



CRAIG-HALLUM
CAPITAL GROUP LLC

ALPHA SELECT LIST

May 10, 2018
Institutional Research

CAS Medical Systems, Inc.

BUY

(CASM - \$1.31 intraday)

Price Target: \$2

Ramp In Sales Force Productivity Drives Another Strong Quarter; OEM Module Remains On Track. Maintaining BUY Rating And \$2 Price Target.

CAS Medical Systems is a manufacturer and marketer of medical technology used to measure cerebral blood oxygen levels and patient monitoring.

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Changes	Previous	Current
Rating:	--	Buy
Fundamental Trend:	--	Mixed
Price Target:	--	\$2.00
FY18E Rev M:	\$20.8	\$21.3
FY19E Rev M:	--	\$24.2
FY18E EPS:	(\$0.26)	(\$0.25)
FY19E EPS:	--	(\$0.18)

Profile		
Price:		\$1.31
52 Wk Range:	\$0.59	\$1.39
Avg Daily Vol:		38,950
Shares Out M:		27.6
Market Cap M:		\$36.2
Insiders Own:		21%
Short Interest:		1%
Book Value/Sh:		\$0.05
Est LT EPS Gr:		15%
Net Cash/Sh:		(\$0.09)
Debt / Capital:		13%
Year End:		Dec.

Rev (M)	2017A	2018E	2019E
Mar	\$4.5	\$5.4A	--
Jun	\$4.6	\$5.0	--
Sep	\$4.5	\$5.0	--
Dec	\$5.1	\$5.8	--
FY	\$18.8	\$21.3	\$24.2

EPS*	2017A	2018E	2019E
Mar	(\$0.09)	(\$0.07)A	--
Jun	(\$0.09)	(\$0.07)	--
Sep	\$0.10	(\$0.07)	--
Dec	(\$0.07)	(\$0.05)	--
FY	(\$0.27)	(\$0.25)	(\$0.18)

*Cont. ops.

FY P/E	NA	NA	NA
FY EV/S**	2.8x	2.5x	2.2x
**includes \$13M preferred			

Management	
CEO	Tom Patton
CFO	Jeff Baird

OUR CALL

This morning, CASMED reported strong Q1 results that were above our estimate on revenue and in-line on EPS (see table below). The beat on revenue is primarily attributable to an increase in sensor sales, which were \$0.4 million better than we expected. During the quarter, the company won a contract with a large GPO (effective July 1st) that includes ~200 acute care hospitals, only 7 of which are current customers. While there will not be any stocking orders associated with this contract, CASM believes it will help open doors for them within a group of potential customers that they previously had difficulty reaching. Additionally, the company raised FY18 guidance to mid-teens growth in FORE-SIGHT revenue (from low-double-digit previously), which represents significant acceleration from the less than 1% growth that was seen in 2017 when many sales reps still were not tenured. Growth also has the potential to accelerate further if an OEM partnership is finalized (details below). Given CASM's clinically superior product, accelerating growth, and low valuation (2.5x FY18 EV/Sales), we are maintaining our Buy rating and \$2 price target.

	Q1'18		Q2'18		FY'18		FY'19	
	Revenue	EPS	Revenue	EPS	Revenue	EPS	Revenue	EPS
Actuals:	\$5.4	(\$0.07)	--	--	--	--	--	--
C-H Prior Estimate:	\$5.1	(\$0.07)	\$5.0	(\$0.07)	\$20.8	(\$0.26)	--	--
Consensus Estimate:	\$5.1	(\$0.07)	\$5.0	(\$0.07)	\$20.8	(\$0.26)	--	--
Prior Guidance:	--	--	--	--	--	--	--	--
Guidance:	--	--	--	--	--	--	--	--
C-H Revised Estimate:	--	--	\$5.0	(\$0.07)	\$21.3	(\$0.25)	\$24.2	(\$0.18)

Source: FactSet, CAS Medical Systems, Inc., and Craig-Hallum estimates

KEY POINTS

CASM Posts Strong Q1 Results – Revenue from continuing operations in Q1 grew by 20% Y/Y and was above our estimate, while EPS was in-line (see table above). Growth was driven by the placement of 111 monitors during the quarter (the most since 3Q16), due to broad-based strength in sales force productivity, with 12 of the company's 16 sales reps having been with the company for 12 months or more. Additionally, sensor revenue increased 18% Y/Y to \$4.7 million, a new high for this metric. To us, these metrics indicate that CASM has the right people in place to continue to grow the business.

OEM Module Still on Track for Approval in Q2 – On January 24th, CASM announced that it had filed a 510(k) for an OEM version of its technology, which could be integrated with third-party monitors. The company still expects this product to be approved sometime in the second quarter, which would open the door to a potential partnership with a third-party monitor manufacturer. Negotiations with a potential partner are still ongoing and the next step (if an agreement is reached) would be the filing of a combined 510(k) in late 2018, with potential revenue in 2019. We believe a partnership of this nature would likely aid in customer adoption, as a larger organization would be out in the field selling the product and customers would no longer be required to purchase a CASMED-specific monitor to use the technology. We also note that Masimo, a key competitor of CASMED's, entered into a similar arrangement with Philips in late 2016.



QUARTERLY RESULTS AND ESTIMATE CHANGES

CASM Quarterly Results and Guidance Snapshot

\$ thousands	Actual	Estimates	Variance	Notes	Last Q	Q/Q Growth	Last Y	Y/Y Growth
Cerebral Oximetry	\$5,300	\$4,935	\$364.8	Sensor revenue was the vast majority of the beat	\$4,993	6%	\$4,337	22%
Service and Other	\$144	\$120	\$24.5		\$128	13%	\$207	(30%)
Total Revenue	\$5,444	\$5,055	\$389.3	Sales force productivity driving strong Y/Y growth	\$5,121	6%	\$4,543	20%
GAAP Gross Profit	\$3,087	\$2,796	\$291.2		\$2,754	12%	\$2,482	24%
GAAP Operating Income	(\$1,146)	(\$1,317)	\$170.9		(\$1,239)	N/A	(\$1,879)	N/A
Net Income Avail. to Common from Cont. Ops.*	(\$1,833)	(\$2,010)	\$177.2		(\$1,961)	N/A	(\$2,422)	N/A
GAAP EPS from Cont. Ops.	(\$0.07)	(\$0.07)	\$0.01		(\$0.07)	N/A	(\$0.09)	N/A
GAAP Gross Margin	56.7%	55.3%	140 bps	New sensor design began to have a benefit in the quarter	53.8%	292 bps	54.6%	206 bps
Research and development (% of sales)	14.7%	15.9%	(120) bps		15.3%	(61) bps	17.3%	(260) bps
Selling, general and administrative (% of sales)	63.0%	65.4%	(241) bps	Not planning to do any sales hiring until OEM negotiations are finished	62.6%	39 bps	78.7%	(1,564) bps
GAAP Operating Margin	(21.1%)	(26.1%)	500 bps		(24.2%)	314 bps	(41.4%)	2,031 bps

Source: CAS Medical Systems, Inc. and Craig-Hallum estimates

Guidance	Current	Prior	
U.S. FORE-SIGHT sensor sales	Mid-teens	Low teens	Beat flowed through to guidance
Total FORE-SIGHT revenue growth	Mid-teens	Low double-digit	

*Numbers reflect results and estimates from continuing operations

Estimate Changes

\$ thousands	Q2'18 New	Q2'18 Prev.	FY18 New	FY18 Prev.	FY19 New	FY19 Prev.
Cerebral Oximetry	\$4,894	\$4,874	\$20,751	\$20,327	\$23,766	
Y/Y Growth	11.3%	10.9%	14.6%	12.3%	14.5%	
Service and Other	\$120	\$120	\$504	\$480	\$480	
Y/Y Growth	(32.2%)	(32.2%)	(24.0%)	(27.6%)	(4.8%)	
Total Revenue	\$5,014	\$4,994	\$21,255	\$20,807	\$24,246	
Y/Y Growth	9.7%	9.2%	13.3%	10.9%	14.1%	
GAAP Gross Profit	\$2,858	\$2,847	\$12,615	\$12,288	\$14,970	
GAAP Operating Income	(\$1,275)	(\$1,286)	(\$4,167)	(\$4,372)	(\$2,086)	
Net Income Avail. To Common*	(\$1,980)	(\$1,989)	(\$6,997)	(\$7,203)	(\$5,005)	
GAAP EPS from Cont. Ops.	(\$0.07)	(\$0.07)	(\$0.25)	(\$0.26)	(\$0.18)	
GAAP Gross Margin	57.0%	57.0%	59.4%	59.1%	61.7%	
Research and development	15.5%	15.5%	14.7%	15.0%	13.2%	
Selling, general and administrative	67.0%	67.2%	64.2%	65.0%	57.1%	
GAAP Operating Margin	(25.4%)	(25.8%)	(19.6%)	(21.0%)	(8.6%)	

*Numbers reflect results and estimates from continuing operations

Source: Craig-Hallum estimates

Balance Sheet: CASMED exited Q1 with a balance sheet consisting of \$4.8M in cash and \$7.3M in debt. DSO in Q1 was 45, down by 7 days sequentially. Subsequent to the end of the quarter, the company announced a \$10M term loan (~8.4% floating interest) and \$2M line of credit agreement (~7.1% floating interest) with East West Bank (expiring 2022). The company also repaid in full the remaining balance on the existing term loan and line of credit agreement (~\$7.7M) with Western Alliance bank. As a part of the agreement, warrants were issued to East West bank for the purchase of 218,914 shares of stock at a strike price of \$1.142 for a period of 5 years.

STOCK OPPORTUNITY

We are maintaining our DCF-driven price target of \$2 on CASM, which equates to an EV/Sales multiple of 3.4x our FY18 revenue estimate of \$21.3 million. Overall, we view CASM as a company shifting from a capital-intensive low-margin business built around monitor sales to a higher margin disposables business built around sensor sales. Importantly, this shift has the potential to accelerate if the FDA approves the company's 510(k) for an OEM version of its technology, as this may allow CASM to stop selling monitors and to



instead partner with a third-party monitor manufacturer that would integrate the technology into its own monitors. Coupled with the potential for growth acceleration if this occurs, we believe CASM is undervalued.

RISKS

We believe an investment in CAS Medical involves the following risks:

- **Clinical & Regulatory**
CASM relies on the FDA for product clearance and approval. If they are unable to prove efficacy, safety, or if the FDA delays approval/clearance of their products, this may adversely affect the company and its stock price.
- **Key Personnel**
We believe that Tom Patton is a key member of the management team and if CASM were to lose the services or cooperation of these individuals, the business or stock price may be adversely affected.
- **Hospital Adoption**
One of the challenges for any small medical device company is to gain approval of hospitals' VAC (value assessment committees). This approval is required before physicians can use products in a hospital. CAS Medical will need to secure a place on VAC, GPO, and IDN platforms in order for physicians to use their products. If they are unsuccessful, it will be difficult for them to achieve success.
- **Competition**
Medtronic (Somanetics division) has a market leading position in the cerebral oximetry market. Medtronic is a large, well-capitalized company which may create unexpected challenges for CASM.
- **Sales Execution**
Since CAS Medical currently has limited capital, it is important that they use it wisely to maximize returns for shareholders. At this time, they do not have the financial resources to rapidly develop a vast sales force and will have to be thoughtful with their uses of capital. If CAS Medical uses capital inefficiently, this may negatively impact current shareholders.
- **Manufacturing Risk**
CAS Medical assembles and manufactures their products at their Branford, CT facility. If there were material manufacturing flaws this may adversely affect their business. If this facility were to fail an FDA inspection, this may present regulatory challenges to their operations and inhibit their ability to introduce new products.
- **Customer Concentration**
CAS Medical's five largest customers account for ~15% of their total revenue. If they were to lose some of these customers, this would adversely affect their business operations.



CRAIG-HALLUM ALPHA SELECT LIST

The Alpha Select list is an actively researched collection of small, under-followed public companies that we believe have the potential to become much larger. The Alpha Select List will typically consist of sub-\$250M market cap companies with attractive business models, above average growth trends, favorable macro/secular themes and management teams that we believe have the ability to take the business to the next level.

CAS Medical Systems, Inc.
Fiscal Year Ends December

Income Statement (\$ thousands)	Fiscal 2015A	Mar 1Q16A	Jun 2Q16A	Sep 3Q16A	Dec 4Q16A	Fiscal 2016A	Mar 1Q17A*	Jun 2Q17A	Sep 3Q17A	Dec 4Q17A	Fiscal 2017A	Mar 1Q18A	Jun 2Q18E	Sep 3Q18E	Dec 4Q18E	Fiscal 2018E	Fiscal 2019E
Total Revenue (adjusted for divestitures)	16,994	4,468	4,649	4,961	4,596	18,674	4,543	4,572	4,526	5,121	18,763	5,444	5,014	4,997	5,800	21,255	24,246
Total Revenue (as originally reported)	21,639	5,456	5,539	5,762	5,481	22,238		4,572	4,526	5,121	18,763	5,444	5,014	4,997	5,800	21,255	24,246
Cost of sales:																	
Total cost of sales	10,987	2,575	2,510	2,715	2,291	10,091	2,061	2,194	1,882	2,368	8,505	2,358	2,156	1,934	2,192	8,640	9,276
GAAP Gross Profit	10,652	2,881	3,029	3,047	3,190	12,147	2,482	2,378	2,644	2,754	10,258	3,087	2,858	3,063	3,608	12,615	14,970
Operating expenses:																	
Research and development	3,514	955	867	850	764	3,437	787	858	804	785	3,235	802	775	775	775	3,127	3,200
Selling, general and administrative	13,164	3,368	3,491	3,198	3,518	13,575	3,574	3,503	3,133	3,208	13,418	3,431	3,358	3,408	3,458	13,655	13,855
GAAP Operating Expenses	16,678	4,323	4,358	4,048	4,282	17,012	4,361	4,362	3,937	3,993	16,653	4,233	4,133	4,183	4,233	16,782	17,055
GAAP Operating Income	(6,026)	(1,443)	(1,330)	(1,001)	(1,092)	(4,865)	(1,879)	(1,983)	(1,293)	(1,239)	(6,395)	(1,146)	(1,275)	(1,120)	(625)	(4,167)	(2,086)
Adjusted EBITDA	(4,586)	(1,150)	(935)	(649)	(1,118)	(3,852)	(1,627)	(1,727)	(1,032)	(982)	(5,369)	(946)	(1,075)	(920)	(425)	(3,367)	(1,286)
Interest and other income:																	
Other expenses	855	194	320	237	254	1,006	260	265	275	277	1,076	272	285	290	295	1,142	1,150
GAAP Pre-tax Income from Continuing Operations	(6,881)	(1,637)	(1,650)	(1,239)	(1,346)	(5,871)	(2,139)	(2,248)	(1,568)	(1,516)	(7,471)	(1,418)	(1,560)	(1,410)	(920)	(5,308)	(3,236)
Income tax expense (benefit)	0	(1,091)	30	39	74	(948)	(104)	(50)	(1,630)	37	(1,746)	-	-	-	-	0	0
GAAP Income (Loss) from Continuing Operations	(6,881)	(546)	(1,680)	(1,277)	(1,419)	(4,922)	(2,035)	(2,198)	62	(1,554)	(5,725)	(1,418)	(1,560)	(1,410)	(920)	(5,308)	(3,236)
Discontinued operations:																	
Income (loss) from discontinued operations	(18)	176	(87)	(111)	(180)	(201)	295	142	268	40	746	0	0	0	0	0	0
Gain (loss) on sale of discontinued operations		2,942			(31)	2,911			4,388		4,388					0	0
Income tax expense (benefit)		1,091	(30)	(39)	(74)	948	104	50	1,630	(37)	1,746					0	0
Income (loss) from discontinued operations	(18)	2,027	(56)	(72)	(137)	1,762	191	93	3,027	77	3,388	0	0	0	0	0	0
GAAP Net Income	(6,899)	1,481	(1,736)	(1,349)	(1,556)	(3,161)	(1,844)	(2,106)	3,089	(1,476)	(2,337)	(1,418)	(1,560)	(1,410)	(920)	(5,308)	(3,236)
Preferred Dividends	1,383	361	367	374	380	1,483	387	394	401	408	1,589	415	420	425	430	1,689	1,769
GAAP Net Income Available to Common	(8,282)	1,120	(2,104)	(1,723)	(1,937)	(4,643)	(2,231)	(2,499)	2,688	(1,884)	(3,926)	(1,833)	(1,980)	(1,835)	(1,350)	(6,997)	(5,005)
Net Income Available to Common from Continuing	(8,264)	(907)	(2,047)	(1,651)	(1,800)	(6,405)	(2,422)	(2,592)	(339)	(1,961)	(7,314)	(1,833)	(1,980)	(1,835)	(1,350)	(6,997)	(5,005)
GAAP EPS	(\$0.32)	\$0.04	(\$0.08)	(\$0.06)	(\$0.07)	(\$0.17)	(\$0.08)	(\$0.09)	\$0.10	(\$0.07)	(\$0.14)	(\$0.07)	(\$0.07)	(\$0.07)	(\$0.05)	(\$0.25)	(\$0.18)
GAAP EPS from Continuing Operations	(\$0.32)	(\$0.03)	(\$0.08)	(\$0.06)	(\$0.07)	(\$0.24)	(\$0.09)	(\$0.09)	(\$0.01)	(\$0.07)	(\$0.27)	(\$0.07)	(\$0.07)	(\$0.07)	(\$0.05)	(\$0.25)	(\$0.18)
Weighted average shares outstanding, diluted	25,701	26,800	26,824	26,833	26,849	26,827	27,026	27,330	27,430	27,351	27,261	27,612	27,712	27,812	27,912	27,762	28,162

*Company provided full pro-forma 1Q17 financials to adjust for the 2Q17 divestiture of the blood pressure monitoring business

% Revenue Analysis:																	
GAAP Gross Margin	49.2%	52.8%	54.7%	52.9%	58.2%	54.6%	54.6%	52.0%	58.4%	53.8%	54.7%	56.7%	57.0%	61.3%	62.2%	59.4%	61.7%
Research and development	16.2%	17.5%	15.7%	14.7%	13.9%	15.5%	17.3%	18.8%	17.8%	15.3%	17.2%	14.7%	15.5%	15.5%	13.4%	14.7%	13.2%
Selling, general and administrative	60.8%	61.7%	63.0%	55.5%	64.2%	61.0%	78.7%	76.6%	69.2%	62.6%	71.5%	63.0%	67.0%	68.2%	59.6%	64.2%	57.1%
GAAP Operating Expenses	77.1%	79.2%	78.7%	70.2%	78.1%	76.5%	96.0%	95.4%	87.0%	78.0%	88.8%	77.8%	82.4%	83.7%	73.0%	79.0%	70.3%
GAAP Operating Margin	(27.8%)	(26.4%)	(24.0%)	(17.4%)	(19.9%)	(21.9%)	(41.4%)	(43.4%)	(28.6%)	(24.2%)	(34.1%)	(21.1%)	(25.4%)	(22.4%)	(10.8%)	(19.6%)	(8.6%)
Tax rate	0.0%	66.7%	(1.8%)	(3.1%)	(5.5%)	16.2%	4.9%	2.2%	103.9%	(2.5%)	23.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GAAP Net Margin	(31.8%)	(10.0%)	(30.3%)	(22.2%)	(25.9%)	(22.1%)	(44.8%)	(48.1%)	1.4%	(30.3%)	(30.5%)	(26.0%)	(31.1%)	(28.2%)	(15.9%)	(25.0%)	(13.3%)

Y/Y Growth:																	
Total Revenue (adjusted for divestitures)	N/A	(1.2%)	(1.2%)	0.3%	63.1%	9.9%	1.7%	(1.7%)	(8.8%)	11.4%	0.5%	19.8%	9.7%	10.4%	13.2%	13.3%	14.1%
Total Revenue (as originally reported)	N/A	6.4%	6.3%	5.4%	(6.1%)	2.8%	N/A	(17.5%)	(21.4%)	(6.6%)	(15.6%)	19.8%	9.7%	10.4%	13.2%	13.3%	14.1%
GAAP Gross Profit	10.9%	16.5%	19.7%	15.6%	5.9%	14.0%	N/A**	N/A**	N/A**	N/A**	N/A**	24.4%	20.2%	15.9%	31.0%	23.0%	18.7%
GAAP Operating Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Income Available to Common from Continuing Operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GAAP EPS from Continuing Operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Not comparable to prior year numbers due to the divestiture of the blood pressure monitoring business



Balance Sheet (\$ thousands)	Fiscal 2015A	Mar 1Q16A	Jun 2Q16A	Sep 3Q16A	Dec 4Q16A	Fiscal 2016A	Mar 1Q17A*	Jun 2Q17A	Sep 3Q17A	Dec 4Q17A	Fiscal 2017A	Mar 1Q18A
Total Cash & Investments	7,528	8,365	7,570	6,708	5,489	5,489	4,663	4,100	6,289	5,653	5,653	4,762
Cash and cash equivalents	7,528	8,365	7,570	6,708	5,489	5,489	4,663	4,100	6,289	5,653	5,653	4,762
Short Term Equivalents	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	3,278	3,348	3,044	3,254	3,322	3,322	2,748	2,545	2,329	2,919	2,919	2,705
Notes and other receivables					557					15		15
Inventories	1,572	1,674	1,827	1,194	1,596	1,596	1,457	1,114	1,542	1,076	1,076	927
Other current assets	1,138	1,437	1,542	1,586	322	322	325	505	413	338	338	333
Assets associated with discontinued operations					85		730	509	626	-		
Total Current Assets	13,516	14,824	13,983	12,743	11,371	11,371	9,923	8,773	11,199	10,001	10,001	8,727
Property and equipment, net	2,240	2,420	2,423	2,563	2,562	2,562	2,503	2,417	2,349	2,171	2,171	2,134
Intangible and other assets, net	1,279	833	785	784	791	791	797	812	815	802	802	797
Total Assets	17,035	18,076	17,191	16,090	14,724	14,724	13,223	12,001	14,362	12,975	12,975	11,658
Accounts payable	1,473	1,658	1,367	927	1,075	1,075	1,100	687	740	692	692	852
Accrued Expenses	1,834	2,127	1,689	2,030	2,240	2,240	1,783	1,701	1,762	1,652	1,652	1,748
Notes Payable		55	162	68	70	70	44	151	67	86	86	58
Note payable - line-of-credit						-		1,000			-	
Current portion of long-term debt	2,818	2,653	-	382	840	840	1,518	1,096	1,911	2,734	2,734	3,019
Liabilities associated with discontinued operations					93	93	58	87	76	35	35	
Other Current Liabilities	187	177	296	502		-					-	
Total Current Liabilities	6,394	6,670	3,514	3,909	4,318	4,318	4,503	4,722	4,556	5,198	5,198	5,677
Deferred gain on sale and leaseback of property	226	193	159	125	92	92	58	24	-	-	-	
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	
Long-term debt, less current portion	4,462	3,578	7,278	6,968	6,581	6,581	5,972	6,459	5,706	4,943	4,943	4,183
Other long-term liabilities	300	300	320	320	320	320	320	320	320	320	320	320
Total Liabilities	11,382	10,740	11,270	11,322	11,311	11,311	10,853	11,526	10,582	10,462	10,462	10,180
Total Stockholders' Equity	5,653	7,336	5,921	4,768	3,413	3,413	2,370	475	3,780	2,513	2,513	1,477
Total Liabilities and Stockholders' Equity	17,035	18,076	17,191	16,090	14,724	14,724	13,223	12,001	14,362	12,975	12,975	11,658
Book value per share	\$0.22	\$0.27	\$0.22	\$0.18	\$0.13	\$0.13	\$0.09	\$0.02	\$0.14	\$0.09	\$0.09	\$0.05

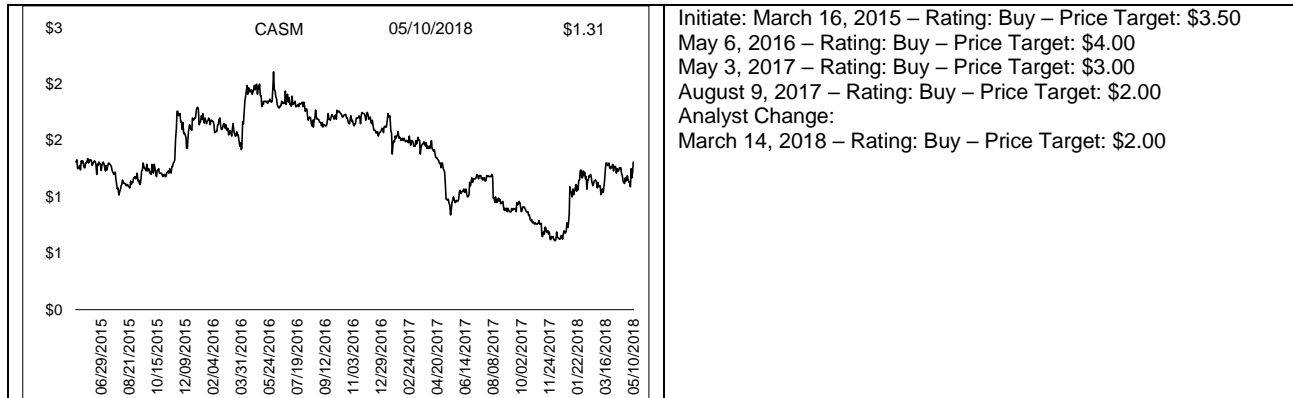
CAS Medical Systems, Inc.
Discounted Cash Flow Model

(\$ thousands)	FY Estimates (Fiscal Year Ends December)									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Revenue	21,255	24,246	27,883	32,762	39,315	47,178	56,613	66,520	76,498	78,793
Operating Profit	(4,167)	(2,086)	697	2,457	4,914	7,077	9,907	13,304	15,300	13,789
Less: Cash taxes paid	0	0	0	0	0	0	0	0	2,295	3,447
Operating Profit After Tax	(4,167)	(2,086)	697	2,457	4,914	7,077	9,907	13,304	13,005	10,342
Depreciation and amortization	800	800	856	916	980	1,049	1,122	1,201	1,285	1,375
Capital expenditures	728	728	757	788	819	852	886	921	958	1,006
Net investments in working capital	200	200	220	242	266	293	322	354	390	429
FCF	(4,295)	(2,214)	576	2,343	4,809	6,981	9,821	13,229	12,941	10,281
<i>PV of FCF</i>	<i>(3,869)</i>	<i>(1,797)</i>	<i>421</i>	<i>1,544</i>	<i>2,854</i>	<i>3,732</i>	<i>4,730</i>	<i>5,740</i>	<i>5,059</i>	<i>3,621</i>
Perpetual FCF										
Base FCF	10,281									
Weighted Avg. Cost of Capital (k)	11%									
Perpetual Growth Rate (g)	3%									
Base Year	2017									
Perpetual Start Year	2027									
Perpetual Value	132,371									
PV of Perpetual Growth Period	46,619									
Total FCF										
Present Value of FCF	65,034									
Intrinsic Value										
Cash	4,762									
Debt and Preferred Stock	21,198									
ESO	1,474									
<i>Value of Equity</i>	47,124									
Shares Outstanding	27,612									
Intrinsic Value per Share	\$1.71									

Sensitivity Analysis						
		FCF Growth				
		1.7%	2.5%	3.0%	3.5%	4.0%
Cost of Capital	9.5%	\$2.30	\$2.48	\$2.69	\$2.94	
	10.0%	\$2.03	\$2.19	\$2.36	\$2.56	
	10.5%	\$1.80	\$1.93	\$2.07	\$2.24	
	11.0%	\$1.60	\$1.71	\$1.83	\$1.97	
	11.5%	\$1.42	\$1.51	\$1.61	\$1.73	
	12.0%	\$1.26	\$1.34	\$1.43	\$1.53	
12.5%	\$1.12	\$1.19	\$1.26	\$1.35		



REQUIRED DISCLOSURES



Initiate: March 16, 2015 – Rating: Buy – Price Target: \$3.50
 May 6, 2016 – Rating: Buy – Price Target: \$4.00
 May 3, 2017 – Rating: Buy – Price Target: \$3.00
 August 9, 2017 – Rating: Buy – Price Target: \$2.00
 Analyst Change:
 March 14, 2018 – Rating: Buy – Price Target: \$2.00

Source: FactSet

Ratings definitions:

Buy rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (3/31/2018)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	78%	17%
Hold	21%	0%
Sell	1%	0%
Total	100%	13%

Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.

CHLM makes a market in this security.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm’s investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm’s business, including investment banking.

OTHER DISCLOSURES

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