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January 27, 2017

**NeuroMetrix, Inc.**  
**(Nasdaq/NURO/\$0.73/Not rated)**
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## Fourth Quarter and Yearend Results

NeuroMetrix held its fourth quarter and yearend results conference call yesterday. Management had preannounced Q4 device shipments during Biotech Showcase. Full year 2016 revenues reached just over \$12 million, a 65% increase over 2015. **Quell®** contributed over 60% to top line revenue, in line with the Company's focus on becoming increasingly "Quell-centric". The Company reported a loss from operations for 2016 of \$15.2 million. After effect for net interest, changes in warrant fair value and deemed dividend earnings, NURO reported a net loss per share of \$7.28. The deemed dividend accounting treatment contributed about \$2.14 to the reported net loss per share.

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Revenues</b>	\$ 3,715,432	\$ 2,737,451	\$ 12,027,528	\$ 7,299,830
Cost of revenues	2,026,299	1,599,267	7,113,005	3,950,746
<b>Gross profit</b>	1,689,133	1,138,184	4,914,523	3,349,084
Operating expenses:				
Research and development	907,062	1,069,197	4,394,353	3,894,786
Sales and marketing	2,655,976	2,049,376	10,855,445	7,232,971
General and administrative	990,209	1,340,431	4,872,670	5,497,513
<b>Total operating expenses</b>	4,553,247	4,459,004	20,122,468	16,625,270
<b>Loss from operations</b>	(2,864,114)	(3,320,820)	(15,207,945)	(13,276,186)
Interest income	2,102	1,882	19,132	5,232
Change in fair value of warrant liability	47,789	609,802	275,662	4,083,606
<b>Net loss</b>	\$ (2,814,223)	\$ (2,709,136)	\$ -14,913,151	\$ (9,187,348)
Net loss per common share applicable to common stockholders, basic and diluted	\$ (\$0.52)	\$ (\$3.19)	\$ (\$7.28)	\$ (\$7.75)

Fourth quarter results continued to show sequential growth in revenue. NURO reported that the invoiced value of **Quell** shipments rose 19% to about \$3.5 million over the Q3 2016 level of \$2.9 million. **Quell** shipments for Q4 reached 14,301 devices and 19,992 electrode reorder kits and Q4 was the 7<sup>th</sup> consecutive quarter of sequential increases in **Quell** shipments. To date, the Company has shipped nearly 60,000 devices and is currently invoicing at an annual rate of about \$14 million. Gross margin for the quarter improved to about 45.5% compared to 41.5% in Q4 2015 and the lower 40's in recent quarters, but is still below management's gross margin target in the 50%+ range. Margin improvement was largely derived from better manufacturing efficiency, improved returns handling and an increasing proportion of higher margin electrode reorders. Enhanced product design and increased electrode orders are expected to be the primary drivers of gross margin expansion going forward.

Please find Important Disclosures beginning on Page 3.

NURO noted on its call that because of the diversity in **Quell**'s user base, the Company intends to continue to invest in the **Quell** franchise through a variety of outlets including expanding retail store presence beyond the current 1500 stores during 2017 which may include getting shelf space in Bed, Bath & Beyond stores, increased TV promotion and other marketing activities. Management noted that there is a continued review of TV advertising to maximize visibility and reach to **Quell**'s target market. QVC, in particular, will be a focal point of this optimization during Q1 2017. The Company is also in discussions with potential European partners, with whom further European distribution and marketing strategy will be decided when a partner is chosen, likely later in 2017. Importantly, **Quell** continues to move up in product category at Amazon and is now considered an Amazon national product. Under this classification, Amazon now buys inventory directly from NURO and resells through its on-line outlets.

#### **Next generation Quell launched at CES 2017**

NURO unveiled the next generation of **Quell** during this month's Consumer Electronics Show. This second generation **Quell** features improved application calibration and battery life and expanded therapy personalization and health tracking. The Company also incorporated a remote update capability. This latest version of **Quell** has already begun shipping.

#### **Quell Continues to Garner Attention**

In an article published on January 10<sup>th</sup> in *CRN*, a publication of The Channel Company, **Quell** received "kudos" as one of the 10 notable wearables at CES 2017. The article notes the evolution of "connected" wearable devices from simple fitness watches to wearables that are capable of monitoring physiological metrics such as blood pressure, pulse or birth contractions and now are moving into modulating physiological responses such as to anxiety, nausea or in **Quell**'s case, pain. **Quell** also received similar press coverage in a Digital Trends article published on January 10<sup>th</sup>.

<http://www.crn.com/slide-shows/components-peripherals/300083360/10-wearables-that-stole-the-show-at-ces-2017.htm/pgno/0/8>

<http://www.digitaltrends.com/wearables/pain-relief-wearables-ces-2017/2/>

#### **Progress in China DPNCheck® Launch**

**DPNCheck** shipments reached a four year quarterly high during Q4 2016 of 63,625 sensors. This is a 17% increase in biosensor shipments over Q4 2015. In response to questions from conference call participants, management noted that expanded launch activities by its distribution partner, Omron Beijing, are underway and include educating more KOL's in China and entering into discussions with Chinese sub-distributors. NURO expects that the revenue impact from these activities will become evident in the latter part of 2017. However, in our opinion, the complexity of distribution in the Chinese market may push out real revenue impact until into 2018.

#### **Comment**

In our 1x1 meeting with NURO management during Biotech Showcase, we touched on some of the data points and company metrics discussed in yesterday's call, including improving margins. Based upon our conversation, we expect NURO will make progress on margins, but will also continue to have to make substantial investment in TV advertisement in particular for **Quell**, which will push normalized quarterly operating expenses to the \$4.5-5 million level. We also can expect some reorientation of CVS's marketing strategy for **Quell** that will likely result in a realignment of shelf space to focus on stores with the right demographics and traffic patterns.

Importantly, the Company will also need to continue to seek funding to support further **Quell** distribution. The raise in January increased cash to a proforma \$7.6MM. Shareholder vote on the second tranche of the

financing is expected in March. According to management, together these financings would provide runway into Q3. While management disagrees with our opinion, we continue to see the Company’s cap table and recent financings as a drag on stock appreciation. *SG*



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