Zacks Small-Cap Research

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LED Medical Diagnostics (V.LMD)

V.LMD: Q2 Revenue Preannouncement Inline

We have revenue CAGR of about 30% from 2015 through 2019, then dropping to a low-double digit average through 2025. We use a 10% discount rate and 2% terminal growth rate. Based on DCF, LED is value at approximately $1.00/share.

Current Price (07/18/2016)	$0.12
Valuation	**$1.00**

OUTLOOK

LED Medical's VELscope is the world's leading device used for oral cancer screening with 13k units sold and ~30 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	**$0.30**
52-Week Low	**$0.10**
One-Year Return (%)	**-63**
Beta	**0.42**
Average Daily Volume (sh)	**154,587**
Shares Outstanding (mil)	**112**
Market Capitalization ($mil)	**11**
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 2016 Estimate	**N/A**
P/E using 2017 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)
2015	$2443 A	$3269 A	$1783 A	$5640 A	$13135 A
2016	$2153 A	$3657 E	$4551 E	$4747 E	$15108 E
2017					$19874 E
2018					$26928 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.02 A	-$0.02 A	-$0.01 A	-$0.01 A	-$0.05 A
2016	-$0.02 A	-$0.01 E	-$0.01 E	-$0.01 E	-$0.05 E
2017					-$0.03 E
2018					-$0.02 E

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

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Q2 2016 Revenue Preannouncement:

LED Medical preannounced Q2 2016 revenue of $3.7M, inline with our $3.6M estimate and representing growth of 12% (from $3.2M in Q2 2015) and 70% (from $2.2M in Q1 2016) on a yoy and sequential basis, respectively. We have made only immaterial adjustments to our model and continue to look for total revenue of approximately $15.1M for the full year 2016, implying growth of 15% compared to 2015.

Other recent noteworthy events include;

> June 20th: announced British Columbia-based Biocare Health Supply will be exclusive distributor of VELscope Vx in China and Hong Kong. Biocare has teamed with National Medicines Prospect Dentech Co of Beijing, which the press release notes as being the largest dental equipment distributor in China. Initial sales are expected to begin in August of this year.

> July 6th: issued CDN$385k 13%, 12-month senior secured debt (along with 250k common shares) to Bloom Burton Healthcare Lending via private placement.

> July 12th: for the sixth consecutive year VELscope Vx was given the Cellerant Best of Class Technology Award - previously known as the Pride Best of Class Technology Award, as the leading device in the oral screening category. Winner of the awards were chosen by a panel of five dentists which included (per the press release), "Dr. Shuman; Dr. Flucke, writer, speaker, and Technology Editor for Dental Products Report; Paul Feuerstein, DMD, writer, speaker and Technology Editor for Dentistry Today; Marty Jablow, DMD, technology writer and consultant for Dr. Bicuspid; and Parag Kachalia, DDS, Vice-Chair of Preclinical Education, Research and Technology, University of Pacific School of Dentistry."

FINANCIAL MODEL

LED Medical Inc.

	2015 A	Q1A	Q2E	Q3E	Q4E	2016 E	2017 E	2018 E	2019 E
Revenue	$13,135	$2,153	$3,657	$4,551	$4,747	$15,108	$19,874	$26,928	$30,604
YOY Growth	*46.6%*	*-11.8%*	*11.9%*	*155.2%*	*-15.8%*	*15.0%*	*31.5%*	*35.5%*	*13.7%*
Cost of sales	$9,561	$1,618	$2,513	$3,130	$3,234	$10,495	$12,766	$16,544	$18,416
Gross Income	$3,573	$536	$1,144	$1,421	$1,513	$4,614	$7,108	$10,384	$12,188
Total Gross Margin	*27.2%*	*24.9%*	*31.3%*	*31.2%*	*31.9%*	*30.5%*	*35.8%*	*38.6%*	*39.8%*
SG&A	$8,584	$2,480	$2,527	$2,581	$2,700	$10,288	$10,888	$12,418	$13,090
% SG&A	*65.4%*	*115.2%*	*69.1%*	*56.7%*	*56.9%*	*68.1%*	*54.8%*	*46.1%*	*42.8%*
R&D	$189	$50	$91	$78	$102	$321	$730	$814	$902
% R&D	*1.4%*	*2.3%*	*2.5%*	*1.7%*	*2.1%*	*2.1%*	*3.7%*	*3.0%*	*2.9%*
Operating Income	($5,200)	($1,995)	($1,474)	($1,238)	($1,289)	($5,996)	($4,510)	($2,848)	($1,804)
Operating Margin	*-39.6%*	*-92.6%*	*-40.3%*	*-27.2%*	*-27.1%*	*-39.7%*	*-22.7%*	*-10.6%*	*-5.9%*
Total Other Income	$20	($57)	($26)	($50)	($33)	($166)	$55	$61	$14
Pre-Tax Income	($5,180)	($2,052)	($1,500)	($1,288)	($1,322)	($6,162)	($4,455)	($2,787)	($1,790)
Taxes (benefit)	($4.1)	$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	($5,176)	($2,052)	($1,500)	($1,288)	($1,322)	($6,162)	($4,455)	($2,787)	($1,790)
Net Margin	*-39.4%*	*-95.3%*	*-41.0%*	*-28.3%*	*-27.8%*	*-40.8%*	*-22.4%*	*-10.4%*	*-5.8%*
EPS	($0.05)	($0.02)	($0.01)	($0.01)	($0.01)	($0.05)	($0.03)	($0.02)	($0.01)
YOY Growth	*-33.9%*	*13.6%*	*10.5%*	*-20.3%*	*4.8%*	*2.5%*	*-44.5%*	*-39.0%*	*-38.5%*
Diluted Shares O/S	101,208	112,319	112,400	119,200	126,200	117,530	153,000	157,000	164,000

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