

Cutera, Inc. (CUTR - \$50.50 - NASDAQ) 4Q 2017 Results & 2018 Guidance - Buy

Year	Sales(\$Mils)	TEV to Sales	PMV		
2020P	\$238	2.9x	\$67	Dividend: None	Current Return: Nil
2019P	207	3.4	57	Shares O/S: 13.7 million	
2018E	180	3.9	49	52-Week Range: \$52.90 - \$18.50	
2017A	151	---	---		

COMPANY OVERVIEW

Headquartered in Brisbane, CA, Cutera is a manufacturer of non-invasive laser and other energy based systems and products for cosmetic vascular conditions, body sculpting, hair removal, skin rejuvenation, pigmented lesions and tattoo removal. Throughout 2017, the company revamped several members of its management team, including its CEO and CFO, to enable a new strategy and “renewed focus” to drive revenue growth and leverage earnings. In May 2017, Cutera launched its *truSculpt 3D* for the body contouring market in the US and began launching in select international markets in late 2017.

Reason For Comment

On February 14 after market close, Cutera reported financial results for 4Q 2017. Revenue increased 26% to \$47.6 million and non-GAAP adjusted EPS was \$0.42 vs. \$0.39. For 2017, revenue increased 28% to \$151.5 million and non GAAP EPS was \$0.93 vs. \$0.62. For 2018, management expects \$178-181 million of revenue, non-GAAP adjusted EPS of \$1.03-1.11 and adjusted EBITDA of \$15-17 million.

- During 4Q, US revenue increased 31% to \$30.5 million and international revenue increased 17% to \$17.1 million. Product revenue was up 35% in the US driven by *truSculpt 3D* along with increased sales and marketing efforts. The *enlighten III* system also contributed to growth. International product revenue grew 19% with the launch of *truSculpt 3D* in select markets along with organizational changes made in early 2017. Cutera will continue its international rollout of *truSculpt 3D* in 2018.
- The launch of *trusculpt 3D* has been robust as it has already become Cutera’s largest revenue-generating platform and is expected to perform well over the next few quarters.
- In January 2018, Cutera began launching two new systems into the North American market: Juliet system for women’s health and Secret RF system for collagen remodel, mild wrinkles and scars.
- Cutera is working on the next generation *truSculpt* (hands free version) and expects to introduce a low-cost version of *enlighten* for skin revitalization in 2018. It also has a good cadence of new product in development to be launched consistently over the next few years.
- Cutera currently has 68 sales reps in North America; its goal is ~80 sales reps by year-end 2018; additionally, it is creating a dedicated commercial team along with physician marketing support to drive consumable usage in North America in 2018; it continues to invest in its service organization to grow its warranty business
- During 2017, management repurchased 1.02 million shares for \$35.2 million.
- 2018 Guidance: \$178-181 of revenue, gross margin of 57-58%*, operating expenses to be 52-54%* of revenue; non-GAAP EPS of \$1.03-1.11, and adjusted EBITDA of \$15-17 million (*incl. stock-based comp expense)
- With double-digit sales growth during the past 14 quarters, we believe Cutera can sustain its double-digit growth rate for the foreseeable future given its robust product portfolio and focused sales execution strategy.
- We maintain our Buy recommendation based on our 2019 PMV estimate of \$57 per share. Cutera is growing sales faster than the market while investing for medium term growth.

Table 1

Cutera, Inc.

Earnings Model (2016-2022P)

(\$ in millions except per share data)	2016A	2017A	2018E	2019P	2020P	2021P	2022P	CAGR '17-'22
Revenues	\$118.1	\$151.5	\$180.0	\$207.0	\$238.0	\$273.7	\$314.8	15.8 %
Adj. EBITDA	8.3	13.2	17.0	22.1	27.4	34.0	42.1	26.1
Non-GAAP diluted EPS (a)	\$0.62	\$0.93	\$1.10	\$1.40	\$1.55	\$1.90	\$2.30	20.0
TEV/ Sales	5.9x	4.6x	3.9x	3.4x	2.9x	2.6x	2.2x	
TEV/ EBITDA	83.9	53.1	41.1	31.6	25.5	20.6	16.6	
P/E - Non-GAAP	81.5	54.3	45.9	36.1	32.6	26.6	22.0	
Capex	0.5	0.9	1.0	1.0	1.0	1.0	1.0	

a) Non-GAAP EPS excludes one-time items, stock based comp and depreciation; assumed 11% tax rate in 2017-2019; 24% tax rate in 2020 and beyond. Source: Company data and Gabelli & Company estimates.

Investment Case

As a leading laser dermatology company, Cutera is an attractive long-term investment as management focuses on execution, growing sales and improving operating performance. Throughout 2017, Cutera revamped several members of its management team, including its CEO and CFO, along with several new hires to build out its sales and operational infrastructure in the US and internationally. Management is putting in place new processes to improve upon product development and scale up its organization for sustainable growth.

- With its continued new product launches, Cutera has grown its sales at a double-digit rate, which is expected to continue over the next few years.
- New management’s renewed focus along with its improved commercial organization and new product introductions are expected to drive sustainable growth over the medium term.
- Cutera trades at 3.4x our 2019 revenue estimate; the takeout revenue multiples for recent transactions are: 6x revenue for Zeltiq (April 2017) and 3x revenue for Cynosure (March 2017).

Table 2 **Cutera, Inc.**
Private Market Value Model
2017A-2022P

<i>(In \$ millions, except per share data)</i>	2017 A	2018 E	2019 P	2020 P	2021 P	2022 P	17-'22 CAGR
Revenue	\$151.5	\$180.0	\$207.0	\$238.0	\$273.7	\$314.8	15.8%
EBITDA	13.2	17.0	22.1	27.4	34.0	42.1	26.1%
Valuation Multiple (x Sales)	3.6x	3.6	3.6	3.6	3.6	3.6	
T total Private Market Value	545.4	647.9	745.1	856.8	985.4	1,133.2	
Plus: Cash	35.9	46.3	61.3	78.7	101.2	130.0	
Less: Options Payments (a)	(10.7)	(13.9)	(17.6)	(21.2)	(25.4)	(30.4)	
Equity Private Market Value	570.6	680.3	788.8	914.4	1,061.2	1,232.8	
Shares Outstanding	13.7	13.7	13.7	13.7	13.7	13.7	
PMV Per Share	\$42	\$49	\$57	\$67	\$77	\$90	
<i>Current Market - Discount to PMV</i>	-2.16%	-2.0%	12.0%	24.1%	34.6%	43.7%	

a) Payment to option holders at PMV, net of taxes.
Source: Company data and Gabelli & Company estimates.

Cutera, Inc. Price Performance



Source: Public data. As of February 16, 2015 CUTR was rated BUY.

I, **Jennie Tsai**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst’s personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts’ ratings are largely (but not always) determined by our “private market value,” or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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