Zacks Small-Cap Research

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Zecotek Photonics (V.ZMS)

V.ZMS: Updates to Model, China PET OEM

We model revenue to grow from $452k in 2015 to almost $50M in 2025. Our DCF model, which uses an 8% discount rate and 2% terminal growth rate, values the shares at approximately $1.50.

Current Price (09/07/2016)	$0.30
Valuation	**$1.50**

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. Hamamatsu relationship holds significant potential but ZMS recently exploiting other opportunities as well. Recent relationship with Chinese PET OEM could be a home run, but we think too early to make any predictions. ZMS seeing interest from U.S. PET manufacturers and for applications in drug research as well. More recent opportunities in homeland and border security. Formal supply relationship with U.S. PET OEM 'major' Philips remains a possibility.

SUMMARY DATA

52-Week High	**$0.39**
52-Week Low	**$0.23**
One-Year Return (%)	**-21**
Beta	**1.26**
Average Daily Volume (sh)	**183,547**
Shares Outstanding (mil)	**127**
Market Capitalization ($mil)	**38**
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	**Small-Growth**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2015	98 A	76 A	70 A	208 A	452 A
2016	150 A	697 A	278 A	389 E	1514 E
2017					4474 E
2018					8473 E

Earnings per Share

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2015	-$0.02 A	-$0.02 A	-$0.01 A	-$0.01 A	-$0.07 A
2016	-$0.01 A	-$0.02 A	-$0.00 A	-$0.01 E	-$0.04 E
2017					-$0.04 E
2018					-$0.03 E

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

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Model Update for Revenue Preannouncement, China OEM Update…

We have again updated our model following Zecotek's October 4th preannouncement that fiscal Q4 2016 (ending July 31) revenue will come in at $389k, implying full year revenue of $1.51M. While both periods represent significant growth from the prior year period revenues of $208k (+87%) in Q4 and $452k (+235%) in fiscal 2015, they lagged our $550k and $1.7M respective estimates.

But despite the miss to our numbers we remain encouraged that revenue continues to (mostly) trend upwards. Also positive is language in recent press releases suggesting continued progress with fulfilling the contract with the Chinese PET OEM. This includes announcements that the Chinese company placed an order for a third PET machine (Oct 13th) and that five PET scanners are expected to be installed by the end of 2016 (Oct 10th). But the Oct 13th press release also notes that the first scanner installation (which acts as the trigger for the MUO to convert to a contract) "remains outstanding as the first device cannot be installed until the PET scanning areas at the hospital are refurbished for the new high performance PET device." Zecotek did not offer a projected timeline for completion of the refurbishment, only noting that, "The logistics for the installation of the first device are well managed and we do not anticipate any further delay. We are pleased that the overall project is moving ahead and look to finalize the MOU in due course."

Meanwhile, Zecotek's entry into the Israeli market could be imminent following the announcement in September that the company penned a distribution agreement for its imaging products (including the LFS crystals, MAPD/T photo detectors and more) in that country with RAM N.S. Technologies. RAM notes that they will begin marketing ZMS' imaging products immediately and that their customer base includes "several world renowned PET integrators operating within Israel." Zecotek expects this relationship to result in revenue "in the very near future."

FINANCIAL MODEL

Zecotek Photonics Inc.

	2015 A	Q1A	Q2A	Q3A	Q4E	2016 E	2017 E	2018 E	2019 E
Total Revenues	$451.7	$149.6	$697.4	$277.9	$389.0	$1,513.8	$4,473.7	$8,473.1	$15,260.2
YOY Growth	*421.9%*	*52.8%*	*822.1%*	*296.1%*	*87.0%*	*235.1%*	*195.5%*	*89.4%*	*80.1%*
Cost of Goods Sold	$322.9	$94.5	$593.91	$242.3	$330.6	$1,261.3	$2,907.9	$4,575.5	$6,867.1
Gross Income	$128.8	$55.1	$103.5	$35.6	$58.3	$252.5	$1,565.8	$3,897.6	$8,393.1
Gross Margin	*28.5%*	*36.8%*	*14.8%*	*12.8%*	*15.0%*	*16.7%*	*35.0%*	*46.0%*	*55.0%*
SG&A	$5,825.1	$867.6	$1,483.8	$616.2	$953.0	$3,920.6	$5,681.6	$6,354.9	$6,714.5
% SG&A	*1289.5%*	*580.0%*	*212.8%*	*221.7%*	*245.0%*	*259.0%*	*127.0%*	*75.0%*	*44.0%*
R&D	$1,468.7	$356.3	$493.0	$256.9	$444.0	$1,550.3	$1,621.0	$1,657.0	$1,812.0
% R&D	*325.1%*	*238.2%*	*70.7%*	*92.5%*	*114.1%*	*102.4%*	*36.2%*	*19.6%*	*11.9%*
Operating Income	($7,165.0)	($1,168.9)	($1,873.4)	($837.5)	($1,338.7)	($5,218.4)	($5,736.8)	($4,114.2)	($133.4)
Operating Margin	*-1586.1%*	*-781.4%*	*-268.6%*	*-301.4%*	*-344.2%*	*-344.7%*	*-128.2%*	*-48.6%*	*-0.9%*
Total Other Income (Expense)	($290.8)	$124.8	($320.2)	$379.6	$0.0	$184.2	$0.0	$0.0	$0.0
Pre-Tax Income	($7,455.8)	($1,044.1)	($2,193.6)	($457.9)	($1,338.7)	($5,034.3)	($5,736.8)	($4,114.2)	($133.4)
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	($7,455.8)	($1,044.1)	($2,193.6)	($457.9)	($1,338.7)	($5,034.3)	($5,736.8)	($4,114.2)	($133.4)
YOY Growth	*-13.9%*	*-54.9%*	*-9.2%*	*-60.5%*	*-14.5%*	*-32.5%*	*14.0%*	*-28.3%*	*-96.8%*
Net Margin	*-1650.5%*	*-698.0%*	*-314.6%*	*-164.8%*	*-344.2%*	*-332.6%*	*-128.2%*	*-48.6%*	*-0.9%*
EPS	($0.07)	($0.01)	($0.02)	($0.00)	($0.01)	($0.04)	($0.04)	($0.03)	($0.00)
YOY Growth	*-26.6%*	*-60.2%*	*-14.0%*	*-62.7%*	*-21.5%*	*-37.7%*	*2.9%*	*-31.4%*	*-96.8%*
Diluted Shares O/S	108,340	112,275	116,211	118,885	122,050	117,355	130,000	136,000	138,000

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