)
% Change	-9.2%	-50.2%	-7.9%	19.5%	53.5%
Net Interest & Other Income	(5,689)	(6,371)	2,207	3,948	3,948
Net Income (Adjusted)	(59,488)	(87,095)	(99,788)	(98,763)	(79,083)
% Change	-12.6%	-46.4%	-14.6%	1.0%	19.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(59,459)	(87,095)	(99,788)	(98,763)	(79,083)
Depreciation & Amortization	3,324	2,841	3,794	6,109	8,896
Change in Working Capital	(4,707)	(11,487)	(31,272)	(19,260)	(21,230)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3,508	15,359	21,944	28,509	38,550
Capital Expenditure	(592)	(2,653)	(20,837)	(20,364)	(23,723)
Free Cash Flow	-57,926	-83,035	-126,160	-103,768	-76,590
% Change	-19.2%	-43.3%	-51.9%	17.7%	26.2%
Share / Issue Repurchase	262,116	6,417	164,929	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	0	(2,805)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	304,320	222,636	260,628	156,861	80,271
Trade Receivables	4,464	15,272	38,100	44,801	59,308
Other Current Assets	17,389	34,718	51,672	63,490	79,324
Property, Plant & Equipment	5,045	8,656	30,143	44,678	59,785
Other Non-Current Assets	5,806	28,047	26,132	25,852	25,572
Total Assets	337,024	309,329	406,676	335,681	304,260
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	16,242	35,290	41,709	40,967	50,079
Long-Term Debt	50,004	51,213	51,307	51,307	51,307
Other Non-Current Liabilities	3,687	25,754	29,106	29,106	29,106
Total Liabilities	69,933	112,257	122,122	121,380	130,492
Total Equity	267,091	197,072	284,554	214,301	173,768
Total Equity & Liabilities	337,024	309,329	406,676	335,681	304,260

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Medical Technology

Company Description

Procept BioRobotics (PRCT) is the first and only company to commercialize an image guided robotic treatment for BPH (benign prostate hyperplasia) or an enlarged prostate.

Procept's AquaBeam Robotic system and its Aquablation therapy combines multi-dimensional imaging, personalized treatment planning, automated robotics and heat free waterjet ablation for targeted removal of prostate tissue.

Investment Rationale

PRCT offers the only robotic treatment for BPH or enlarged prostate. PRCT's Aquablation therapy address the limitations of the existing surgical alternatives for BPH. BPH represents a significant market opportunity as it is estimated that 40 million men in the US have BPH and 12 million men are currently under the physician care for BPH symptoms. Surgical interventions for BPH have been limited as men have been unwilling to risk potential irreversible side effects to have a procedure.

Stock Data

Average Daily Volume 483,679

Quarterly Earnings Estimates

	2022	2023
Q1	-0.39A	-0.63A
Q2	-0.43A	-0.56A
Q3	-0.51A	-0.51A
Q4	-0.63A	-0.43E



Price objective basis & risk

Procept BioRobotics Corporation (PRCT)

Our \$52 PO is based on 8x our 2025 sales estimate which is above the high end of historical SMID cap medtech multiples of 1-7x. We think a premium multiple is warranted given PRCT's growth trajectory, TAM expansion opportunities, operating leverage and robust cash position.

Downside risks to our PO are slower than expected robot placements or surgeon adoption of Aquablation, reimbursement changes or inability to gain coverage from additional commercial payers.

Upside risks to our PO are faster than expected robot placements or surgeon adoption, earlier than expected positive commercial coverage decisions or favorable reimbursement decisions.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

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BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	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
	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

US - Medical Technology & Devices Coverage Cluster

Investment rating

Company

BofA Ticker

Bloomberg symbol

Analyst

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Procept BioRobotics (PRCT) 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%

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