

Inari Medical

Closer look at VTE market model post the NARI 21% stock move

Reiterate Rating: BUY | PO: 68.00 USD | Price: 46.12 USD

Why NARI down 21% despite already preA and guiding

NARI sold off 21% (SPX +0.5%) post its Q4 call. We think about 50% of the stock move was due to more detailed revenue reporting, about 25% due to the DOJ investigation, and 25% smaller things that added up (Q1 guide vs strong Jan comments, peerless data not until 2H24, general investor frustration with surprises).

Why the revenue breakout mattered so much

The revenue breakout (especially seeing Q4 US core at mid-teens) caused some investors to change their view on 2024 as it looked like the 2024 guide left less cushion for share loss. We scrub our VTE market model (see inside) to see what's required from a market growth and share perspective to hit 2024. The quick answer is NARI needs to roughly hold 2024 VTE share stable with Q4 share (or see more upside from non-core).

Looks like NARI assuming 2024 share stable with Q423

We estimate the US VTE market grew 27% in 2023 and NARI lost 6 points of share (73% share in Q123 and 67% in Q423). When we take Penumbra and NARI's view it looks like the companies are expecting 20% US market growth in 2024. It looks like NARI is assuming around mid-teens US growth implying 2024 share is roughly stable with where share ended in Q423. Globally we estimate the market grew 30% in 2023 and the companies are expecting 22% growth in 2024 with share stable vs Q4 levels.

24 guide implies WW core at 16-19% & US at 13-17%

NARI's 2024 guidance is 17.5%-20.5% total revenue growth. We estimate the 2024 guide implies WW core VTE at roughly 16-19% and US core VTE at roughly 13-17%. We assume international revenue goes to \$37m in 2024 from \$24m in 2023. We assume Emerging Therapies goes to \$30 in 2024 from \$17m in 2023 (includes roughly \$4-5m from LimFlow). LimFlow revenue in 2023 was de minimis.

PEERLESS data expected 2H24; enrollment complete

PEERLESS completed enrollment and NARI said it would target releasing data in the back half of 2024. There are a few reasons why it takes this long before we see the data post enrollment. There is the 30-day patient follow up along with preparing the data for presentation. NARI also said it wants to maximize the clinical impact of the data readout and there are only a limited number of meetings to target. We update our NARI model for Q4 EPS and reiterate our Buy rating as NARI's valuation is attractive for a mid-teens revenue growth company close to profitability.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.55)	0.13	0.08	0.85	1.67
EPS Change (YoY)	NM	NM	-38.5%	962.5%	96.5%
Consensus EPS (Bloomberg)			(0.38)	0.20	0.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	354.8x	576.5x	54.3x	27.6x
EV / EBITDA*	NM	NM	NM	83.4x	31.7x
Free Cash Flow Yield*	-0.9%	1.1%	0.6%	0.7%	2.6%

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

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Timestamp: 01 March 2024 06:22AM EST

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	584.1	585.4
2025E Rev (m)	683.9	690.6
2026E Rev (m)	792.3	807.3
2024E EPS	-0.07	0.08
2025E EPS	0.67	0.85
2026E EPS	1.47	1.67

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Stock Data

Price	46.12 USD
Price Objective	68.00 USD
Date Established	3-Nov-2023
Investment Opinion	C-1-9
52-Week Range	45.18 USD - 71.85 USD
Mkt Val (mn) / Shares Out (mn)	2,673 USD / 58.0
Free Float	84.6%
Average Daily Value (mn)	35.35 USD
BofA Ticker / Exchange	NARI / NAS
Bloomberg / Reuters	NARI US / NARI.OQ
ROE (2024E)	1.0%
Net Dbt to Eqty (Dec-2023A)	-8.3%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

NARI = Inari Medical

VTE = Venous Thromboembolism

WW = Worldwide

US = United States

iQprofileSM Inari Medical

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-6.6%	1.4%	0.8%	7.7%	13.5%
Return on Equity	-8.9%	1.7%	1.0%	9.8%	16.7%
Operating Margin	-7.3%	-1.0%	-3.1%	4.5%	10.5%
Free Cash Flow	(24)	31	16	17	70

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	4.8x	5.2x	0.6x	0.9x
Asset Replacement Ratio	1.4x	0.4x	4.4x	5.2x	6.1x
Tax Rate	NM	44.5%	26.7%	12.0%	12.0%
Net Debt-to-Equity Ratio	-14.4%	-8.3%	-11.5%	-13.7%	-22.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	383	494	585	691	807
% Change	38.4%	28.7%	18.6%	18.0%	16.9%
Gross Profit	339	435	512	587	686
% Change	34.4%	28.2%	17.8%	14.6%	16.9%
EBITDA	(23)	2	(16)	33	87
% Change	NM	NM	NM	NM	162.6%
Net Interest & Other Income	2	18	24	24	24
Net Income (Adjusted)	(29)	7	5	49	96
% Change	NM	NM	-34.9%	921.8%	96.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(29)	7	5	49	96
Depreciation & Amortization	7	11	2	2	2
Change in Working Capital	(21)	3	14	(27)	(20)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	30	15	4	4	4
Capital Expenditure	(10)	(5)	(9)	(10)	(12)
Free Cash Flow	-24	31	16	17	70
% Change	NM	NM	-47.5%	8.8%	301.6%
Share / Issue Repurchase	3	1	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	60	39	55	72	142
Trade Receivables	59	70	52	61	72
Other Current Assets	304	127	132	156	168
Property, Plant & Equipment	22	21	28	36	46
Other Non-Current Assets	60	418	418	418	418
Total Assets	504	674	684	743	846
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	56	76	78	83	86
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	31	133	133	133	133
Total Liabilities	87	209	211	216	219
Total Equity	417	465	474	527	627
Total Equity & Liabilities	504	674	684	743	846

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

Company Sector

Medical Technology

Company Description

Inari Medical is a commercial-stage medical device company focused on developing products to remove large blood clots from patients with pulmonary embolisms and deep vein thromboses. NARI offers two primary products, the ClotTrier (for clots in the leg) and the FlowTrier (for clots in the pulmonary veins). Inari is the only solution on the market today that can effectively and consistently remove large clot burden in one procedure without the need for high risk thrombolytic drug therapy.

Investment Rationale

NARI sells an elegant, easy to use venous clot removal technology that can remove large blood clots from the pulmonary veins and ilio-femoral veins of the leg. Blood clots are a significant problem globally, with 10 million cases per year, 1 million+ of which are in the United States alone. We are positive on NARI's high growth potential in a large, underpenetrated market.

Stock Data

Average Daily Volume 766,544

Quarterly Earnings Estimates

	2023	2024
Q1	-0.04A	0.01E
Q2	0.04A	-0.08E
Q3	0.05A	0.03E
Q4	0.07A	0.12E

VTE Market Model

Exhibit 1: Worldwide and US VTE Market Model

We estimate the US VTE market grew 27% in 2023 and NARI lost 6 points of share (73% share in Q123 and 67% in Q423). When we take Penumbra and NARI's view it looks like the companies are expecting 20% US market growth in 2024. It looks like NARI is assuming around mid-teens US growth implying 2024 share is roughly stable with where share ended in Q423. Globally we estimate the market grew 30% in 2023 and the companies are expecting 22% growth in 2024 with share stable vs Q4 levels.

Worldwide VTE:	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	2024E
Inari Medical VTE Revenue	\$277.0	\$381.4	\$114.1	\$114.1	\$121.5	\$126.7	\$476.3	\$559.6
y/y growth (%)		38%	31%	23%	27%	20%	25%	18%
q/q growth (%)			8%	0%	6%	4%		
Penumbra VTE Revenue*	\$134.8	\$173.1	\$51.2	\$55.3	\$66.5	\$73.4	\$246.3	\$322.7
y/y growth (%)		28%	17%	31%	57%	64%	42%	31%
q/q growth (%)			15%	8%	20%	10%		
Total VTE Market	\$411.8	\$554.5	\$165.3	\$169.4	\$187.9	\$200.0	\$722.6	\$882.3
y/y growth (%)		35%	27%	25%	36%	33%	30%	22%
q/q growth (%)			10%	2%	11%	6%		
<u>Worldwide Market Share:</u>								
Inari Medical	67%	69%	69%	67%	65%	63%	66%	63%
Penumbra	33%	31%	31%	33%	35%	37%	34%	37%
United States VTE:	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	2024E
Inari Medical US VTE Revenue	\$277.0	\$372.0	\$109.7	\$108.9	\$114.9	\$119.0	\$452.5	\$520.4
y/y growth (%)		34%	29%	20%	23%	16%	22%	15%
q/q growth (%)			7%	-1%	6%	4%		
Penumbra US VTE Revenue*	\$107.8	\$138.5	\$41.0	\$44.2	\$53.2	\$58.7	\$197.1	\$258.1
y/y growth (%)		28%	17%	31%	57%	64%	42%	31%
q/q growth (%)			15%	8%	20%	10%		
Total US VTE Market	\$384.8	\$510.5	\$150.7	\$153.1	\$168.1	\$177.7	\$649.6	\$778.5
y/y growth (%)		33%	26%	23%	32%	28%	27%	20%
q/q growth (%)			9%	2%	10%	6%		
<u>US Market Share:</u>								
Inari Medical	72%	73%	73%	71%	68%	67%	70%	67%
Penumbra	28%	27%	27%	29%	32%	33%	30%	33%

Source: Company financials, BofA Global Research. *Assumes VTE is 55% of PEN's Vascular Thrombectomy Rev and the remainder is arterial/coronary. Also assumes PEN US VTE business is ~80% of the vascular thrombectomy revenue.

BofA GLOBAL RESEARCH

Price objective basis & risk

Inari Medical (NARI)

Our \$68 PO (derived using 5x EV/2025E sales) is based on NARI's high growth potential in a large, underpenetrated market where NARI offers among the safest and most effective alternatives for acute pulmonary embolisms and deep vein thrombosis. The EV/sales multiple we apply is in line with NARI's peers. We believe NARI should trade in line with high growth peers as its market opportunity, growth outlook and margin outlook are similar to those companies'.

Upside risks are if NARI can generate meaningful international sales, significantly beat Street expectations and become consistently profitable quicker than expected. Downside risks to our PO are a failure to meaningfully convert pulmonologists and develop the market, increased competition from new and existing players, and covid.

Analyst Certification

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	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

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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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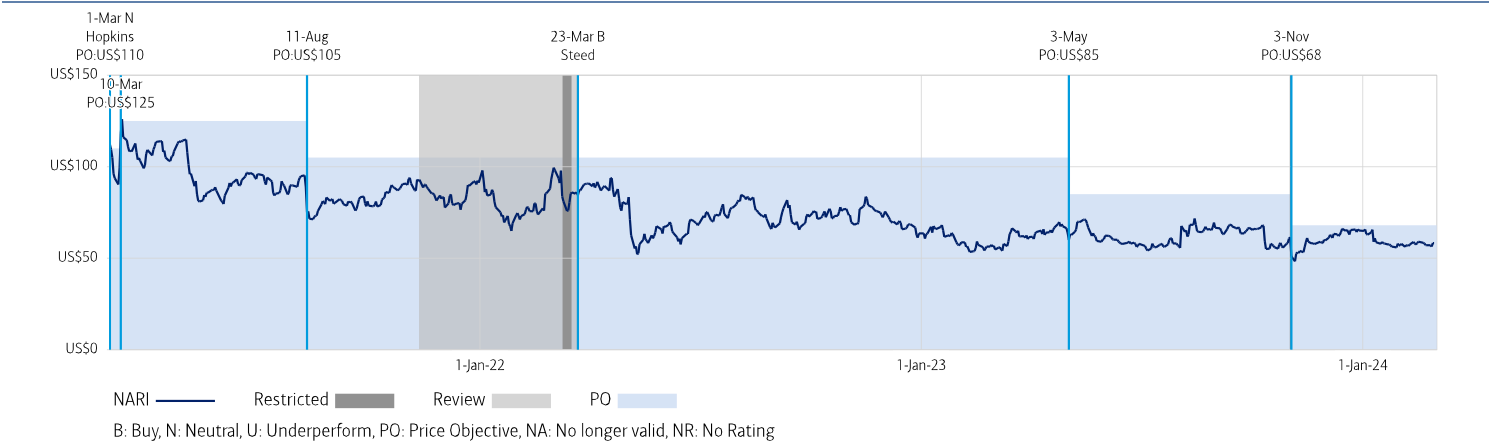
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Inari Medical (NARI) Price Chart



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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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