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Icad Inc (ICAD-NASDAQ)

ICAD: Termination of Revenue Share Agreement a Positive Development

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	04/29/2014
Current Price (04/29/14)	$8.60
Target Price	**$13.00**

OUTLOOK

Revenue grew 17% and op expenses fell 2% in 2013. Therapy revenue up 47% in 2013 with growth coming from strong demand in non-melanoma skin cancer. We expect this momentum to carry into 2014. The Detection segment looks promising to return to long-term growth aided by iCAD's recent strategy shift towards a greater reliance on recurring revenue, services and a conventional software business model, new product launches, and a recently announced development agreement with Invivo (part of Philips Healthcare). New 3D breast tomo product could really accelerate Detection revenue in late 2014/2015.
This coupled with a stringent focus on cost control looks like it is marking an important inflection point for iCAD.
We remain highly positive on ICAD and management's ability to continue to grow the top and bottom lines. Our price target is $13/share.

SUMMARY DATA

52-Week High	**$13.94**
52-Week Low	**$4.67**
One-Year Return (%)	**73.04**
Beta	**1.35**
Average Daily Volume (sh)	**97,060**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$115**
Short Interest Ratio (days)	**4.01**
Institutional Ownership (%)	**30**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-0.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**86.0**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	7,930 A	7,712 A	8,290 A	9,135 A	33,067 A
2014	8,497 E	9,113 E	10,193 E	10,941 E	38,744 E
2015					52,266 E
2016					68,914 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.07 A	-$0.17 A	-$0.05 A	-$0.41 A	-$0.70 A
2014	-$0.08 E	$0.00 E	$0.01 E	$0.02 E	-$0.09 E
2015					$0.10 E
2016					$0.48 E

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

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WHAT'S NEW…

Model Update for Termination of Revenue Share Agreement

We view the termination of the revenue purchase agreement with Deerfield as a positive development as the revenue share had been a drag on earnings and cash flow. We estimate termination of the agreement will result in approximately $1.1M lower cash interest and ~$1.5M less total interest expense in 2014 compared to if the agreement had remained in place. The revenue share cost iCAD $1.28M in cash interest in 2013 - excluding this and the company would have been nearly operating cash flow break-even last year.

Our updated model also includes the recent 2.4M share issuance which raised net proceeds of ~$24.5M as well as 450k warrants exercised by Deerfield (proceeds of ~$1.6M), the latter in conjunction with the revenue purchase agreement termination. iCAD will use $4.1M of this in termination of the revenue share agreement. $3.75M of the $15M Deerfield notes come due at the end of 2014, another $3.75M is due at the end of 2015 and the remaining $7.5M is due at the end of 2016. We think the company will be at or near operating cash flow break even in 2014 which implies their current cash balance should be more than sufficient for the foreseeable future.

The net effect to our model is current year and 2015 EPS estimates moving from ($0.17) to ($0.09) and from $0.07 to $0.10, respectively. Our out-year estimates changed much more modestly with the increased share count offsetting the modeled reduction in interest expense. We will again update our model with Q1 earnings.

Our price target remains unchanged at $13/share. We are moving our recommendation from Neutral to Outperform. We believe the recent sell-off from the mid-$12 where the stock traded earlier this year to the current mid-$8 where it trades today offers an attractive buying opportunity, particularly given the beefed-up cash balance and elimination of the drag on earnings and cash flow from the revenue share agreement.

FINANCIAL MODEL

iCAD Inc.

	2013 A	Q1E	Q2E	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Cancer Detection	$16,905.0	$4,140.1	$4,054.9	$4,251.4	$4,250.2	$16,696.5	$19,547.8	$25,362.4	$31,995.8
YOY Growth	*-2.1%*	*-10.7%*	*6.5%*	*-1.4%*	*2.4%*	*-1.2%*	*17.1%*	*29.7%*	*26.2%*
% of total revenue	*51.1%*	*48.7%*	*44.5%*	*41.7%*	*38.8%*	*43.1%*	*37.4%*	*36.8%*	*39.9%*
Therapy	$16,162.0	$4,357.1	$5,058.5	$5,941.3	$6,690.8	$22,047.7	$32,717.8	$43,551.4	$48,122.9
YOY Growth	*46.7%*	*32.4%*	*29.5%*	*49.3%*	*34.2%*	*36.4%*	*48.4%*	*33.1%*	*10.5%*
% of total revenue	*48.9%*	*51.3%*	*55.5%*	*58.3%*	*61.2%*	*56.9%*	*62.6%*	*63.2%*	*60.1%*
Total Revenues	$33,067.0	$8,497.2	$9,113.4	$10,192.7	$10,940.9	$38,744.2	$52,265.5	$68,913.7	$80,118.7
YOY Growth	*16.9%*	*7.2%*	*18.2%*	*23.0%*	*19.8%*	*17.2%*	*34.9%*	*31.9%*	*16.3%*
Cost of Revenues	$9,981.0	$2,476.0	$2,740.6	$3,061.2	$3,321.1	$11,598.9	$15,025.6	$15,986.3	$18,191.7
Gross Income	$23,086.0	$6,021.3	$6,372.7	$7,131.5	$7,619.8	$27,145.3	$37,239.9	$52,927.4	$61,927.0
Gross Margin	*69.8%*	*70.9%*	*69.9%*	*70.0%*	*69.6%*	*70.1%*	*71.3%*	*76.8%*	*77.3%*
R&D	$7,694.0	$1,855.0	$1,825.0	$2,140.0	$1,828.0	$7,648.0	$10,445.0	$12,214.0	$12,250.0
% R&D	*23.3%*	*21.8%*	*20.0%*	*21.0%*	*16.7%*	*19.7%*	*20.0%*	*17.7%*	*15.3%*
Selling & Mktg	$10,427.0	$2,617.1	$2,779.6	$2,945.7	$3,326.0	$11,668.4	$14,947.9	$19,158.0	$21,231.4
% Sell&Mktg	*31.5%*	*30.8%*	*30.5%*	*28.9%*	*30.4%*	*30.1%*	*28.6%*	*27.8%*	*26.5%*
G&A	$6,740.0	$1,680.0	$1,650.0	$1,645.0	$1,812.0	$6,787.0	$8,467.0	$10,888.4	$12,418.4
% G&A	*20.4%*	*19.8%*	*18.1%*	*16.1%*	*16.6%*	*17.5%*	*16.2%*	*15.8%*	*15.5%*
Operating Income	($1,775.0)	($130.9)	$118.1	$400.8	$653.8	$1,041.9	$3,380.0	$10,667.0	$16,027.1
Operating Margin	*-5.4%*	*-1.5%*	*1.3%*	*3.9%*	*6.0%*	*2.7%*	*6.5%*	*15.5%*	*20.0%*
Other income	($2,429.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Interest income, net	($3,277.0)	($775.0)	($111.0)	($297.0)	($290.0)	($1,473.0)	($900.0)	($581.3)	$0.0
Pre-Tax Income	($7,481.0)	($905.9)	$7.1	$103.8	$363.8	($1,291.1)	$1,830.0	$9,654.4	$16,027.1
Taxes	$126.0	$0.0	$0.0	$0.0	$0.0	$0.0	$247.0	$2,133.6	$4,167.1
Tax Rate	*-1.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*13.5%*	*22.1%*	*26.0%*
Net Income	($7,607.0)	($905.9)	$7.1	$103.8	$363.8	($1,291.1)	$1,582.9	$7,520.8	$11,860.1
YOY Growth	*18.9%*	*-24.6%*	*100.4%*	*117.6%*	*108.2%*	*83.0%*	*222.6%*	*-375.1%*	*-57.7%*
Net Margin	*-23.0%*	*-10.7%*	*0.1%*	*1.0%*	*3.3%*	*-3.3%*	*3.0%*	*10.9%*	*14.8%*
EPS	($0.70)	($0.08)	$0.00	$0.01	$0.02	($0.09)	$0.10	$0.48	$0.75
YOY Growth	*19.2%*	*-19.6%*	*100.3%*	*112.7%*	*106.0%*	*86.9%*	*211.2%*	*-369.1%*	*-55.7%*
Pro-forma adjustments	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pro-forma EPS	($0.70)	($0.08)	$0.00	$0.01	$0.02	($0.09)	$0.10	$0.48	$0.75
Diluted Shares O/S	10,842	11,270	14,870	15,020	15,050	14,053	15,500	15,700	15,900

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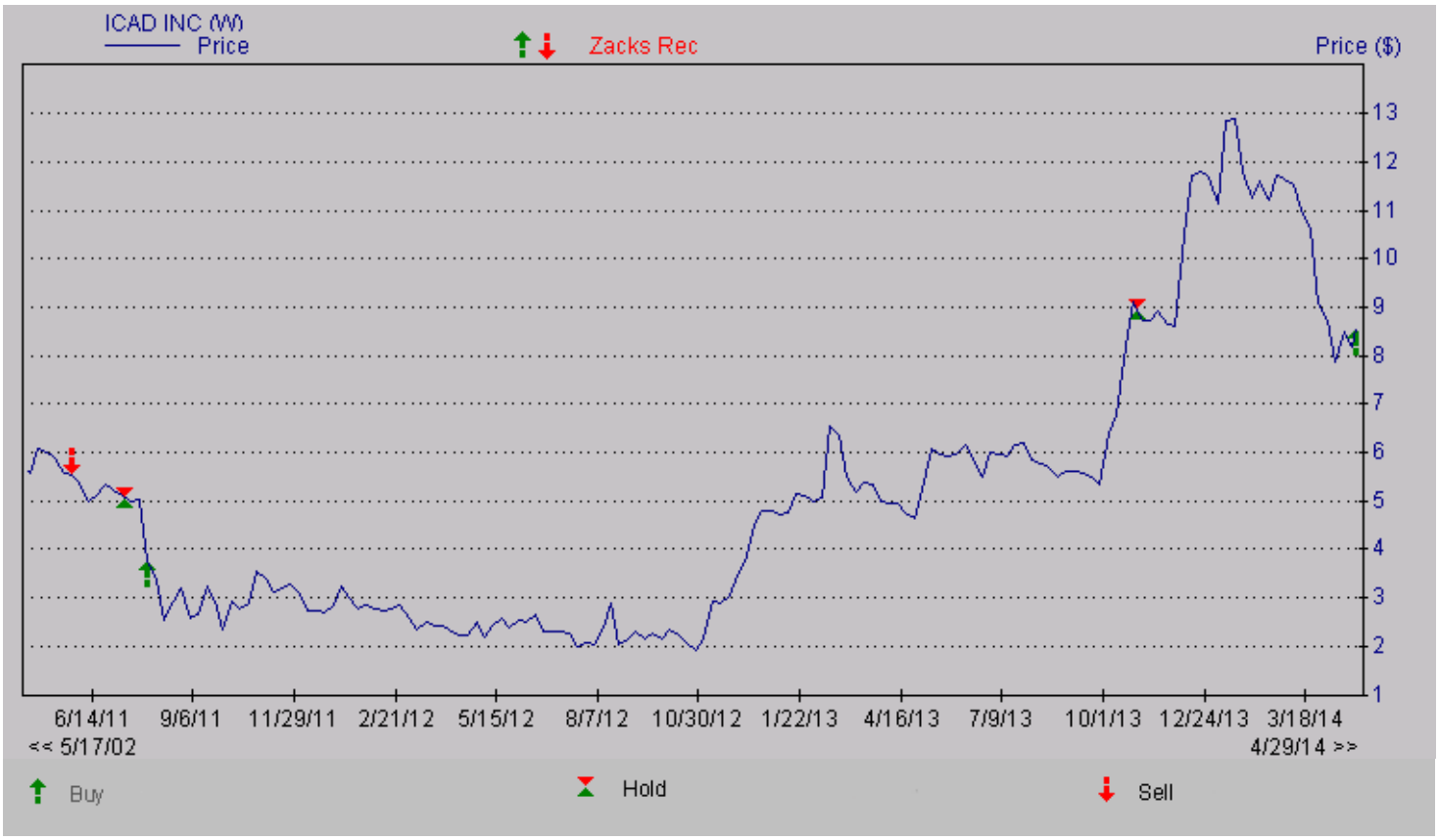

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