

# Zacks Small-Cap Research

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Brian Marckx, CFA  
bmarckx@zacks.com  
Ph (312) 265-9474

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## CAS Medical Systems Inc. (CASM-NASDAQ)

### CASM: Q4 2019 Preannouncement, Initial 2019 Guidance, OEM Cable Launch Expected Mid-2019

Based on EV/S and P/S comps other publicly traded companies in the tissue oximeter, patient monitoring, vital signs and surgical monitoring industries CASM should trade near \$4.50/share.

Current Price (01/04/19) **\$1.99**  
Valuation **\$4.50**

### OUTLOOK

Post-market close yesterday, CASM released preliminary Q4 revenue and monitor placement numbers and provided initial (general) guidance for how they think 2019 may shape up. Note, however, that this current 2019 guidance, of low double-digit FORE-SIGHT sales growth (inline with our prior and current estimates), does not include any potential contribution from their OEM smart cable product – which management now thinks will launch around mid-year. Company guidance will be updated following the launch.

Q4 total revenue is about 6% better than what we had been expecting – we have since updated our FY2018 numbers. This update, along with some minor other tweaks to our Q4 income statement, result in an improvement in projected full-year net loss, which has moved from \$7.5M (previously) to \$7.4M (currently). Full-year 2018 estimated EPS is unchanged at (\$0.27). We are maintaining our \$4.50/share price target.

### SUMMARY DATA

52-Week High **\$2.70**  
52-Week Low **\$0.92**  
One-Year Return (%) **109.92**  
Beta **0.16**  
Average Daily Volume (sh) **40,340**

Shares Outstanding (mil) **29**  
Market Capitalization (\$mil) **\$56**  
Short Interest Ratio (days) **N/A**  
Institutional Ownership (%) **28**  
Insider Ownership (%) **38**

Annual Cash Dividend **\$0.00**  
Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates  
Sales (%) **-2.8**  
Earnings Per Share (%) **N/A**  
Dividend (%) **N/A**

P/E using TTM EPS **N/A**  
P/E using 2019 Estimate **N/A**  
P/E using 2020 Estimate **N/A**

Zacks Rank **N/A**

Risk Level **Above Avg.,**  
Type of Stock **N/A**  
Industry **Med Products**

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	4.5 A	4.6 A	4.5 A	5.0 A	18.8 A
2018	5.5 A	5.3 A	5.4 A	5.8 E	21.9 E
2019					24.5 E
2020					27.5 E

#### Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	-\$0.09 A	-\$0.09 A	-\$0.01 A	-\$0.07 A	-\$0.27 A
2018	-\$0.07 A	-\$0.08 A	-\$0.06 A	-\$0.06 E	-\$0.27 E
2019					-\$0.15 E
2020					-\$0.07 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

#### **Q4 2019 Preannouncement, Initial 2019 Guidance, OEM Cable Launch Expected Mid-2019**

Post-market close yesterday, CASM released preliminary Q4 revenue and monitor placement numbers and provided initial (general) guidance for how they think 2019 may shape up. Note, however, that this current 2019 guidance, of low double-digit FORE-SIGHT sales growth (inline with our prior and current estimates), does not include any potential contribution from their OEM smart cable product – which management now thinks will launch around mid-year. Company guidance will be updated following the launch.

As it relates to the Q4, revenue of approximately \$5.8M represents growth of 13% yoy and about 8% from Q3'18. It also represents a new record high. FORE-SIGHT sensors, up 20% yoy, remain the catalyst that is driving the top-line. Sensors revenue jumped 10% from the prior quarter – which had been the previous record high. Sensors sales benefitted from a particularly strong showing OUS – up 50% yoy and approximately +46% qoq. But, U.S. sales, also experienced positive traction – up 16% yoy and about 5% better sequentially.

Particularly encouraging, in our opinion, is that not only is sensors revenue growing (the lack of which over the recent past had been a concern of ours), but utilization per U.S. installed monitor (based on our rough calculation) appears to be largely stable. As intuitively, we would expect some erosion in per-monitor utilization with aggregate growth of the installed base, static utilization is quite encouraging. This has been the case for the last six consecutive quarters.

Q4 total revenue is about 6% better than what we had been expecting – we have since updated our FY2018 numbers. This update, along with some minor other tweaks to our Q4 income statement, result in a slight improvement in projected full-year net loss, which has moved from \$7.5M (previously) to \$7.4M (currently). Full-year 2018 estimated EPS is unchanged at (\$0.27). We are maintaining our \$4.50/share price target.

**Management's initial 2019 guidance** is largely inline with our prior and current thinking. They expect low double-digit percentage FORE-SIGHT sales from low-teens growth in the U.S. and high single-digit growth overseas. U.S. FORE-SIGHT growth is anticipated to be driven by mid-teens growth of sensors. As noted, this guidance has yet to include any assumed contribution from their OEM smart cable.

As a reminder, 510(k) clearance of this product was obtained in May 2018. It is expected to provide all of the same FORE-SIGHT functionality but without the need for CASM's monitor (instead, a cable will interface between third-party monitors and the FORE-SIGHT sensors). CASM already has a partnership (with more possibly to come) with one third-party monitor manufacturer. Per yesterday's press release, CASM shipped an initial batch of the product to this (yet-to-be named) partner in late-December.

Commercialization is predicated on FDA 510(k) clearance for the combination product. Per management's comments on the Q3 call in November, that regulatory filing is expected by Q1 2019. If all goes well, the product will be cleared (at which time we should also know the identity of their partner) and launched by around mid-year. Potential benefits include efficient distribution channels and immediate expansion of their Rolodex and sales reach.

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**FINANCIAL MODEL**

CAS Medical Systems Inc. (figures in 000s of \$)

	2017 A	Q1 A	Q2 A	Q3 A	Q4 E	2018 E	2019 E	2020 E
FORE-SIGHT Sensors	\$16,373.0	\$4,727.0	\$4,680.0	\$4,753.0	\$5,213.0	\$19,373.0	\$22,213.0	\$25,029.7
yoy growth	3.1%	17.7%	13.4%	21.8%	20.4%	18.3%	14.7%	12.7%
% of total oximetry sales	90.3%	89.0%	90.8%	90.4%	92.2%	90.6%	92.7%	92.8%
FORE-SIGHT Monitors & Access.	\$1,751.0	\$585.0	\$472.0	\$503.0	\$444.0	\$2,004.0	\$1,760.4	\$1,934.4
yoy growth	-17.6%	82.2%	75.5%	6.3%	-35.5%	14.4%	-12.2%	9.9%
% of total oximetry sales	9.7%	11.0%	9.2%	9.6%	7.8%	9.4%	7.3%	7.2%
Tissue Oximetry Total Sales	\$18,124.0	\$5,312.0	\$5,152.0	\$5,256.0	\$5,657.0	\$21,377.0	\$23,973.4	\$26,964.2
yoy growth	0.6%	22.5%	17.2%	20.1%	12.8%	17.9%	12.1%	12.5%
% of total revenue	96.6%	97.6%	97.4%	97.7%	97.7%	97.6%	97.8%	98.1%
Service & Other	\$655.5	\$132.0	\$139.0	\$126.0	\$130.3	\$527.3	\$537.8	\$527.1
yoy growth	-1.7%	-35.9%	-21.5%	-16.6%	-9.2%	-19.6%	2.0%	-2.0%
% of total revenue	3.5%	2.4%	2.6%	2.3%	2.3%	2.4%	2.2%	1.9%
Total Revenues	\$18,763.1	\$5,444.5	\$5,291.2	\$5,382.0	\$5,787.3	\$21,904.9	\$24,511.3	\$27,491.2
YOY Growth	0.5%	19.8%	15.7%	18.9%	13.0%	16.7%	11.9%	12.2%
Cost of Revenues	\$8,505.01	\$2,357.7	\$2,110.6	\$2,241.9	\$2,482.8	\$9,192.9	\$10,343.7	\$11,546.3
Gross Income	\$10,258.1	\$3,086.7	\$3,180.6	\$3,140.1	\$3,304.5	\$12,712.0	\$14,167.5	\$15,944.9
Gross Margin	54.7%	56.7%	60.1%	58.3%	57.1%	58.0%	57.8%	58.0%
R&D	\$3,234.1	\$801.6	\$833.7	\$712.4	\$745.2	\$3,092.9	\$3,111.2	\$3,124.6
% R&D	17.2%	14.7%	15.8%	13.2%	12.9%	14.1%	12.7%	11.4%
SG&A	\$13,418.3	\$3,431.4	\$3,473.0	\$3,403.3	\$3,576.6	\$13,884.3	\$14,265.5	\$14,680.3
% SG&A	71.5%	63.0%	65.6%	63.2%	61.8%	63.4%	58.2%	53.4%
Operating Income	(\$6,394.3)	(\$1,146.3)	(\$1,126.1)	(\$975.6)	(\$1,017.2)	(\$4,265.3)	(\$3,209.2)	(\$1,860.0)
Operating Margin	-34.1%	-21.1%	-21.3%	-18.1%	-17.6%	-19.5%	-13.1%	-6.8%
Interest Income, net	(\$1,076.9)	(\$271.5)	(\$589.1)	(\$307.7)	(\$277.8)	(\$1,446.1)	(\$921.3)	(\$665.8)
Other income	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$12.0	\$14.0
Pre-Tax Income	(\$7,470.7)	(\$1,417.8)	(\$1,715.2)	(\$1,283.3)	(\$1,295.0)	(\$5,711.4)	(\$4,118.5)	(\$2,511.8)
Taxes	(\$1,745.4)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tax Rate	23.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred Dividends	\$1,589.1	\$414.8	\$422.0	\$429.5	\$436.0	\$1,702.3	\$910.0	\$0.0
Net Income (cont ops)	(\$7,314.4)	(\$1,832.7)	(\$2,137.2)	(\$1,712.8)	(\$1,731.0)	(\$7,413.7)	(\$5,028.5)	(\$2,511.8)
YOY Growth	-0.7%	-24.3%	-17.5%	405.6%	-11.7%	1.4%	-32.2%	-50.0%
Net Margin	-	-	-	-	-	-	-20.5%	-9.1%
EPS (cont ops)	(\$0.27)	(\$0.07)	(\$0.08)	(\$0.06)	(\$0.06)	(\$0.27)	(\$0.15)	(\$0.07)
YOY Growth	-2.3%	-25.9%	-18.8%	396.6%	-13.8%	-0.6%	-43.3%	-56.3%
Diluted Shares O/S	27,261	27,612	27,750	27,833	28,000	27,799	33,250	38,000

# HISTORICAL STOCK CHART



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