

Procept BioRobotics Corporation

FY24 rev guide beats Street – we still see upside opportunity

Reiterate Rating: BUY | PO: 55.00 USD | Price: 50.75 USD

Q4 rev at top of prelim range; FY24 rev guide 2% ahead

Q4 revenue of \$43.6m (+83% y/y) was at the high end its preannounced range of (\$43.3-43.6m). Procept BioRobotics (PRCT) guided 2024 revenue of ~\$210m, 2% ahead of the Street. Despite the higher guide, we still see plenty of upside given the modest utilization growth implied in the guide. The higher opex and lower GM guides are likely driving the after-hours pressure on the stock, but we think those concerns are overblown as we expect incremental operating leverage with revenue upside. We reiterate our Buy and raise our PO to \$55 (from \$52) which is based on 9x our 2025 sales estimate (8x prior) as peer multiples have increased.

Focus on impressive utilization momentum

There were more than 18,500 handpieces sold in 2023, up 119% over the prior year. FY23 utilization was 6.6 handpieces per system per month, 13% growth over 2022 and 10% higher than the initial 6.0 initial guide. Q4 utilization was 7.3. Utilization in older accounts continues to increase and new accounts are ramping at a faster pace than a year ago. The 7.0 utilization (only 6% y/y growth) implied by the 2024 revenue guide looks conservative given the speed of doc adoption. Importantly, PRCT said urologists are starting to see men who failed drug treatment for BPH seek out Aquablation.

Opex guide higher than Street on incremental R&D spend

PRCT's operating expense guide of \$231.5m was ~5% higher than Street expectations primarily driven by higher R&D spend. The opex guide was above the Street but we believe reflects a conservative approach by management to contemplate full expenses necessary for 2024. Q4 GM of 49% was lower than expected driven largely by a \$2.5m (~600bps) extra cost resulting from moving to a new facility. The 2024 GM guide of 57-59% missed Street expectations (~59%). Q1 GM should be 53-55% and then improve sequentially, exiting the year over 60%.

Q1 seasonality should not be a surprise

PRCT expects to see typical seasonality in 2024 for both systems and utilization with Q1 the low point and Q4 the strongest. System cadence this year should be similar to 2023 with ~45% of system placements in 1H. We model only 35 systems in Q1, 48 in Q2, 46 in Q3 and 55 in Q4. Q1 utilization is expected to step down sequentially compared to Q4, but then increase each quarter throughout the year. We model 6.6 utilization in Q1 but 7.0 for the full year. We update our model for the quarter results.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.96)	(2.24)	(2.02)	(1.58)	(1.24)
EPS Change (YoY)	46.0%	-14.3%	9.8%	21.8%	21.5%
Consensus EPS (Bloomberg)			(1.89)	(1.26)	(0.96)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	NM	NM	-15.4x
Free Cash Flow Yield*	-3,240.0%	-5,325.9%	-3,768.5%	-2,487.4%	-1,388.1%

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

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Timestamp: 28 February 2024 02:00AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	52.00	55.00
2024E Rev (m)	203,639.0	210,295.8
2025E Rev (m)	296,539.0	294,048.4
2026E Rev (m)	385,528.1	394,186.6
2024E EPS	-1.98	-2.02
2025E EPS	-1.59	-1.58

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Stock Data

Price	50.75 USD
Price Objective	55.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	24.83 USD - 51.90 USD
Mrkt Val (mn) / Shares Out (mn)	2,563 USD / 50.5
Free Float	85.9%
Average Daily Value (mn)	21.78 USD
BoFA Ticker / Exchange	PRCT / NAS
Bloomberg / Reuters	PRCT US / PRCT.OQ
ROE (2024E)	-42.5%
Net Dbt to Eqty (Dec-2023A)	-71.9%
ESGMeter TM	NLA

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BPH = benign prostatic hyperplasia

iQprofileSM Procept BioRobotics Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-24.4%	-30.2%	-28.6%	-27.3%	-24.0%
Return on Equity	-37.5%	-44.7%	-42.5%	-43.7%	-40.6%
Operating Margin	-107.6%	-80.2%	-52.5%	-30.0%	-18.0%
Free Cash Flow	(83,035)	(136,492)	(96,580)	(63,747)	(35,574)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.9x	5.5x	1.3x	1.3x	1.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-87.0%	-71.9%	-50.2%	-23.8%	-2.1%
Interest Cover	-12.7x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	75,014	136,191	210,296	294,048	394,187
% Change	117.3%	81.6%	54.4%	39.8%	34.1%
Gross Profit	37,085	71,049	121,784	185,251	256,221
% Change	132.7%	91.6%	71.4%	52.1%	38.3%
EBITDA	(69,950)	(85,673)	(58,152)	(24,743)	4,598
% Change	-50.2%	-22.5%	32.1%	57.5%	NM
Net Interest & Other Income	(6,371)	3,273	8,212	8,212	8,212
Net Income (Adjusted)	(87,095)	(105,895)	(102,114)	(80,003)	(62,742)
% Change	-46.4%	-21.6%	3.6%	21.7%	21.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(87,095)	(105,895)	(102,114)	(80,003)	(62,742)
Depreciation & Amortization	2,841	3,807	6,309	8,821	11,826
Change in Working Capital	(11,487)	(33,885)	(21,804)	(19,030)	(16,193)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	15,359	20,330	29,441	38,226	47,302
Capital Expenditure	(2,653)	(20,849)	(8,412)	(11,762)	(15,767)
Free Cash Flow	-83,035	-136,492	-96,580	-63,747	-35,574
% Change	-43.3%	-64.4%	29.2%	34.0%	44.2%
Share / Issue Repurchase	6,417	164,929	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	(2,805)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	222,636	250,296	153,716	89,969	54,395
Trade Receivables	15,272	38,133	46,265	58,810	70,954
Other Current Assets	34,718	54,275	68,048	82,481	98,547
Property, Plant & Equipment	8,656	30,142	32,525	35,746	39,967
Other Non-Current Assets	28,047	26,132	25,852	25,572	25,292
Total Assets	309,329	398,978	326,406	292,577	289,154
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	35,290	41,732	41,832	49,780	61,796
Long-Term Debt	51,213	51,307	51,307	51,307	51,307
Other Non-Current Liabilities	25,754	29,106	29,106	29,106	29,106
Total Liabilities	112,257	122,145	122,245	130,193	142,209
Total Equity	197,072	276,833	204,160	162,384	146,945
Total Equity & Liabilities	309,329	398,978	326,406	292,577	289,154

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

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 429,203

Quarterly Earnings Estimates

	2023	2024
Q1	-0.63A	-0.49E
Q2	-0.56A	-0.49E
Q3	-0.51A	-0.52E
Q4	-0.54A	-0.52E

Price objective basis & risk

Procept BioRobotics Corporation (PRCT)

Our \$55 PO is based on 9x 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

I, Craig Bijou, 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



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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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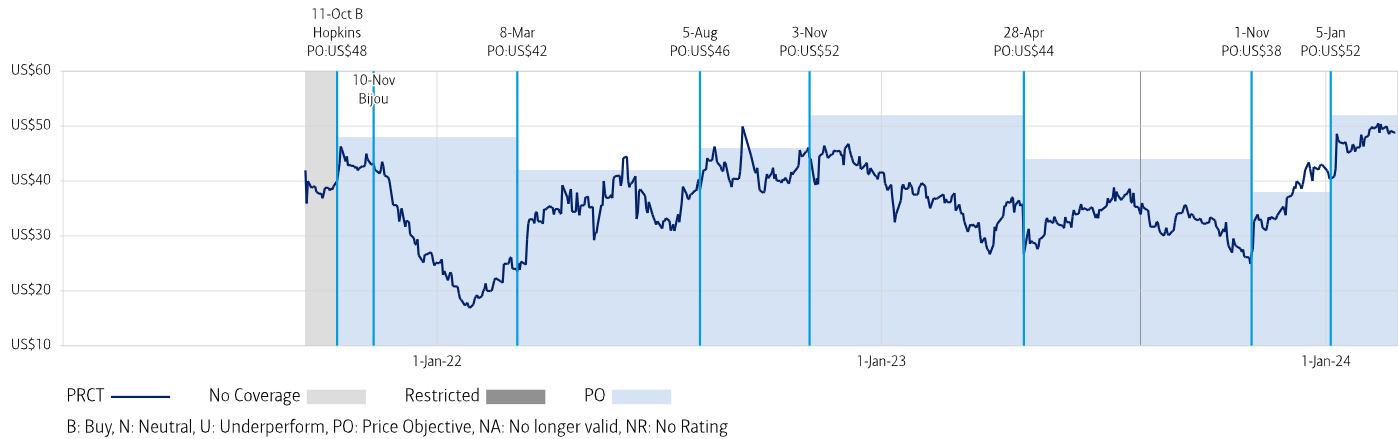
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Procept BioRobotics (PRCT) Price Chart



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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%

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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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