NEVRO CORP
Form 10-Q
August 02, 2018
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 June 30, 2018

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)

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 July 27, 2018 there were 30,115,851 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$40,838	$ 42,845
Short-term investments	223,018	226,467
Accounts receivable, net of allowance for doubtful accounts of $1,004 and $1,333 at June 30, 2018 and December 31, 2017, respectively	66,042	67,287
Inventories	94,994	98,119
Prepaid expenses and other current assets	6,752	6,463
Total current assets	431,644	441,181
Property and equipment, net	13,610	8,819
Other assets	3,829	3,250
Restricted cash	806	806
Total assets	$449,889	$ 454,056
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$23,543	$ 18,492
Accrued liabilities	29,892	39,390
Other current liabilities	100	122
Total current liabilities	53,535	58,004
Long-term debt	148,643	145,019
Other long-term liabilities	2,122	1,861
Total liabilities	204,300	204,884
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized at June 30, 2018 and December 31, 2017; zero shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, $0.001 par value, 290,000,000 shares authorized at June 30, 2018 and December 31, 2017; 30,094,631 and 29,737,561 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	30	30

Additional paid-in capital	531,830	508,228
Accumulated other comprehensive loss	(1,061)	(1,242)
Accumulated deficit	(285,210)	(257,844)
Total stockholders’ equity	245,589	249,172
Total liabilities and stockholders’ equity	$449,889	$ 454,056

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$96,080	$78,016	$183,715	$146,455
Cost of revenue	28,159	24,143	53,793	46,214
Gross profit	67,921	53,873	129,922	100,241
Operating expenses				
Research and development	11,416	9,537	22,501	18,236
Sales, general and administrative	64,706	54,274	131,324	104,994
Total operating expenses	76,122	63,811	153,825	123,230
Loss from operations	(8,201)	(9,938)	(23,903)	(22,989)
Interest income	1,135	747	2,148	1,456
Interest expense	(2,579)	(2,454)	(5,137)	(4,889)
Other income (expense), net	(592)	416	(715)	947
Loss before income taxes	(10,237)	(11,229)	(27,607)	(25,475)
Provision for income taxes	383	381	726	642
Net loss	(10,620)	(11,610)	(28,333)	(26,117)
Other comprehensive loss:				
Changes in foreign currency translation adjustment	(318)	16	259	(206)
Changes in unrealized gains on short-term investments, net	273	50	(78)	94
Net change in other comprehensive loss	(45)	66	181	(112)
Comprehensive loss	$(10,665)	$(11,544)	$(28,152)	$(26,229)
Net loss per share, basic and diluted	$(0.35)	$(0.40)	$(0.95)	$(0.89)
Weighted average number of common shares used to compute basic and diluted net loss per share	30,028,985	29,351,414	29,933,164	29,255,990

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

Nevro Corp.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net loss	$(28,333)	$(26,117)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,767	1,108
Stock-based compensation expense	17,564	12,456
Accretion of discount on short-term investments	(242)	(93)
Provision for doubtful accounts	(325)	400
Write-down of inventory	346	3,386
Non-cash interest expense	3,628	3,380
Unrealized (gains) losses on foreign currency transactions	891	(1,290)
Changes in operating assets and liabilities		
Accounts receivable	2,609	(470)
Inventories	2,682	(4,232)
Prepaid expenses and other current assets	(876)	(493)
Other assets	(580)	(136)
Accounts payable	4,837	(4,986)
Accrued liabilities	(9,341)	(356)
Other long-term liabilities	261	197
Net cash used in operating activities	(5,112)	(17,246)
Cash flows from investing activities		
Purchases of short-term investments	(100,887)	(143,014)
Proceeds from sales of short-term investments	—	5,993
Proceeds from maturity of short-term investments	104,500	133,745
Purchases of property and equipment	(6,457)	(1,757)
Net cash provided by (used in) investing activities	(2,844)	(5,033)
Cash flows from financing activities		
Minimum tax withholding paid on behalf of employees for net share settlement	(942)	(655)
Proceeds from issuance of common stock to employees	6,986	6,172
Net cash provided by financing activities	6,044	5,517
Effect of exchange rate changes on cash and cash equivalents	(95)	225
Net increase (decrease) in cash, cash equivalents and restricted cash	(2,007)	(16,537)
Cash, cash equivalents and restricted cash		
Cash, cash equivalents and restricted cash at beginning of period	43,651	42,212
Cash, cash equivalents and restricted cash at end of period	$41,644	$25,675
Significant non-cash transactions		
Purchases of property and equipment in accounts payable	$695	$123
Vesting of early-exercised stock options	$—	$7

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 cumulatively incurred net losses and negative cash flows from operations. During the year ended December 31, 2017, the Company incurred a net loss of $36.7 million and used $14.3 million of cash in operations. For the six months ended June 30, 2018, the Company incurred a net loss of $28.3 million and used $5.1 million of cash in operations. At June 30, 2018 and December 31, 2017, the Company had an accumulated deficit of $285.2 million and $257.8 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 June 30, 2018 and for the six months ended June 30, 2018 and 2017, 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 22, 2018. 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 June 30, 2018, and the results of its operations and cash flows for the six months ended June 30, 2018 and 2017. All such adjustments are of a normal and recurring nature. The interim financial data as of June 30, 2018 is not necessarily indicative of the results to be expected for the year ending December 31, 2018, 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, 2017 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.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States	83%	81 %	82%	79 %

Long-lived assets and operating income 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) on 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 condensed consolidated statements of operations and comprehensive loss. The Company recorded net unrealized and net realized foreign currency transaction gains (losses) during the periods presented as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net unrealized foreign currency gain (loss)	$(413)	$465	$(886)	$1,315
Net realized foreign currency gain (loss)	(128)	(3)	292	(264)

As the Company's international operations grow, its risks associated with fluctuations 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.

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; warranty obligations; clinical accruals; stock-based compensation; depreciation and amortization periods; inventory valuation; valuation of investments; and accounting for income taxes. 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 and is 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, 2018 and December 31, 2017. The Company also held cash in foreign banks of approximately $5.6 million at June 30, 2018 and $4.5 million at December 31, 2017 that was not federally insured. The Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company's convertible note hedge transactions, entered into in connection with the 2021 Notes, subject the Company to credit risk such that the counterparties may be unable to fulfill the terms of the transactions. The associated risk is mitigated by limiting the counterparties to major financial institutions.