

NEVRO CORP
Form 10-Q
November 06, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-36715

Nevro Corp.

(Exact name of registrant as specified in its charter)

Delaware 56-2568057
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1800 Bridge Parkway

Redwood City, CA

(Address of principal executive offices)

94065

(Zip Code)

(650) 251-0005

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2017 there were 29,628,207 shares of the registrant’s common stock, par value \$0.001 per share, outstanding.

Nevro Corp.

TABLE OF CONTENTS

	Page
<u>PART I—FINANCIAL INFORMATION</u>	3
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31
<u>PART II—OTHER INFORMATION</u>	31
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
<u>Item 3. Defaults Upon Senior Securities</u>	61
<u>Item 4. Mine Safety Disclosures</u>	61
<u>Item 5. Other Information</u>	61
<u>Item 6. Exhibits</u>	62
<u>SIGNATURES</u>	64

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Nevro Corp.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share data)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 44,042	\$ 41,406
Short-term investments	227,312	234,951
Accounts receivable, net of allowance for doubtful accounts of \$952 and \$1,008 at		
September 30, 2017 and December 31, 2016, respectively	53,409	52,818
Inventories	95,575	85,221
Prepaid expenses and other current assets	6,259	5,895
Total current assets	426,597	420,291
Property and equipment, net	7,187	7,132
Other assets	3,346	2,354
Restricted cash	806	806
Total assets	\$ 437,936	\$ 430,583
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 17,800	\$ 16,162
Accrued liabilities	30,696	26,028
Other current liabilities	110	8
Total current liabilities	48,606	42,198
Long-term debt	143,260	138,140
Other long-term liabilities	1,831	1,211
Total liabilities	193,697	181,549
Commitments and contingencies (Note 5)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized at September 30, 2017		
and December 31, 2016; zero shares issued and outstanding at September 30, 2017		
and December 31, 2016	—	—
Common stock, \$0.001 par value, 290,000,000 shares authorized at September 30,	30	29

2017 and December 31, 2016; 29,603,852 and 28,886,862 shares issued and

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outstanding at September 30, 2017 and December 31, 2016, respectively

Additional paid-in capital	498,354	470,869
Accumulated other comprehensive loss	(612)	(678)
Accumulated deficit	(253,533)	(221,186)
Total stockholders' equity	244,239	249,034
Total liabilities and stockholders' equity	\$ 437,936	\$ 430,583

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevro Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited)

(in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$82,256	\$60,922	\$228,711	\$157,973
Cost of revenue	24,316	19,235	70,530	53,741
Gross profit	57,940	41,687	158,181	104,232
Operating expenses				
Research and development	9,381	7,923	27,617	22,453
Sales, general and administrative	52,977	35,636	157,971	98,591
Total operating expenses	62,358	43,559	185,588	121,044
Loss from operations	(4,418)	(1,872)	(27,407)	(16,812)
Interest income	808	556	2,264	1,066
Interest expense	(2,497)	(2,381)	(7,386)	(3,995)
Other income (expense), net	251	259	1,198	96
Loss on extinguishment of debt	—	—	—	(1,268)
Loss before income taxes	(5,856)	(3,438)	(31,331)	(20,913)
Provision for income taxes	374	448	1,016	1,040
Net loss	(6,230)	(3,886)	(32,347)	(21,953)
Other comprehensive loss:				
Changes in foreign currency translation adjustment	165	(100)	(41)	(446)
Changes in unrealized gains on short-term investments, net	13	(507)	107	(296)
Net change in other comprehensive loss	178	(607)	66	(742)
Comprehensive loss	\$(6,052)	\$(4,493)	\$(32,281)	\$(22,695)
Net loss per share, basic and diluted	\$(0.21)	\$(0.14)	\$(1.10)	\$(0.77)
Weighted average number of common shares used to				

compute basic and diluted net loss per share	29,513,842	28,542,760	29,342,883	28,373,430
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevro Corp.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$(32,347)	\$(21,953)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,774	1,234
Stock-based compensation expense	18,867	10,428
Accretion of discount on short-term investments	(168)	(148)
Non-cash loss on extinguishment of debt	—	1,156
Payment of original issue discount	—	(1,500)
Provision for doubtful accounts	(85)	562
Write-down of inventory	3,675	2,759
Non-cash interest expense	5,120	2,037
Unrealized (gains) losses on foreign currency transactions	(1,074)	939
Changes in operating assets and liabilities		
Accounts receivable	288	(19,249)
Inventories	(13,399)	(13,997)
Prepaid expenses and other current assets	(296)	(2,837)
Other assets	(988)	(557)
Accounts payable	1,791	(8,928)
Accrued liabilities	4,392	6,583
Other long-term liabilities	620	610
Net cash used in operating activities	(11,830)	(42,861)
Cash flows from investing activities		
Purchases of short-term investments	(206,891)	(266,839)
Proceeds from sales of short-term investments	5,993	—
Proceeds from maturity of short-term investments	208,811	128,100
Purchases of property and equipment	(2,475)	(2,414)
Net cash provided by (used in) investing activities	5,438	(141,153)
Cash flows from financing activities		
Proceeds from issuance of convertible notes	—	172,500
Convertible notes initial issuance discount and debt issuance costs	—	(6,171)
Proceeds from issuance of warrants	—	33,120
Purchase of convertible note hedges	—	(45,092)
Repayment of debt	—	(19,500)
Minimum tax withholding paid on behalf of employees for net share settlement	(732)	—
Proceeds from issuance of common stock to employees	9,337	5,234
Net cash provided by financing activities	8,605	140,091
Effect of exchange rate changes on cash and cash equivalents	423	(380)
Net increase (decrease) in cash and cash equivalents	2,636	(44,303)

Cash and cash equivalents		
Cash and cash equivalents at beginning of period	41,406	87,036
Cash and cash equivalents at end of period	\$44,042	\$42,733
Significant non-cash transactions		
Purchases of property and equipment in accounts payable	\$79	\$1,385
Vesting of early-exercised stock options	\$7	\$40

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevro Corp.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Formation and Business of the Company

Nevro Corp. (the Company) was incorporated in Minnesota on March 10, 2006 to manufacture and market innovative active implantable medical devices for the treatment of neurological disorders initially focusing on the treatment of chronic pain. Subsequently, the Company was reincorporated in Delaware on October 4, 2006 and relocated to California.

Since inception, the Company has incurred net losses and negative cash flows from operations. During the year ended December 31, 2016, the Company incurred a net loss of \$31.8 million and used \$58.5 million of cash in operations. For the nine months ended September 30, 2017, the Company incurred a net loss of \$32.3 million and used \$11.8 million of cash in operations. At September 30, 2017 and December 31, 2016, the Company had an accumulated deficit of \$253.5 million and \$221.2 million, respectively. The Company has financed operations to date primarily through private placements of equity securities, borrowings under a debt agreement, the issuance of common stock in its November 2014 initial public offering, its June 2015 underwritten public offering and its June 2016 underwritten public offering of convertible senior notes due 2021. The Company's ability to continue to meet its obligations and to achieve its business objectives for the foreseeable future is dependent upon, amongst other things, generating sufficient revenues and its ability to continue to control expenses. Failure to increase sales of its products, manage discretionary expenditures or raise additional financing, if required, may adversely impact the Company's ability to achieve its intended business objectives.

The accompanying interim condensed consolidated financial statements as of September 30, 2017 and for the nine months ended September 30, 2017 and 2016, and the related interim information contained within the notes to the financial statements, are unaudited. The unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information and on the same basis as the audited financial statements included on the Company's Annual Report on Form 10-K (Annual Report) filed with the Securities and Exchange Commission (SEC) on February 23, 2017. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to state fairly the Company's financial position as of September 30, 2017, and the results of its operations and cash flows for the nine months ended September 30, 2017 and 2016. All such adjustments are of a normal and recurring nature. The interim financial data as of September 30, 2017 is not necessarily indicative of the results to be expected for the year ending December 31, 2017, or for any future period.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2016 included in the Annual Report.

2. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. The condensed consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Segments

The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region, for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level, other than revenue. Accordingly, the Company has determined that it has a single reportable and operating segment structure. The Company and its Chief Executive Officer evaluate performance based primarily on revenue in the geographic locations in which the Company operates.

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Revenue by geography is based on the billing address of the customer. The United States was the only country with revenue accounting for more than 10% of the total revenue in any of the periods presented, as follows:

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
United States	81	%	78	%	80	%	74	%