Viveve Medical, Inc.
(OTCBB: VIVMF), Target Price: $1.41)

We initiate coverage on Viveve Medical, Inc. (OTCBB: VIVMF, "Viveve") with a price target of $1.41 per share. Based in Sunnyvale, CA, Viveve is a women's health company focused on the commercialization of the Viveve System, an innovative medical device for the treatment of vaginal laxity resulting from childbirth, aging, and other traumas. Vaginal laxity is the most frequently reported post-delivery physical change for women, and represents a potential addressable market of nearly $7Bn for Viveve. The Viveve System appears well suited to emerge as a leading treatment for post-partum vaginal laxity. It is synergistic with kegel exercises, addressing the vaginal introitus – tissue that is not muscular but collagen based – and offers a safe, in-office alternative to invasive surgical treatments. We see several potential catalysts for Viveve over the next 18 months, as it commences commercial launch in four markets and pursues regulatory approvals in the US, China, and several other new foreign markets.

INVESTMENT HIGHLIGHTS

A non-invasive, effective treatment for vaginal laxity

The Viveve System uses patented, reverse-thermal gradient radio frequency (RF) technology to tighten the tissues of the vaginal introitus in a painless, 30-minute, in-office procedure that is convenient for patients and requires no anesthesia. The technology is supported by a strong patent portfolio, which consists of an exclusive perpetual license agreement with Ed Knowlton (Thermage). Viveve has already conducted two human clinical studies, which have shown the treatment also appears to be highly effective for restoring vaginal tightness to pre-childbirth levels, with 88% of women reporting a statistically significant (mean 68% improvement) increase in vaginal tightness as long as 12 months after the treatment. In March Viveve completed enrollment for VIVEVE 1, the first ever randomized, sham-controlled clinical study for vaginal laxity. The study will evaluate the safety and effectiveness of the Viveve System on up to 113 women in Europe and Canada.

Set for commercial launch in 2015

Viveve is poised to generate nice revenue growth in 2015E. Currently the company is commencing commercial launches in Japan, Canada, Hong Kong, the Middle East, and Europe. The company has been actively adding distribution and co-marketing partners in these geographies, and we were pleased to see the distribution partnership announced with CoachHouse Medical in the UK in February as well as agreements with NeoAsia PTE, Ltd. and Dalton Medical, B.V. for parts of Europe and Southeast Asia in the last month. We see 2015E as a year of accelerating growth from a small revenue base, and estimate the company will report revenues of $2.2mn in 2015E from orders in these first markets.

Plan to target $7Bn global opportunity by 2019E

Viveve has outlined a three-phase global commercialization strategy, which should enable it to more than triple its addressable market by the end of 2019. The company's existing markets represent a $2.4Bn annual addressable market, according to management, and Viveve will increase this figure to $4.1Bn by commencing commercial operations in select countries in Latin America (including Brazil) and Southeast Asia. We see the strategy as prudent and enabling growth while the company fulfills the more stringent regulatory requirements to market its products in China and the United States. Viveve is pursuing a *de novo* 510K pathway for FDA approval in the United States, and has proposed that the Viveve System be indicated for the treatment of the vaginal introitus after childbirth to improve sexual function. We expect the company to file its IDE submission by the end of 2015E. Viveve estimates an addressable market of $7Bn per year from vaginal laxity caused by vaginal birth delivery. Longer term, we also expect the company to pursue treatments for vaginal laxity caused by aging, as well as targeting doctors who pursue aesthetic treatments, which management believes could potentially double the market opportunity.

Initiate coverage with a price target of $1.41

Our analysis indicates a fair value estimate of $1.41 per share (detailed on page 10), implying an upside of 107.4% from the recent price of $0.68. We view VIVMF as an attractive high-risk/high-reward investment opportunity in the healthcare/medical devices space.

Stock Details (5/20/2015)

OTCBB:	VIVMF
Sector / Industry	Healthcare / Medical Devices
Price target	**$1.41**
Recent share price	$0.68
Shares o/s (mn)	50.8
Market cap (in $mn)	34.5
52-week high/low	$4.00 / $0.30

Source: Bloomberg, SeeThruEquity Research

Key Financials ($mn unless specified)

	FY14A	FY15E	FY16E
Revenues	0.1	2.2	6.3
EBITDA	(5.6)	(7.1)	3.9
EBIT	(5.7)	(7.1)	(0.5)
Net income	(6.2)	(7.3)	(9.5)
EPS ($)	-1.27	-0.18	-0.08

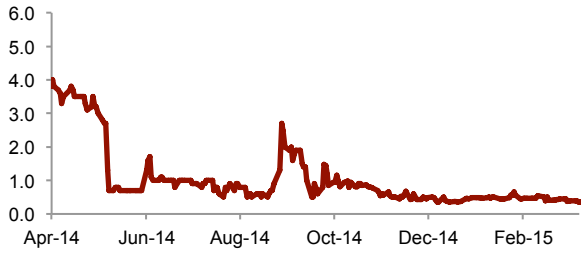
Source: SeeThruEquity Research

Key Ratios

	FY14A	FY15E	FY16E
Gross margin (%)	44.4	40.6	50.8
Operating margin (%)	(6,291.1)	(328.9)	(7.9)
EBITDA margin (%)	(6,228.9)	(326.4)	61.5
Net margin (%)	(6,866.7)	(338.1)	(18.7)
P/Revenue (x)	383.6	15.9	5.4
EV/EBITDA (x)	NM	NM	6.4
EV/Revenue (x)	279.2	11.6	4.0

Source: SeeThruEquity Research

Share Price Performance ($, LTM)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (As of May 20, 2015)

Share data		B/S data (Adjusted from 1Q15**)		Key personnel:	
Recent price:	$0.68	Total assets:	13.6mn	CEO:	Patricia Scheller
Price target:	$1.41	Total debt:	3.5mn	CFO	Scott Durb
52-week range:	4.00 / 0.30	Equity:	8.9mn	Chief Business Officer	Jim Atkinson
Average volume:*	4,807	W/C:	8.6mn		
Market cap:	$34.5mn	ROE:	NA		
Book value/share:	$0.18	ROA:	-154%		
Cash/share	$0.24	Current ratio:	2.8		
Dividend yield:	0.00%	Asset turnover:	0.1		
Risk profile:	High / Speculative	Debt/Cap:	0.3		

** three month average volume (number of shares); ** Adjusted for recent raise of $12mn announced May 13, 2015*

	Estimates			Valuation		
FY December	Rev ($mn)	EBITDA ($mn)	EPS ($)	P/Rev (x)	EV/Rev (x)	P/E (x)
2013A	0.2	(3.9)	(81.81)	4.5x	165.0x	NM
2014A	0.1	(5.6)	(1.27)	7.6x	279.2x	NM
1Q15E	0.0	(2.4)	(0.14)	227.1x	165.3x	NM
2Q15E	0.2	(1.8)	(0.05)	35.2x	25.6x	NM
3Q15E	0.7	(1.6)	(0.03)	13.2x	9.6x	NM
4Q15E	1.3	(1.3)	(0.02)	26.7x	4.8x	NM
2015E	2.2	(7.1)	(0.18)	15.9x	11.6x	NM
2016E	6.3	(6.4)	(0.15)	5.4x	4.0x	NM
2017E	16.3	(3.2)	(0.08)	2.1x	1.5x	NM

Source: SeeThruEquity Research

INVESTMENT THESIS

Viveve Medical, Inc. (OTCBB: VIVMF, "Viveve") is a women's health company focused on commercializing the Viveve System, a medical device designed for the non-invasive treatment of vaginal introital laxity. Initially, Viveve is targeting vaginal laxity affecting post-partum women, which the company estimates to be a $2Bn annual market opportunity in the United States alone. Indeed, according to a company-sponsored market study of OBGYNs, vaginal laxity is the most commonly reported post-delivery physical change for women. The Viveve System is patented, reverse-thermal gradient radio frequency (RF) technology to tighten the tissues of the vaginal introitus in a painless, 30-minute in-office self-pay procedure requiring no anesthesia that is convenient for patients and profitable for medical providers. The Viveve System is synergistic with kegel exercises, addressing the vaginal introitus – tissue that is not muscular but collagen based – and offers a safe, in-office alternative to invasive surgical treatments. The technology is supported by a strong patent portfolio, which consists of an exclusive perpetual license agreement with Ed Knowlton (Thermage). On May 13, 2015, Viveve announced that it is raising $12mn through a private placement led by Stonepine Capital LP that included participation from management and existing insiders. We see the raise a key strategic milestone that will enabled the company to fund aggressive commercialization efforts in countries where Viveve is already available though select distributors. With its balance sheet shored, we see several potential catalysts in 2015 for Viveve as it pursues commercial launches in Europe and other already-approved geographies, and approaches regulatory milestones in the United States, China and new international markets.

Viveve is poised to generate revenue in 2015E from current product launches in Japan, Canada, Hong Kong, the Middle East, and Europe. The company is actively seeking distribution and co-marketing partners

in these geographies, such as the distribution partnership with CoachHouse Medical in the United Kingdom announced on February 26, 2015. The company has also outlined plans to expand into several new geographies over the next four years, pending regulatory approval, including China, the United States, and select countries in Latin America and Southeast Asia. Based in Sunnyvale, CA, Viveve has ten employees, an impressive Scientific Advisory Board, and a management team with extensive industry and public company experience. The company became public in September 2014 through a merger transaction with Milford, MA-based PLC Systems, Inc. Concurrent with the merger, Viveveive company completed a $6mn PIPE offering that included experienced institutional investors such as 5AM, GBS, and Alta Bioequities. Shortly after completing the PIPE offering Viveve announced that it had began enrollment for the VIVEVE I Clinical Trial, a randomized, blinded and sham controlled OUS study of up to 113 patients at up to ten sites in Canada and Europe. In addition to funding the trial, we expect net proceeds of approximately $4mn from the PIPE will be used to build distribution and awareness among consumers and medical providers in countries where Viveve has achieved regulatory approval.

The Viveve System is aimed at treating the #1 post-delivery physical change for women

Vaginal laxity occurs in many women as a result of natural childbirth, when the vaginal opening, or introitus, is over-stretched and fails to return to its pre-childbirth state. Vaginal laxity is a significant concern for women, as it has been shown to cause discomfort, feelings of "looseness", a reduction in sexual satisfaction, and diminished sensation during sexual intercourse. In fact, according to a 2009 survey of 524 US-based OB/GYNs, vaginal laxity was the single most reported post-delivery physical change for women. This represents a large potential market for Viveve. Management estimates that its annual addressable market for post-partum vaginal laxity is $2Bn in the United States and $7Bn globally. Longer term we believe the company can expand its market opportunity by addressing other potential indications such as vaginal changes resulting from aging, or treatments by physicians in the aesthetic market.

The Viveve System is a non-surgical, non-ablative medical device designed to remodel collagen and restore vaginal tissue using patented, reverse-thermal gradient radio-frequency technology to tighten the tissues of the vaginal introitus. In our view Viveve System seems to offer attractive benefits for medical providers and patients. For medical providers, the procedure is low-risk and offers attractive economics as it is self-pay (avoiding reimbursement challenges) and offers a 3.5-month payback period. For patients, the Viveve System is a painless, effective alternative to invasive surgeries that can be performed in a 30-minute, in-office / outpatient procedure without the use of anesthesia.

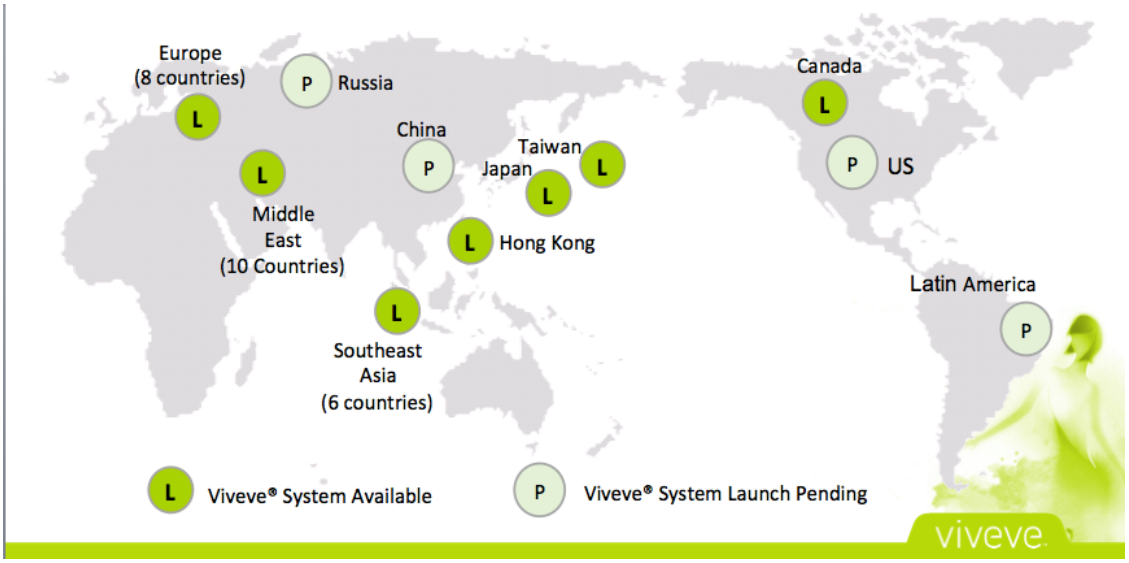
Viveve System set for global commercial launch

Viveve is commencing a global launch of the Viveve System and single-use treatment tips in select markets with large and demonstrable opportunities, initially targeting Japan, Canada, the Middle East, Hong Kong and Europe. The Viveve System has received regulatory approval in Europe, Canada and Hong Kong and is available through physician import license in Japan. The company markets the Viveve System through sales consultants in Canada and a partner in Hong Kong, and is currently seeking distribution partners throughout Europe. We expect the company to use a portion of the proceeds from its recent PIPE investment to accelerate sales and distribution efforts in these regions, engage partners to market the system and single-treatment tips, and build brand awareness by targeting physicians and clinics that perform in-office procedures, as well as direct-to-consumer marketing programs, using clinical data and KOL acceptance. Along these lines we were pleased to see the company's February 26, 2015, announcement that it had struck a distribution partnership in the United Kingdom with CoachHouse Medical. We also expect Viveve to expand the scope of physicians who offer its treatments to include plastic surgeons, dermatologists, general surgeons, urologists, urogynecologists, and primary care physicians, in addition to OB/GYNs.

Global launch to target $7Bn annual addressable market by 2019E

Viveve is planning a three-phase launch strategy, as outlined in the following graphic, which identifies the countries planned in each phase. Initially the company will be targeting the approved markets of Hong Kong, Canada, Japan and Europe. As we noted earlier in this report, Viveve management estimates the addressable global market for vaginal laxity resulting from natural childbirth at approximately $7Bn. The first phase of Viveve's rollout – consisting of countries in which it has already achieved regulatory approvals – represents a $2.4Bn opportunity. This market size estimate includes: Canada ($150mn), Japan ($700mn), Hong Kong ($50mn) and Europe ($1.5Bn).

Clearly the largest potential market in Viveve's initial launch is Europe, and therefore we would view new distributor and selling partner relationships in Europe as key objectives for the company in 2015. The second phase of the Viveve System's initial launch will target Latin America and Southeast Asia (ex China), which combined represents a $1.7Bn opportunity. We believe the company has already made some progress seeking approval in Brazil, and expect further announcements related to these regions during 2015. We also expect the company to pursue commercialization in China ($900mn) and the United States ($2Bn) with a goal to be addressing all three markets in 2019.



Source: Company investor materials

We expect several distribution announcements from Viveve throughout 2015. In April, the company announced a distribution agreement with Dalton Medical, B.V. covering the Netherlands, Belgium, and Luxembourg. On April 22, the company disclosed it had entered in to a partnership with NeoAsia PTE, Ltd. ("NeoAsia"), a distributor of medical devices based in Singapore, to expand the company's commercial efforts into Singapore, Malaysia, Vietnam and Brunei.

Clear pathway ahead to US approval – IDE submission expected by year-end

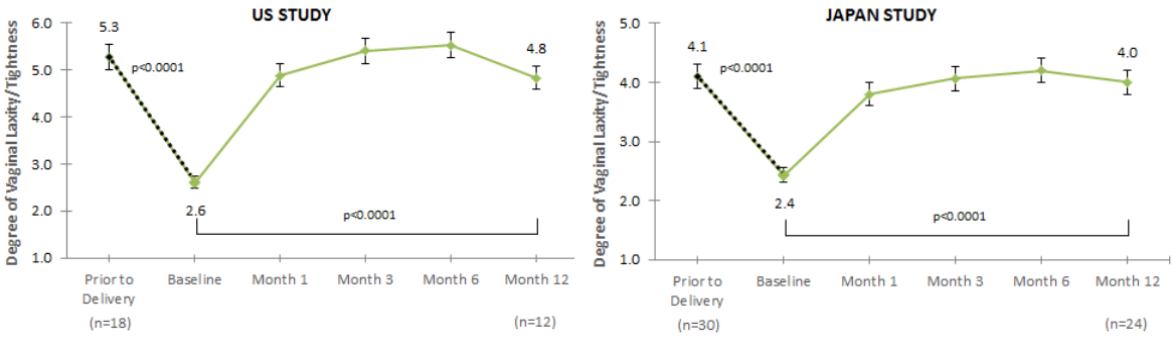
Despite approvals in Canada, Japan, Hong Kong and Europe, the FDA has not cleared the Viveve System for the treatment of vaginal laxity in the United States. With an estimated addressable market of $2Bn annually, the United States clearly represents the largest market opportunity for Viveve, and we expect the company to pursue approval aggressively. After discussions with the FDA, the company believes it has received clear verbal regulatory guidance to pursue a *de novo* 510K pathway with acceptable endpoints for indication. The company has proposed that the system be indicated for the treatment of the vaginal introitus after childbirth to improve sexual function. The *de novo* 510K pathway is a well-defined and relatively inexpensive pathway to obtain FDA clearance to market Viveve System in the United States; however, we do expect the process to be time-consuming as the company will be required to file an Investigational Device Exemption (IDE) submission and conduct a supporting clinical trial in the United States.

In 2012, Viveve submitted a pre-investigational device exemption, or IDE application, and met with the FDA in-person to solicit feedback in advance of filing an IDE to conduct a clinical study of the Viveve System to support regulatory submission. The company received verbal feedback in an August 2012 meeting with the FDA on its pre-clinical data, historical clinical data and clinical protocol for a prospective randomized controlled trial. We expect Viveve to achieve completion of Good Laboratory Practices (GLP) and submit an Investigational Device Exemption (IDE) submission by the end of 2015, which, if approved will enable the company to begin a US clinical study.

Compelling pre-clinical data and ongoing international study

Viveve has completed several pre-clinical studies of the Viveve System, and two human clinical studies, which appear to have demonstrated both an attractive safety profile and effectiveness in treating vaginal laxity and improvement of sexual function. In December Viveve announced that it had begun enrollment in a human study, named VIVEVE 1 Clinical Trial. VIVEVE1 is a randomized, blinded and sham controlled OUS study of up to 113 patients at up to ten sites in Canada and Europe. The company completed enrollment on March 30, 2015, expects to report an interim analysis in early 3Q15E, and expects to complete the study by 4Q15E.

The company's two prior human clinical studies were conducted with 1) 30 healthy women in Japan and 2) 34 healthy women in the United States. The objective of the studies was to determine the response to radio frequency (RF) therapy in human patients, with observations stemming from self-reported questionnaires administered at 1,3,6, and 12 months after treatment. Results from these studies reported no serious adverse events and broadly showed positive findings. In fact results showed that the treatment restored vaginal tightness to pre-childbirth levels, with 88% of women reporting increased vaginal tightness at twelve months following the procedure.



Source: Company investor materials, SeeThruEquity Research

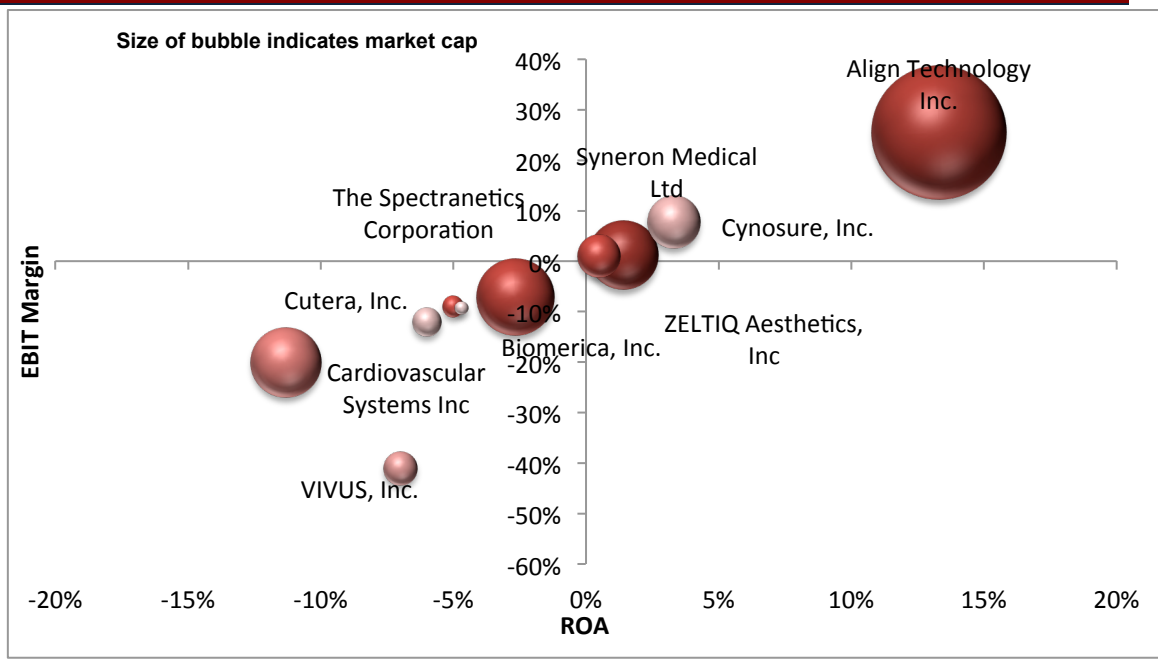
COMPETITIVE LANDSCAPE

Viveve is a relatively small participant in the medical device industry. The medical device industry includes many companies with more established brand presence and greater access to resources. Viveve is pursuing a focused competitive strategy, specializing in the area of women's health and specifically vaginal laxity. Vaginal laxity is a frequently occurring post-partum complication, which can cause discomfort and diminished sexual satisfaction. Currently the most common treatments for vaginal laxity are surgical procedures, such as Laser Vaginal Rejuvenation or Vaginoplasty, or pelvic floor exercises, such as Kegels. In 2013 there were over 115,000 surgeries performed globally targeting vaginal laxity.

Viveve is seeking to pursue competitive differentiation by offering an effective, non-invasive procedure that uses patented, reverse-thermal gradient RF technology to tighten the tissues of the vaginal introitus. We believe there are other competitors pursuing non-invasive treatments for vaginal laxity, such as privately held Fotona, and expect new competitors to emerge in the future. Nevertheless we see surgery and kegel exercises as the primary competition for Viveve at this time. Viveve management has indicated that it faces competition from, or may in the future face competition from Fotona, BioSante, Apricus, and Conceptus / Bayer AG, among others.

In the following graphic we examined key size and profitability metrics for a group of Viveve's peer companies. We selected mid-sized companies in the medical device industry, competitors offering surgical alternatives to the Viveve System, such as Cynosure,Inc., companies offering solutions targeting women's health such as VIVUS, and companies offering specialized cosmetic medical treatments, such as Align Technology, Inc. We found that profit margins in the group can be quite with a successful product line high after an initial period of investment, which is consistent with our forecast for Viveve.

Figure 2. ROA vs. EBIT– Viveve Peers



Source: Bloomberg, Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue / Launch forecast

Viveve has approval to sell the Viveve System and related consumable tips in Japan, Hong Kong, Europe, and Canada and is seeking regulatory approval to market products in China, the United States, and select markets in Latin America and Southeast Asia. Our forecast only focuses on vaginal laxity resulting from natural births, which, according to Viveve management, represents a market opportunity of approximately $7Bn per year in these geographies. We have assumed sales in all of the initial geographies during 2015E, adding in a small portion of sales in Latin America and Southeast Asia during 2016E, initial sales in China in 2017E, and initial US sales in 2018E.

Geography	Approved for Sale	Requires Approval	Est Launch	Market Potential
Canada	X		2015E	$150mn
Hong Kong	X		2015E	$50mn
Japan	X		2015E	$700mn
Europe (various)	X		2015E – 2016E	$1.5Bn
Latin America (various)		X	2016E	$750mn
Southeast Asia (various)		X	2016E	$950mn
China		X	2017E	$900mn
United States		X	2018E	$2Bn

Source: Company investor materials, SeeThruEquity Research

We believe Viveve will seek to grow its business quickly through expanded international presence as well as investments in sales and marketing and distribution partnerships. Thus we have forecast strong growth for Viveve, estimating revenue to grown from $2.2mn in 2015E to $6.3mn in 2016E, and reaching $16.3mn by 2017E. Despite this rapid growth, our analysis takes a relatively conservative approach to Viveve's market penetration, with market penetration increasing from 0.09% of the available market in 2015E before reaching 1.36% of the total available market in 2020E, per the following table.

Fiscal Year	2015E	2016E	2017E	2018E	2019E	2020E
Revenue ($mn)	2.2	6.3	16.3	36.7	62.2	95.0
TAM ($Bn)	2.40	4.10	5.00	7.00	7.00	7.00
Penetration	**0.09%**	**0.15%**	**0.33%**	**0.52%**	**0.89%**	**1.36%**
Market Launch Assumptions						
Canada	X	X	X	X	X	X
Hong Kong	X	X	X	X	X	X
Japan	X	X	X	X	X	X
Europe	X	X	X	X	X	X
Latin America		X	X	X	X	X
Southeast Asia		X	X	X	X	X
China			X	X	X	X
United States			X	X	X	X

Source: Company investor materials, SeeThruEquity Research

Revenue / Pricing & Usage Assumptions

We have assumed the average price of the Viveve System moves from the list price of $65,000 at the beginning of our forecast period to $33,000 by the end of the period as volume increases. We have modeled a link between the installed base of Viveve Systems and the amount of consumable tips used, with the average consumable tips used per machine increasing from approximately 50x in 2015E to reach 90x by 2020E. Viveve indicated that the average retail price for a procedure varies in a range of approximately $2,500 to $4,500 in existing markets. Considering the cost of the system and the payback period for the medical provider, and an assumption for volume discounts over time, we have estimated the average realized price of each consumable tip to move from $500 (a discount to the company's list price of $600) at the beginning of our forecast period to $400 by 2020E. We think it is possible the average tip consumption per installed system will increase faster than our estimate if the product gains traction in the marketplace.

Margins/Expenses

We think Viveve has many attractive attributes to its gross margin structure as the business grows. Initially we expect gross margins to come in the 35%-45% range, as the mix of product sales should be more heavily weighted towards Viveve Systems. We believe the company plans to expand profits through the sale of higher margin consumable tips, which have a recurring like revenue feature on the installed system. We have modeled overall gross margins to expand to reach 68.8% by 2020E, as the mix of consumable tips becomes the dominant revenue line item.

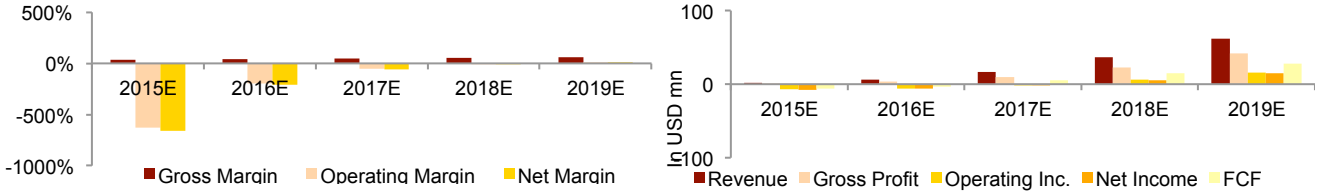
In the short run we expect Viveve to invest cash flow in its sales and distribution network in approved geographies, and to secure regulatory approvals in select countries in Latin America (including Brazil) and Southeast Asia, China and the United States. As such we have assumed the company has negative operating margins through fiscal 2018E before moving into the black in 2019E. For 2015E, we have forecast operating margins of (328.9%), improving to 29.8% by 2020E. We have modeled 2015E EBITDA at a loss of ($7.1mn) and expect the company to use ($5.7mn) in 2016E. The EPS estimate for 2015E is ($0.18).

Balance Sheet & Financial Liquidity

We see the balance sheet and financial liquidity as a key risk for Viveve, and were pleased to see the company's announcement in May that it had raised $12mn in a private placement. We note the private placement included insider and management participation, and should provide the company sufficient growth capital to fund the initial launch of Viveve. We have assumed the raise provides the company with 12-15 months of growth capital, and do expect the company to raise capital again by 2017E after demonstrating the commercial viability for its products. We have assumed the company will be able to raise additional capital on terms that are palatable to common equity holders, and note that continued access to growth capital is a key risk for the company to be able to meet the top line assumptions in our analysis.

We forecast negative operating cash flows in 2014E, 2015E, and 2016E as we expect expenses to surpass revenues. During this period we expect Viveve to invest in distribution, conducting a clinical trial to support its FDA approval process, as well as research and development. Beginning in 2019E, we have assumed higher sales levels will enable the company to generate positive operating cash flow while maintaining growth investments.

Figure 2. Key Performance Indicators of Viveve, FY15E–19E



Source: Company filings, SeeThruEquity Research

VALUATION

We utilize discounted cash flow (DCF) analysis and peer group multiples to value Viveve Medical, Inc. Biosciences. Our blended valuation, which combines these two methodologies, yields a fair value of $1.41 per share. Given that Viveve is building out its distribution network and is beginning from a relatively small revenue base, we have added more weighting to our DCF model than peer group multiples to determine our price target. Relative to the recent price of $0.68, our target of $1.41 represents upside potential of 107.4%.

DCF

We expect Viveve will make investments in distribution, geographic expansion, and regulatory approvals that will use cash during the period from FY15E until FY18E. We expect higher sales levels and a better mix of consumable tips versus initial system sales will enable Viveve to generate sustainable profitability beginning in FY19E, whereupon the company should be able to reap the cash flow benefits of incremental growth.

We project free cash flow to move from ($6.5mn) in FY2015E to $5.3mn in 2018E. We discounted cash flows at a weighted average cost of capital of 18.2% and assumed a terminal growth rate of 2.5% at the end of FY2020E to arrive at an enterprise value of $78.8mn. Finally we adjusted for the adjusted cash balance of $12.9mn and debt of $3.5mn following the company's recent private placement in May. We arrived at a fair value of $1.74 per share.

Figure 3. Discounted Cash Flow Analysis

$' 000	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBIT	(7,121)	(5,781)	(1,624)	5,879	15,444	29,252
Less: Tax	0	0	0	0	0	0
NOPLAT	(7,121)	(5,781)	(1,624)	5,879	15,444	29,252
Changes in working capital	623	(169)	(1,500)	(522)	(576)	(1,331)
Depreciation & Amortization	55	50	75	90	125	225
Capex	(56)	(100)	(110)	(121)	(133)	(300)
FCFF	**(6,498)**	**(6,000)**	**(3,159)**	**5,326**	**14,859**	**27,846**
Discount factor	0.90	0.76	0.64	0.55	0.46	0.39
PV of FCFE	(5,858)	(4,574)	(2,037)	2,904	6,852	10,859
Sum of PV of FCFE						8,145
Terminal cash flow						181,269
PV of terminal cash flow						70,685
Enterprise value						78,830
Less: Debt						3,500
Add: Cash						12,895
Equity value						**88,225**
Outstanding shares (mn)						50.8
Fair value per share ($)						**1.74**

Summary conclusions		Key assumptions	
DCF FV ($ per share)	1.74	Beta	2.00
Recent price ($ per share)	0.68	Cost of equity	19.5%
Upside (downside)	155.8%	Cost of debt (post tax)	8.4%
WACC	18.2%	Terminal Growth Rate	2.50%

Source: SeeThruEquity Research

Figure 4. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

Terminal growth rate (%)	WACC (%)				
	17.2%	17.7%	18.2%	18.7%	19.2%
1.50%	1.81	1.72	1.64	1.57	1.50
2.00%	1.86	1.77	1.69	1.61	1.54
2.50%	1.92	1.83	**1.74**	1.66	1.58
3.00%	1.98	1.88	1.79	1.70	1.62
3.50%	2.05	1.94	1.85	1.76	1.67
4.00%	2.12	2.01	1.91	1.81	1.72

Source: SeeThruEquity Research

Peer Group Valuation

We have compared Viveve with peers in the medical device industry as well as companies with products targeting sexual health, women's health, and certain cosmetic procedures. Our peer group includes Cynosure, Inc. (CYNO), VIVUS, Inc. (VVUS), Apricus Biosciences, Inc. (APRI), ZELTIQ Aesthetics, Inc. (ZELTQ) and Cutera, Inc. (CUTR), among others. Given that Viveve does not generate EBITDA and revenues are low since the company is in the process of launching its product, we chose multiples of forward revenue as the method of comparing the company to peers.

We arrived at a fair value range of $0.88 to $1.12 per share based on EV/Revenue and P/Revenue multiples of selected peers. We considered a target multiple of 7.5x for the EV/Revenue multiple and 2016E revenue of $6.3mn to arrive at a fair value of $0.88 per share. Similarly, we used a P/Revenue multiple of 9.0x our 2016E revenue forecast to arrive at a fair value of $1.12 per share. Viveve currently trades at a premium to the peer group, which is attributable to the impact of low revenue levels as the company is in the inchoate stages of its launch. We see the key to the company's success as being able to build a sizeable installed base of Viveve Systems over the next 3-4 years, while achieving regulatory clearance to market in the United States.

Figure 5. Comparable Valuation (Data as of 4/9/15)

Company	Mkt cap ($ mn)	EV/Revenue(x)		Price/Revenue(x)	
		FY14E	FY15E	FY14E	FY15E
ZELTIQ Aesthetics, Inc	1,178	4.8x	3.9x	5.1x	4.0x
The Spectranetics Corporation	1,438.7	5.9x	5.0x	5.4x	4.5x
Align Technology Inc.	4,362	4.7x	4.1x	5.2x	4.6x
Cardica Inc.	52	9.3x	9.3x	18.7x	18.7x
Apricus Biosciences, Inc.	83	3.9x	2.0x	4.8x	2.4x
Cardiovascular Systems Inc	1,190	6.0x	4.7x	6.5x	5.2x
VIVUS, Inc.	267	2.2x	1.4x	3.0x	1.9x
Cutera, Inc.	194	1.3x	1.2x	2.2x	2.0x
Cynosure, Inc.	667	1.8x	1.6x	2.0x	1.8x
Average		**4.4x**	**3.7x**	**5.9x**	**5.0x**
Viveve	27.9	8.6x	2.9x	12.9x	4.4x
Premium (discount)		93.6%	(20.4%)	119.5%	(12.3%)

Source: Bloomberg, SeeThruEquity Research;

RISK CONSIDERATIONS

Regulation

The Viveve System is a medical device that is subject to extensive and rigorous regulation by the Food and Drug Administration (FDA) in the United States, as well as international regulatory bodies in other markets. The company's future products will likely require approval by the FDA and these international regulatory agencies before they can be sold. These regulatory bodies ensure, among other things, that Viveve's products are safe and effective for their intended uses, and can require costly and time-consuming approval processes, with uncertain outcomes. The company will need to conduct future clinical studies on the effectiveness of the Viveve System for vaginal laxity and sexual function, which are subject to a number of limitations and may show different results from the company's prior studies. Further, the time and approval process required for international approval may differ from that of the FDA, and FDA approval does not guarantee that the device will be approved in other markets.

Competition

The medical device industry is characterized by intense competition and rapid innovation. Viveve is a relatively small company in the medical device industry, and may face potential competitors with greater financial and research resources, as well more established brand recognition and selling experience. Although Viveve believes it has developed a unique solution to treat vaginal laxity that is more effective than alternative treatment options currently available, the market for the treatment of women's vaginal laxity and related decreases in women's sexual function remains a large and under-developed opportunity, which will likely attract increased competition. Aside from Kegel exercises and invasive surgeries, several companies are developing laser-based technologies for the treatment of vaginal laxity and drug-based therapies for the treatments of various types of sexual dysfunction. Potential competitors identified by the company include, but are not limited to, Fotona, BioSante, Apricus, Conceptus, and Bayer AG, among others.

Technology / Intellectual Property Risk

As a medical device company, Viveve is exposed to potential changes in technology that may render its products obsolete or uncompetitive, and will therefore need to continuously in research and development to ensure its products and technology remain competitive. Additionally the company relies on its patent portfolio to protect its intellectual property to protect against competition in the United States and internationally, which may potentially be challenged or circumvented by competitors.

Going Concern

Viveve's auditors, Burr Pilgar Mayer, Inc., raised doubt as to the company's ability to continue as a going concern. The company has a history of losses, with net losses from inception to December 31, 2014 of $36.1mn. In 2014 and 2013, the company reported net losses of $6.2mn and $4.3mn, respectively, and we expect the company will report losses in 2015E and 2016E as well. Mitigating this risk somewhat is the company's recent $12mn private placement, which management believes will provide the company with capital for the next 12-18 months. We expect the company will continue to raise capital and this analysis assumes that it will be able to do so with terms that are palatable to shareholders.

Limited operating history

Viveve has a limited operating history and has not yet received regulatory approval to sell its products in the United States, which inherently adds uncertainty and difficulty in forecasting future results. This analysis assumes the management team is able to execute to its plan; however the company may face delays from a number of sources, including manufacturing or regulatory issues. Additionally Viveve may not be able to generate revenues and profits as forecast in this analysis.

Manufacturing risk

Viveve outsources its manufacturing operations to a single contract manufacture, Stellartech. If Stellartech's operations are interrupted, or it fails to meet Viveve's delivery requirements for another reason, Viveve may be limited in its ability to fulfill customer orders and fail to meet growth expectations. In addition, Stellartech

is required to meet the FDA's Quality System Regulations (QSR), and if the company falls out of compliance Viveve may face delays or be forced to find a new contract manufacturer.

Management Team

Patricia Scheller –Chief Executive Officer, Director

Patricia Scheller has extensive leadership experience in the healthcare industry and has served as Viveve's Chief Executive Officer since May 2012. Prior to joining Viveve, Inc., she served as the Chief Executive Officer of Prescient Medical, Inc. ("PMI"), a privately held company that developed diagnostic imaging catheters and coronary stents designed to reduce deaths from heart attacks, from September 2004 through April 2012 and as a director of PMI from July 2004 to September 2011. Prior to joining PMI, from August 2003 to September 2004, she was the Chief Executive Officer of SomaLogic, a biotechnology company focused on the development of diagnostic products using aptamer technology. From December 2000 to April 2003, Ms. Scheller also managed several business units at Ortho-Clinical Diagnostics, a Johnson & Johnson company, and from October 1997 to November 2000 served in key executive positions at Dade Behring, a clinical diagnostics firm. While at Dade Behring Holdings, Inc., she directed the commercialization of the hsCRP diagnostic test, a screening test for systemic inflammation, which has been shown to increase the risk of heart attacks. The hsCRP test was the first diagnostic test added to the cardiac test panel by the Centers for Disease Control and Prevention and the American Heart Association in over 30 years. As Director of cardiology systems at Cordis Corporation (a Johnson & Johnson company) from February 1994 to February 1996, Ms. Scheller managed the launch of the first Palmaz-Schatz® balloon-expandable coronary stent, the first major product entry into what became a $6 billion market.

Ms. Scheller received a B.S.E. degree in Biomedical Engineering from Duke University and completed executive business education programs at Harvard University, Massachusetts Institute of Technology, Columbia University and Northwestern University.

Scott Durbin – Chief Financial Officer

Scott Durbin joined Viveve as its Chief Financial Officer in February 2013 and was appointed as the Chief Financial Officer of Viveve Medical, Inc. on September 23, 2014. From June 2012 to January 2013 he served as an advisor and Acting Chief Financial Officer for Viveve, Inc. Prior to joining Viveve, Inc., from June 2010 to October 2011, he was Chief Financial Officer of Aastrom Biosciences ("Aastrom"), a publicly traded, cardiovascular cell therapy company. Before Aastrom, he spent six years as Chief Operating and Financial Officer for Prescient Medical ("Prescient") from May 2004 to June 2010, a privately held company that developed diagnostic imaging catheters and coronary stents designed to reduce deaths from heart attacks. Prior to Prescient, from January 2003 to April 2004, he spent several years as a financial consultant for two publicly traded biotech companies, Scios Inc. – a Johnson & Johnson company and Alteon Inc. Mr. Durbin began his career in corporate finance as an investment banker in the Healthcare and M&A groups at Lehman Brothers Inc. from August 1999 to January 2003, where he focused on mergers and acquisitions and financings for the life science industry. At Lehman, he successfully executed over $5 billion in transactions for medical device and biotechnology companies.

Mr. Durbin began his career as a Director of Neurophysiology for Biotronic, Inc. Mr. Durbin received a B.S. from the University of Michigan and an M.P.H. in Health Management with Honors from the Yale University School of Medicine and School of Management.

James Atkinson – Chief Business Officer

James Atkinson was appointed to serve as the Chief Business Officer and President of Viveve effective as of February 4, 2015. Mr. Atkinson has over 30 years of experience in medical device sales, marketing and business development with both Fortune 50 and start-up medical device companies. Mr. Atkinson was a founding principal at Ulthera, Inc. where he served as Senior Vice President of Sales and Marketing from

October 2006 through April 2014. While at Ulthera, he assisted in growing the company from 3 to 165 employees and established a global distribution network that included 42 distributors, covering 52 countries. Mr. Atkinson's prior experience includes various executive positions, including (i) Vice President of Sales and Marketing for the Cardiac Surgery Division at St. Jude Medical, Inc. from October 2004 to October 2006 where his responsibilities included launching the Biocor® stented tissue valve, recognized as the fastest growing heart valve brand in the industry, (ii) Vice President of Sales for Medtronic Vascular, a $200 million division of Medtronic, Inc., a company whose stock is traded on the New York Stock Exchange (Ticker: MDT), from January 2003 to September 2004 and (iii) co-founder and Vice President of Sales and Business Development for Medical Simulation Corporation.

FINANCIAL SUMMARY

Figure 6. Income Statement

Figures in $mn unless specified	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E
Revenue	**0.2**	**0.1**	**2.2**	**6.3**	**16.3**	**36.7**
YoY growth	NM	(40.9%)	2305.6%	192.7%	156.6%	125.5%
Cost of sales	0.2	0.1	1.3	3.1	6.8	13.6
Gross Profit	**0.3**	**0.1**	**3.5**	**9.5**	**23.1**	**50.2**
Margin	219.7%	155.6%	159.4%	149.2%	142.0%	137.0%
Operating expenses	3.9	5.7	8.0	9.0	11.1	17.2
EBIT	(3.9)	(5.7)	(7.1)	(5.8)	(1.6)	5.9
Margin	(2581.6%)	(6291.1%)	(328.9%)	(91.2%)	(10.0%)	16.0%
EBITDA	**(3.9)**	**(5.6)**	**(7.1)**	**(5.7)**	**(1.5)**	**6.0**
Margin	(2538.2%)	(6228.9%)	(326.4%)	(90.4%)	(9.5%)	16.3%
Other income/ (expense)	(0.4)	(0.5)	(0.2)	(0.4)	(0.4)	(0.4)
Profit before tax	(4.3)	(6.2)	(7.3)	(6.2)	(2.0)	5.5
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**(4.3)**	**(6.2)**	**(7.3)**	**(6.2)**	**(2.0)**	**5.5**
Margin	(2835.0%)	(6866.7%)	(338.1%)	(97.8%)	(12.5%)	15.0%
EPS (per share)	**-81.81**	**-1.27**	**-0.18**	**-0.14**	**-0.04**	**0.12**

Source: SeeThruEquity Research

Figure 7. Balance Sheet

Figures in $mn, unless specified	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E
Current assets	1.0	2.0	9.5	8.0	5.8	12.5
Other assets	0.2	0.3	0.3	0.4	0.4	0.6
Total assets	**1.1**	**2.3**	**9.8**	**8.4**	**6.3**	**13.1**
Current liabilities	7.8	3.1	5.6	6.1	5.3	6.0
Other liabilities	0.6	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	(7.3)	(0.8)	4.2	2.4	1.0	7.1
Total liab and shareholder equity	**1.1**	**2.3**	**9.8**	**8.4**	**6.3**	**13.1**

Source: SeeThruEquity Research

Figure 8. Cash Flow Statement

Figures in $mn, unless specified	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E
Cash from operating activities	(3.8)	(6.0)	(6.4)	(5.8)	(2.8)	5.6
Cash from investing activities	-0.00	-0.12	-0.05	-0.10	-0.11	-0.12
Cash from financing activities	3.7	6.6	12.0	5.0	0.0	0.0
Net inc/(dec) in cash	**(0.0)**	**0.5**	**5.5**	**(0.9)**	**(2.9)**	**5.5**
Cash at beginning of the year	0.4	0.4	0.9	6.4	5.5	2.6
Cash at the end of the year	**0.4**	**0.9**	**6.4**	**5.5**	**2.6**	**8.1**

Source: SeeThruEquity Research

About Viveve, Inc.

Viveve, Inc., the operating subsidiary of Viveve Medical, Inc., is a women's health company passionately committed to advancing new solutions to improve women's overall well-being and quality of life. The company's lead product, the Viveve® System, is a non-surgical, non-ablative medical device that remodels collagen and restores tissue. The Viveve System treats the condition of vaginal laxity, which is the result of the over-stretching of tissue during childbirth that can result in a decrease in physical sensation and sexual satisfaction. Physician surveys indicate that vaginal laxity is the number one post-delivery physical change for women, being more prevalent than weight gain, urinary incontinence or stretch marks. The Viveve Treatment uses patented, reverse-thermal gradient radiofrequency technology to tighten the tissues of the vaginal introitus (opening) and requires only a 30-minute out-patient treatment in a physician's office. The Viveve System has received regulatory approval in Europe, Canada and Hong Kong and is available through physician import license in Japan. It is currently not available for sale in the U.S. For more information, please visit Viveve's website at www.viveve.com.

CONTACT:

Amit Tandon
Director of Research
SeeThruEquity, LLC
www.seethruequity.com
(646) 495-0939
amit@seethruequity.com

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