NEVRO CORP
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

4040 Campbell Avenue

Menlo Park, CA

(Address of principal executive offices)

94025

(Zip Code)

(650) 251-0005

(Registrant s telephone number, including area code)

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 x 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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of July 31, 2015 there were 27,884,960 shares of the registrant s common stock, par value $0.001 per share, outstanding.

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Nevro Corp.

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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)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 58,711	$ 25,287
Short-term investments	195,239	151,521
Accounts receivable, net of allowance for doubtful accounts of $97 and $10 at June 30, 2015 and December 31, 2014, respectively	7,592	6,610
Inventories, net	26,371	14,856
Prepaid expenses and other current assets	3,594	2,851
Total current assets	291,507	201,125
Property and equipment, net	2,822	647
Other assets	2,092	424
Restricted cash	906	300
Total assets	$ 297,327	$ 202,496
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	$ 7,256	$ 4,460
Accrued liabilities	8,728	6,268
Other current liabilities	56	70
Total current liabilities	16,040	10,798
Notes payable	19,628	19,511
Other long-term liabilities	132	117
Total liabilities	35,800	30,426
Commitments and contingencies (Note 5)		
Stockholders equity		

Preferred stock, $0.001 par value, 10,000,000 shares authorized at June 30, 2015 and December 31, 2014; zero shares issued and outstanding at June 30, 2015 and December 31, 2014		
Common stock, $0.001 par value, 290,000,000 shares authorized at June 30, 2015 and December 31, 2014; 27,801,538 and 24,865,491 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	28	25
Additional paid-in capital	417,103	293,945
Accumulated other comprehensive income	159	77
Accumulated deficit	(155,763)	(121,977)
Total stockholders equity	261,527	172,070
Total liabilities and stockholders equity	$ 297,327	$ 202,496

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

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Nevro Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue	$ 11,418	$ 7,526	$ 21,080	$ 14,190
Cost of revenue	5,508	2,522	9,381	5,521
Gross profit	5,910	5,004	11,699	8,669
Operating expenses				
Research and development	5,263	5,150	10,261	9,846
Sales, general and administrative	19,822	7,315	32,952	13,525
Total operating expenses	25,085	12,465	43,213	23,371
Loss from operations	(19,175)	(7,461)	(31,514)	(14,702)
Interest income	110	32	214	72
Interest expense	(681)		(1,354)	
Other income (expense), net	175	144	(835)	382
Loss before income taxes	(19,571)	(7,285)	(33,489)	(14,248)
Provision for income taxes	155	144	297	237
Net loss	(19,726)	(7,429)	(33,786)	(14,485)
Accretion of redeemable convertible preferred stock to redemption value		(44)		(87)
Net loss attributable to common stockholders	(19,726)	(7,473)	(33,786)	(14,572)
Other comprehensive income (loss):				
Changes in foreign currency translation adjustment	120		(3)	
Changes in gains (losses) on short-term investments, net	164	2	85	(11)
Net change in other comprehensive loss	284	2	82	(11)
Comprehensive loss	$ (19,442)	$ (7,471)	$ (33,704)	$ (14,583)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.77)	$ (6.58)	$ (1.34)	$ (13.17)

Weighted average number of common shares used to compute basic and diluted net loss per share	25,564,249	1,136,259	25,208,710	1,106,303

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

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Nevro Corp.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities		
Net loss	$ (33,786)	$ (14,485)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	130	39
Stock-based compensation expense	3,130	798
Amortization (accretion) of premium (discount) on short-term investments	(173)	182
Change in provision for doubtful accounts	88	
Write-down of inventory	1,306	12
Non-cash interest expense	118	
Changes in operating assets and liabilities		
Accounts receivable	(1,115)	(137)
Inventories	(12,747)	(1,537)
Prepaid expenses and other current assets	(740)	(580)
Other assets	(1,679)	(25)
Accounts payable	2,537	(48)
Accrued liabilities	2,303	658
Other long-term liabilities	15	43
Net cash used in operating activities	(40,613)	(15,080)
Cash flows from investing activities		
Purchases of short-term investments	(93,983)	(15,261)
Proceeds from maturity of short-term investments	50,522	34,969
Restricted cash	(606)	
Purchases of property and equipment	(1,852)	(180)
Net cash provided by (used in) investing activities	(45,919)	19,528
Cash flows from financing activities		
Proceeds from issuance of common stock in underwritten public offering	118,440	
Proceeds from issuance of common stock from stock option exercises	1,566	537
Net cash provided by financing activities	120,006	537
Effect of exchange rate on cash and cash equivalents	(50)	

Net increase in cash and cash equivalents	33,424	4,985
Cash and cash equivalents		
Cash and cash equivalents at beginning of period	25,287	12,409
Cash and cash equivalents at end of period	$ 58,711	$ 17,394
Significant non-cash transactions		
Property and equipment in accounts payable	$ 452	
Vesting of early-exercised stock options	$ 27	$ 128

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

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Nevro Corp.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Formation and Business of the Company

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, 2014, the Company incurred a net loss of $30.7 million and used $31.1 million of cash in operations. For the six months ended June 30, 2015, the Company incurred a net loss of $33.8 million and used $40.6 million of cash in operations. At June 30, 2015 and December 31, 2014, the Company had an accumulated deficit of $155.8 million and $122.0 million, respectively, and does not expect to experience positive cash flows in the near future. The Company has financed operations to date primarily through private placements of equity securities, the issuance of common stock in its initial public offering (IPO) completed in November 2014 and underwritten public offering completed in June 2015 and borrowings under a debt agreement. On May 8, 2015, the Company s Senza spinal cord stimulation product was approved for commercialization in the United States by the U.S. Food and Drug Administration (FDA). The Company s ability to continue to meet its obligations and to achieve its business objectives is dependent upon, amongst other things, commercializing its products in the United States, generating sufficient revenues and its ability to continue to control expenses, if necessary, to meet its obligations as they become due for the foreseeable future. Failure to increase sales of its products, manage discretionary expenditures or raise additional financing, as required, may adversely impact the Company s ability to achieve its intended business objectives.

The accompanying interim condensed consolidated financial statements as of June 30, 2015 and for the six months ended June 30, 2015 and 2014, 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 for interim financial information and on the same basis as the audited financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments which include only normal recurring adjustments necessary to state fairly the Company s financial position as of June 30, 2015, and the results of its operations and cash flows for the six months ended June 30, 2015 and 2014. Such adjustments are of a normal and recurring nature. The interim financial data as of June 30, 2015 is not necessarily indicative of the results to be expected for the year ending December 31, 2015, 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, 2014 included in the Company s Annual Report filed on Form 10-K filed with the Securities and Exchange Commission on March 18, 2015.

2. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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

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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. 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.

To date, the Company has derived substantially all of its revenues from sales to customers in Australia and Europe, and has only recently begun to sell its products in the Unites States. Revenue by geography is based on the billing address of the customer. The following table sets forth countries with revenue accounting for more than 10% of the total revenue during the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Australia	30%	39%	29%	33%
United Kingdom	16%	16%	19%	18%
Germany	19%	20%	19%	18%
Netherlands	5%	9%	6%	11%

Long-lived assets located outside the United States are not material; therefore, disclosures have been limited to revenue.

Foreign Currency Translation

The Company s consolidated financial statements are prepared in U.S. dollars (USD). Its foreign subsidiaries use their local currency as their functional currency and maintain their records in the local currency. Accordingly, the assets and liabilities of these subsidiaries are translated into USD using the current exchange rates in effect at the balance sheet date and equity accounts are translated into USD using historical rates. Revenues and expenses are translated using the monthly average exchange rates during the period when the transaction occurs. The resulting foreign currency translation adjustments from this process are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets.

Unrealized foreign exchange gains and losses from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of the reporting entity are recorded in other income (expense), net. Additionally, realized gains and losses resulting from transactions denominated in currencies other than the local currency are recorded in other income (expense), net in the consolidated statements of operations. The Company recorded net unrealized and net realized foreign currency transaction gain (loss) during the periods presented as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net unrealized foreign currency gain (loss)	$ 1,158	$ 620	$ 665	$ 817
Net realized foreign currency gain (loss)	$ (934)	$ (456)	$ (1,406)	$ (394)

As the Company s international operations grow, its risks associated with fluctuation in currency rates will become greater, and the Company will continue to reassess its approach to managing this risk. In addition, currency fluctuations or a weakening USD can increase the costs of the Company s international expansion. To date, the Company has not entered into any foreign currency hedging contracts. Based on its current international structure, the Company does not plan on engaging in hedging activities in the near future.

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Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Significant accounting estimates and management judgments reflected in the condensed consolidated financial statements include items such as allowances for doubtful accounts; clinical accruals; stock-based compensation; depreciation and amortization periods; inventory valuation; valuation of investments and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by the management. Actual results may differ from those estimates under different assumptions or conditions.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and investments. The majority of the Company s cash is held by one financial institution in the United States of America in excess of federally insured limits. The Company maintained investments in money market funds that were not federally insured during the periods ended June 30, 2015 and December 31, 2014 and held cash in foreign banks of approximately $5.5 million at June 30, 2015 and $4.3 million at December 31, 2014 that was not federally insured. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Substantially all of the Company s revenue has been derived from sales of its products in international markets, principally Australia and Europe. In the international markets in which the Company participates, the Company uses both a direct sales force and distributors to sell its products. The Company performs ongoing credit evaluations of its direct customers and distributors, does not require collateral and maintains allowances for potential credit losses on customer accounts when deemed necessary.

During the three-month and six-month periods ended June 30, 2015, and during the three-month period ended June 30, 2014, no customers accounted for more than 10% of the Company s revenue. During the six-month period ended June 30, 2014, one customer accounted for 11% of the Company s revenue. As of June 30, 2015, one customer accounted for 10% of the accounts receivable balance. As of December 31, 2014, no customers accounted for more than 10% of the Company s accounts receivable balance.

The Company is subject to risks common to early-stage medical device companies, including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, product liability, manufacturing quality and scaling, uncertainty of market acceptance of products and the need to obtain additional financing. The Company is dependent on third-party manufacturers and suppliers, in some cases sole- or single-source suppliers.

There can be no assurance that the Company s products or services will continue to be accepted in its existing marketplaces or gain acceptance in the U.S. marketplace, nor can there be any assurance that any future products or services can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products or services will be successfully marketed, if at all.

The Company expects to incur substantial operating losses for the next several years and may need to obtain additional financing in order to launch and commercialize any products or product candidates for which it receives regulatory approval. There can be no assurance that such financing will be available or will be at terms acceptable by the Company.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company s financial instruments, including cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities.

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Cash and Cash Equivalents

The Company considers all highly-liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include money market funds in the amount of $41.5 million and $10.6 million as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, the Company s cash equivalents were held at institutions in the United States and include deposits in a money market fund which was unrestricted as to withdrawal or use.

Restricted Cash

Restricted cash as of June 30, 2015 consists of a certificate of deposit collateralizing payment of charges related to the Company s credit cards of $0.3 million and a letter of credit of $0.6 million representing collateral for the Company s building lease entered into in March 2015. Restricted cash of $0.3 million as of December 31, 2014 represents a certificate of deposit collateralizing payment of charges related to the Company s corporate credit cards.

Investment Securities

The Company classifies its investment securities as available-for-sale. Those investments with maturities of less than 12 months at the date of purchase are considered short-term investments. Those investments with maturities greater than 12 months at the date of purchase are considered long-term investments. The Company s investment securities classified as available-for-sale are recorded at fair value based upon quoted market prices at period end. Unrealized gains and losses, deemed temporary in nature, are reported as a separate component of accumulated comprehensive income (loss).

A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums (discounts) are amortized (accreted) over the life of the related security as an adjustment to yield using the straight-line interest method. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Inventories

Inventories are stated at the lower of cost to purchase or manufacture the inventory or the market value of such inventory. Cost is determined using the standard cost method which approximates the first-in, first-out