Zacks Small-Cap Research

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LED Medical Diagnostics (V.LMD)

V.LMD: 2015 Revenue Preannouncement

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	01/20/2014
Current Price (01/15/2016)	$0.14
Target Price	**$1.25**

OUTLOOK

LED Medical's VELscope is the world's leading device used for oral cancer screening with 13k units sold and 25 million scans done since the 2006 launch. Demand is fueled by a quantity of clinical data and recommendations from influential sources supporting use of the device as well as increased awareness of the dangers of oral cancer. Despite their leading position, the market remains barely penetrated, offering significant upside opportunity.

LED recently revamped its sales strategy to one with multiple distributors and complemented by a direct sales force. This is expected to further expand their footprint, drive utilization and increase profitability. LED is also now highly focused on bringing new products to market, specifically in the dental imaging market. These products have already begun to make a major contribution to revenue and are expected to be a significant driver of growth for the foreseeable future.

SUMMARY DATA

52-Week High	**$0.35**
52-Week Low	**$0.13**
One-Year Return (%)	**-46**
Beta	**1.48**
Average Daily Volume (sh)	**67,125**
Shares Outstanding (mil)	**112**
Market Capitalization ($mil)	**16**
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/Dental-Supp**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$1055 A	$1590 A	$1629 A	$4688 A	$8962 A
2015	$2443 A	$3269 A	$1783 A	$5000 E	$12494 E
2016					$18877 E
2017					$26499 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.04 A	$0.00 A	-$0.03 A	-$0.01 A	-$0.08 A
2015	-$0.02 A	-$0.02 A	-$0.01 A	-$0.01 E	-$0.05 E
2016					-$0.03 E
2017					-$0.02 E

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

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2015 Revenue Preannouncement: Misses Guidance, But "Missed" Portion Pushed to Q1 2016…

LED Medical preannounced 2015 revenue of approximately $12.5M. While below previously issued guidance of $15M - $16M as well as our $13.2M estimate, the company notes that they have current backlogged orders of $2.5M – this, which makes up the difference of the low-end of 2015 revenue guidance, is expected to be recognized as sales in Q1 2016. The company indicates that much of the Q4 revenue is from sales of products in their newly launched CAD CAM line. These are also where we expect the tailwind to emanate from going into 2016.

Other Notables Include Potential Acquisition

Other recent notable announcements were the approval for sale of VELscope VX in China and entry into a non-binding letter of intent to acquire 100% "of a growing and profitable technology company that would complement LED s existing businesses and provides a platform to assist LED in achieving its strategic, long-term business objectives". LED provided little other information about the potential acquisition, although did note that the revenues and assets of that company are less than LED s and that they will announce terms of the acquisition following a due diligence period. This potential acquisition has not been figured into our financing assumptions or into our financial model but will be if and when appropriate.

Relative to China, VELscope VX received regulatory approval there in early August and will be sold through LED s distributor, Geneformation Technology, Inc. to universities and hospitals, which are the major dental channels in China. While the country has a huge potential customer base and population, medical and dental product penetration in the country can be somewhat challenging. But,depending on the success of Geneformation, China could offer incremental revenue opportunity for LED. This will be something to keep an eye on.

We have made some adjustments to our model, which has moved our target price to $1.25/share.

FINANCIAL MODEL

LED Medical Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Revenue	$8,962	$2,443	$3,269	$1,783	$5,000	$12,494	$18,877	$26,499	$35,608
YOY Growth	*255.7%*	*131.6%*	*105.6%*	*9.5%*	*6.7%*	*39.4%*	*51.1%*	*40.4%*	*34.4%*
Cost of sales	$5,502	$1,814	$2,249	$1,453	$3,422	$8,939	$12,428	$16,650	$21,343
Gross Income	$3,460	$629	$1,020	$330	$1,577	$3,556	$6,448	$9,849	$14,265
Total Gross Margin	*38.6%*	*25.7%*	*31.2%*	*18.5%*	*31.5%*	*28.5%*	*34.2%*	*37.2%*	*40.1%*
SG&A	$8,906	$2,162	$2,197	$1,682	$2,733	$8,775	$10,312	$12,747	$14,570
% SG&A	*99.4%*	*88.5%*	*67.2%*	*94.3%*	*54.7%*	*70.2%*	*54.6%*	*48.1%*	*40.9%*
R&D	$255	$50	$65	$32	$87	$234	$644	$841	$994
% R&D	*2.8%*	*2.1%*	*2.0%*	*1.8%*	*1.7%*	*1.9%*	*3.4%*	*3.2%*	*2.8%*
Operating Income	($5,702)	($1,584)	($1,242)	($1,384)	($1,243)	($5,453)	($4,508)	($3,739)	($1,299)
Operating Margin	*-63.6%*	*-64.8%*	*-38.0%*	*-77.6%*	*-24.9%*	*-43.6%*	*-23.9%*	*-14.1%*	*-3.6%*
Total Other Income	($326)	$94	$36	$22	($20)	$88	($42)	$85	$0
Pre-Tax Income	($6,028)	($1,490)	($1,206)	($1,362)	($1,263)	($5,364)	($4,550)	($3,654)	($1,299)
Taxes (benefit)	$0.0	$0.0	($4.1)	($0.0)	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	($6,028)	($1,490)	($1,202)	($1,362)	($1,263)	($5,364)	($4,550)	($3,654)	($1,299)
Net Margin	*-67.3%*	*-61.0%*	*-36.8%*	*-76.4%*	*-25.3%*	*-42.9%*	*-24.1%*	*-13.8%*	*-3.6%*
EPS	($0.08)	($0.02)	($0.01)	($0.01)	($0.01)	($0.05)	($0.03)	($0.02)	($0.01)
YOY Growth	*-42.3%*	*-59.1%*	*-1191.5%*	*-58.6%*	*99.2%*	*-29.0%*	*-37.6%*	*-27.2%*	*-65.4%*
Diluted Shares O/S	79,821	92,660	99,458	100,394	107,700	100,053	136,000	150,000	154,000

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