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Zacks Small-Cap Research

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iCAD Inc (ICAD-NASDAQ)

ICAD: NMSC Reimbursement Picture Remains Cloudy

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	08/05/2015
Current Price (02/02/16)	$4.63
Target Price	**$7.50**

OUTLOOK

Therapy, which had been the major catalyst driving revenue, is now contracting with disappointing reimbursement policy change. While we hoped new codes effective Jan 2016 would clear up reimbursement ambiguity, this does not appear to be the case. .

Breast IORT looks like a bright spot, particularly overseas. In Detection, continue to look for mid-single digit growth in 2015. 2016 could see significant steepening in Detection revenue with tomo launch in Europe and U.S. (mid-to-late 2016?).
We remain positive on fundamentals despite NMSC reimbursement issue. Reiterating Buy recommendation.

SUMMARY DATA

52-Week High	**$11.14**
52-Week Low	**$2.95**
One-Year Return (%)	**-42.13**
Beta	**1.89**
Average Daily Volume (sh)	**56,471**
Shares Outstanding (mil)	**16**
Market Capitalization ($mil)	**$73**
Short Interest Ratio (days)	**0.65**
Institutional Ownership (%)	**25**
Insider Ownership (%)	**19**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**15.5**
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	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	8,520 A	9,667 A	12,572 A	13,165 A	43,924 A
2015	13220 A	11143 A	9582 A	7833 E	41,778 E
2016					34,876 E
2017					44,409 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.02 A	-$0.07 A	$0.02 A	-$0.01 A	-$0.07 A
2015	-$0.12 A	-$1.78 A	-$0.03 A	-$0.15 E	-$2.08 E
2016					-$0.24 E
2017					$0.01 E

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

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MSC Reimbursement Picture Remains Cloudy

While there have been some updates to CMS coding starting Jan 1, 2016, it unfortunately it seems to have done little to clear up the reimbursement picture for the treatment of non-melanoma skin cancer. As a reminder, in May 2015 Noridian Healthcare, the west coast Medicare contractor, said to no longer bill skin procedures under CPT Code 0182T (High dose rate electronic brachytherapy, per fraction). Instead providers were to begin using Code 17999 (Unlisted procedure, skin, mucous membrane and subcutaneous tissue) along with a code designating the location and size of the lesion.

Then, as expected, a dedicated non-melanoma skin cancer code (CPT III code 0394T) went into effect on Jan 1, 2016. While the hope was that this would clear up at least some ambiguity relative to what providers could expect in terms of payment, given that the code is "carrier priced" (i.e. determined by the Medicare contractor) and that average pricing has not been made public, the lack of clarity persists.

Unfortunately, if the ambiguity persists or if pricing is lower than what providers deem "acceptable, we think this may continue to keep potential new customers on the sidelines. But while the reimbursement problem has significantly negatively impacted the Therapy business, ICAD still has managed to sell to the NMSC market – this includes 3 systems placed in the U.S. and one internationally related to skin cancer in Q3. And management indicated on both the Q2 and Q3 calls that despite this reimbursement issue that clinicians remain interested in the system (as do patients) but many of have postponed purchases. So the saga continues. We hope on future conference calls that management may be able to provide some more insight into where reimbursement may shake out and how this may or may not impact future system placements.

Meanwhile, we expect ICAD will continue to be actively involved in in lobbying the MACs for favorable reimbursement, supporting their argument with clinical data demonstrating the benefits of HDR Ebx over surgery including better cosmetic outcomes and patient satisfaction which is in addition to lower cost of treatment.

Clinical data continues to show excellent outcomes including superior cosmetic results and patient satisfaction as compared to surgery, which should help support the long-term quest for favorable insurance reimbursement. ICAD will continue their efforts in pursuit of a CPT I code - granting of which would all but eliminate ambiguity or significant differences in reimbursement policy and values. The company has been finalizing design of a clinical study to support an eventual CPT I code application – which was slated to begin last November. The trial is expected to include ~500 patients. While the study will follow patients for five years, they will be able to include patients that completed treatment in 2013 and, therefore, believe that they may have sufficient supporting data to file for a CPT I code sometime in 2017.

We have made no changes to our model, which had already incorporated an assumption that the NMSC reimbursement issue would persist. Despite the questions surround the NMSC reimbursement issue, we continue to like the fundamentals including additional traction of IORT breast, particularly overseas, and tomosynthesis should be a significant catalyst to the Detection segment's revenue growth beginning in 2016. We are maintaining our Buy recommendation and $7.50/share price target.

FINANCIAL MODEL

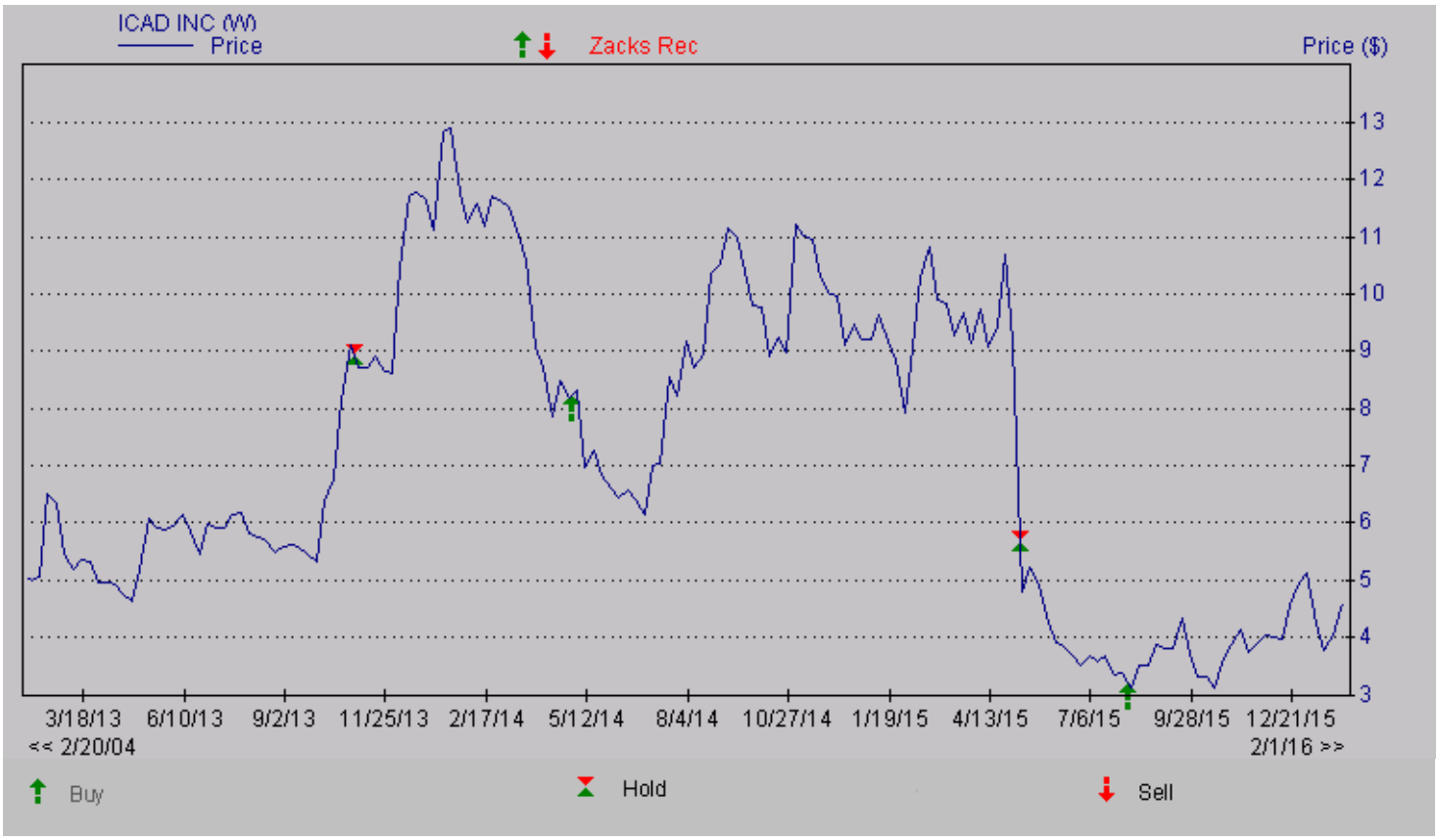
iCAD Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Cancer Detection	$18,604.0	$4,788.0	$4,955.0	$5,202.0	$4,623.9	$19,568.9	$21,548.2	$27,756.0	$33,382.6
YOY Growth	*10.1%*	*14.7%*	*2.5%*	*5.4%*	*-0.8%*	*5.2%*	*10.1%*	*28.8%*	*20.3%*
% of total revenue	*42.4%*	*36.2%*	*44.5%*	*54.3%*	*59.0%*	*46.8%*	*61.8%*	*62.5%*	*60.9%*
Therapy	$25,320.0	$8,432.0	$6,188.0	$4,380.0	$3,209.0	$22,209.0	$13,328.0	$16,653.0	$21,408.0
YOY Growth	*56.7%*	*94.1%*	*28.0%*	*-42.6%*	*-62.3%*	*-12.3%*	*-40.0%*	*24.9%*	*28.6%*
% of total revenue	*57.6%*	*63.8%*	*55.5%*	*45.7%*	*41.0%*	*53.2%*	*38.2%*	*37.5%*	*39.1%*
Total Revenues	$43,924.0	$13,220.0	$11,143.0	$9,582.0	$7,832.9	$41,777.9	$34,876.2	$44,409.0	$54,790.6
YOY Growth	*31.0%*	*55.2%*	*15.3%*	*-23.8%*	*-40.5%*	*-4.9%*	*-16.5%*	*27.3%*	*23.4%*
Cost of Revenues	$12,697.0	$3,858.0	$3,265.0	$2,761.0	$2,206.2	$12,090.2	$9,466.4	$11,599.1	$14,236.7
Gross Income	$31,227.0	$9,362.0	$7,878.0	$6,821.0	$5,626.7	$29,687.7	$25,409.8	$32,809.8	$40,553.9
Gross Margin	*71.1%*	*70.8%*	*70.7%*	*71.2%*	*71.8%*	*71.1%*	*72.9%*	*73.9%*	*74.0%*
R&D	$8,490.0	$2,256.0	$2,272.0	$2,093.0	$2,614.0	$9,235.0	$9,421.0	$9,818.0	$10,111.0
% R&D	*19.3%*	*17.1%*	*20.4%*	*21.8%*	*33.4%*	*22.1%*	*27.0%*	*22.1%*	*18.5%*
Selling & Mktg	$12,526.0	$3,830.0	$3,165.0	$2,697.0	$2,819.8	$12,511.8	$10,079.2	$12,301.3	$14,683.9
% Sell&Mktg	*28.5%*	*29.0%*	*28.4%*	*28.1%*	*36.0%*	*29.9%*	*28.9%*	*27.7%*	*26.8%*
G&A	$9,396.0	$2,833.0	$2,926.0	$2,375.0	$2,587.0	$10,721.0	$9,661.0	$10,611.0	$12,846.0
% G&A	*21.4%*	*21.4%*	*26.3%*	*24.8%*	*33.0%*	*25.7%*	*27.7%*	*23.9%*	*23.4%*
Operating Income	$815.0	$443.0	($27,928.0)	($344.0)	($2,394.1)	($30,223.1)	($3,751.4)	$79.6	$2,913.1
Operating Margin	*1.9%*	*3.4%*	*-250.6%*	*-3.6%*	*-30.6%*	*-72.3%*	*-10.8%*	*0.2%*	*5.3%*
Other income	$969.0	($1,714.0)	$5.0	$0.0	$0.0	($1,709.0)	$150.0	$125.0	$0.0
Interest income, net	($2,640.0)	($507.0)	($70.0)	($42.0)	($75.0)	($694.0)	($374.0)	$25.0	$104.0
Pre-Tax Income	($856.0)	($1,778.0)	($27,993.0)	($386.0)	($2,469.1)	($32,626.1)	($3,975.4)	$229.6	$3,017.1
Taxes	$153.0	$79.0	($107.0)	$16.0	($24.7)	($36.7)	($4.0)	$0.0	$0.0
Tax Rate	*-17.9%*	*-4.4%*	*0.4%*	*-4.1%*	*1.0%*	*0.1%*	*0.1%*	*0.0%*	*0.0%*
Net Income	($1,009.0)	($1,857.0)	($27,886.0)	($402.0)	($2,444.4)	($32,589.4)	($3,971.4)	$229.6	$3,017.1
YOY Growth	*85.9%*	*-877.4%*	*-2697.0%*	*246.7%*	*-2446.3%*	*-3129.9%*	*87.8%*	*105.8%*	*-1214.3%*
Net Margin	*-2.3%*	*-14.0%*	*-250.3%*	*-4.2%*	*-31.2%*	*-78.0%*	*-11.4%*	*0.5%*	*5.5%*
EPS	($0.07)	($0.12)	($1.78)	($0.03)	($0.15)	($2.08)	($0.24)	$0.01	$0.18
YOY Growth	*89.3%*	*-615.8%*	*-2410.7%*	*252.5%*	*-2404.5%*	*-2851.3%*	*88.5%*	*105.7%*	*-1183.7%*
Pro-forma adjustments	$0.0	$0.0	$27,443.0	$0.0	$0.0	$27,443.0	$0.0	$0.0	$0.0
Pro-forma EPS	($0.07)	($0.12)	($0.03)	($0.03)	($0.15)	($0.33)	($0.24)	$0.01	$0.18
Diluted Shares O/S	14,348	15,605	15,679	15,725	15,800	15,702	16,700	16,800	17,200

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