Zacks Small-Cap Research

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Zecotek Photonics (V.ZMS)

V.ZMS:Q4 Revenue +224%, Already ~$3M Confirmed Orders for Fiscal 2016

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	10/02/2013
Current Price (08/21/2015)	$0.44
Target Price	**$1.80**

OUTLOOK

Zecotek is the only company in the world to own all key elements for a high performance PET scanner. Technology is protected by large patent portfolio. ZMS.V is well positioned to capitalize on growth of PET market. Their LFS scintillation crystals look to be superior to any other crystals on the market and with PET scanner performance tied to performance of crystals, demand for LFS crystals could be substantial. Major distributor recently signed and initial orders received. Crystals also to be used in high profile CERN experiments. Lawsuit whereby ZMS.V claimed patent infringement was just settled. We think the settlement now opens up significant opportunity for Zecotek, the benefits of which we think begin to be realized in the very near-term.

SUMMARY DATA

52-Week High	**$0.64**
52-Week Low	**$0.26**
One-Year Return (%)	**-18**
Beta	**N/A**
Average Daily Volume (sh)	**261,854**
Shares Outstanding (mil)	**112**
Market Capitalization ($mil)	**49**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**N/A**
Dividend Yield (%)	**N/A**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**Large-Growth**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2014	8 A	41 A	14 A	23 A	87 A
2015	98 A	76 A	70 A	210 E	454 E
2016					4498 E
2017					8882 E

Earnings per Share

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2014	-$0.01 A	-$0.02 A	-$0.02 A	-$0.04 A	-$0.09 A
2015	-$0.02 A	-$0.02 A	-$0.01 A	-$0.01 E	-$0.07 E
2016					-$0.02 E
2017					$0.01 E

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

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Q4 Revenue +224% Q-over-Q, Already Have ~$3M in Confirmed Orders for Fiscal 2016…

Yesterday (8/20) Zecotek preannounced expected revenue for fiscal Q4 2015 of $210k, which was very much inline with our $227k estimate. This implies sequential growth of 224%. As we had noted in our prior update on June 30th, we had expected that larger LFS crystals orders were on the horizon. We think Q4 marks just the beginning of increasing order sizes - a sentiment which aligns with management's comment in the preannouncement that "sales are gaining momentum and, so far, for fiscal 2016 we have confirmed orders for $2.9 million."

We continue to model approximately $4.5 million in total revenue in fiscal 2016 (ending July 31, 2016), driven mostly by pull through demand for crystals by PET OEMs. Given the almost $3 million in confirmed orders the company already has for 2016, it is quite possible our revenue estimate will prove low. As we have noted in the past, ZMS has seen burgeoning interest for their LFS crystals from manufacturers of small and next-gen Time-of-Flight PET scanners. In addition, validation of the LFS scintillation crystals for use in small PET scanners in applications such as pre-clinical pharmaceutical research for drug development is ongoing by certain international PET OEMs. ZMS's Chinese manufacturing partner, Beijing Opto-Electronics Technology (BOET), is scaling up its manufacturing capacity by ~300%.

And ZMS has recently made additional and substantive headway in the Display segment - which the company believes will have initial sales of their 3D display monitors in Q1 2016. In early July they announced that the deal with Aquarius, which was announced about 12 months ago whereby this Russian conglomerate would purchase 20% of Zecotek Display Systems for $7 million, fell through. But, shortly afterwards (8/12), the company announced that they signed agreements with the Engineering Centre of the National Research Nuclear Center MEPhi (ECM) and its affiliate Novilab Mobile to commercialize the 3D display monitors in Russia. ECM and Novilab are responsible for manufacturing the 3D using ZMS technology and for commercialization and, in return, these partners have exclusive rights to the Russian market. Zecotek expects to announce additional commercialization partnerships in other areas of the world.

We are maintaining our $1.80/share price target and Buy recommendation. See our June 30th report for our most recent comprehensive update on ZMS.

FINANCIAL MODEL

Zecotek Photonics Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Total Revenues	$86.6	$97.9	$75.6	$70.1	$210.1	$453.8	$4,498.2	$8,881.7	$15,752.9
YOY Growth	*118.5%*	*1100.5%*	*82.8%*	*391.1%*	*824.0%*	*424.3%*	*891.3%*	*97.4%*	*77.4%*
SG&A	$6,857.3	$2,018.9	$1,838.6	$928.0	$1,198.0	$5,983.6	$5,277.0	$6,128.3	$7,561.4
% SG&A	*7922.7%*	*2062.2%*	*2431.1%*	*1323.0%*	*570.2%*	*1318.6%*	*117.3%*	*69.0%*	*48.0%*
R&D	$1,682.4	$397.2	$472.0	$378.2	$401.0	$1,648.4	$1,388.0	$1,344.0	$1,657.0
% R&D	*1943.8%*	*405.8%*	*624.1%*	*539.2%*	*190.9%*	*363.3%*	*30.9%*	*15.1%*	*10.5%*
Collaboration costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($8,453.1)	($2,318.2)	($2,235.0)	($1,236.1)	($1,388.9)	($7,178.2)	($2,166.8)	$1,409.3	$6,534.5
Operating Margin		*-*	*-*	*-*	*-*	*-1581.8%*	*-48.2%*	*15.9%*	*41.5%*
Total Other Income (Expense)	($203.0)	$2.1	($180.4)	$76.7	$0.0	($101.6)	$0.0	$0.0	$0.0
Pre-Tax Income	($8,656.2)	($2,316.2)	($2,415.4)	($1,159.4)	($1,388.9)	($7,279.8)	($2,166.8)	$1,409.3	$6,534.5
Tax expense (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	($8,656.2)	($2,316.2)	($2,415.4)	($1,159.4)	($1,388.9)	($7,279.8)	($2,166.8)	$1,409.3	$6,534.5
YOY Growth	*23.0%*	*121.4%*	*44.7%*	*-41.2%*	*-65.0%*	*-15.9%*	*-70.2%*	*-165.0%*	*363.7%*
Net Margin		*-*	*-*	*-*	*-*	*-1604.2%*	*-48.2%*	*15.9%*	*41.5%*
EPS	($0.09)	($0.02)	($0.02)	($0.01)	($0.01)	($0.07)	($0.02)	$0.01	$0.05
YOY Growth	*-0.8%*	*93.9%*	*20.5%*	*-49.4%*	*-70.6%*	*-28.4%*	*-73.1%*	*-162.9%*	*356.3%*
Diluted Shares O/S	92,331	99,134	110,002	112,259	112,275	108,417	120,000	124,000	126,000

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