Zacks Small-Cap Research

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Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

LED Medical Diagnostics (V.LMD)

V.LMD: Q3 Inline. Next-Gen RAYSCAN Alpha Should Add To Revenue Growth

We have revenue CAGR of about 22% from 2015 through 2019, then dropping to a low-double digit average through 2025. We use a 10.5% discount rate and 2% terminal growth rate. Based on DCF, LED is value at approximately $0.80/share.

Current Price (10/20/2016)	$0.09
Valuation	**$0.80**

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. Recent greater international focus should provide incremental revenue growth.

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	**$0.24**
52-Week Low	**$0.08**
One-Year Return (%)	**-55**
Beta	**1.96**
Average Daily Volume (sh)	**89,548**
Shares Outstanding (mil)	**115**
Market Capitalization ($mil)	**10**
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	$3661 A	$2321E	$6147 E	$14283 E
2017					$18914 E
2018					$25882 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 A	-$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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Q3 2016 Revenue Preannouncement: Inline With Our Estimate…

LED Medical preannounced Q3 2016 preliminary revenue of $2.5M, inline with our $2.3M estimate and implying yoy growth of approximately 39%. While this also implies a sequential decrease of about 32% from the $3.7M of revenue generated in Q2, we remind investors that the third quarter has historically been a relatively weak period for dental-related products and services due to summer vacations and holidays. As such, the qoq decrease was anticipated. Revenue through the first nine months of 2016 is expected to be $8.3M, or 11% ahead of the $7.5M through the comparable period in 2015.

The most significant near-term news on the product-related front was the announcement in late September of the launch of the RAYSCAN Alpha Plus Imaging System (product videao: https://youtu.be/WEyP6T1OBdg). While LED does not break out revenue by product, it is clear that the RAYSCAN line has been a significant contributor to the company's recent sales growth. This next-gen product has the potential to add to their success which includes several upgrades to the legacy system. Functionality includes;

- Light-guided field-of-view superimposed on patients face which simplify and optimize patient positioning
- Customizable FOV (field of view) from 4x3cm to 16x10cm while many systems only allow for a limited number of preset field of view options
- Provides for 3D images among the highest resolution in the industry
- Only CT and cone beam system utilizing remote control functionality allowing clinician to interact with patient and control the system simultaneously
- Cephalometric module allows for both scanning and single-shot image capture – affording even less risk of distortion and lower radiation exposure

Rayscan Alpha Plus Imaging System



SOURCE: ledental.com

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.

> 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."

> Additional Financing: LED successfully raised additional financing via the issuance of senior secured debt to the Bloom Burton Healthcare Lending Trust. This includes CDN$385k (13%, 12-month) raised in July and, most recently, CDN$500k (12%, 2-year) raised earlier this month. The lender also received 1M common shares in aggregate. And concurrent with the October debt sale, terms of CDN$1.6M of senior secured debt issued in July and September of 2015 were amended – including extending the maturities from one year to five years and increasing the interest rate from 10% to 13%. The lender received an amendment fee consisting of 1.1M common shares.

FINANCIAL MODEL

LED Medical Inc.

	2015 A	Q1A	Q2A	Q3E	Q4E	2016 E	2017 E	2018 E	2019 E
Revenue	$13,135	$2,153	$3,661	$2,471	$5,997	$14,283	$18,914	$25,882	$29,380
YOY Growth	*46.6%*	*-11.8%*	*12.0%*	*38.6%*	*6.3%*	*8.7%*	*32.4%*	*36.8%*	*13.5%*
Cost of sales	$9,561	$1,618	$2,590	$1,674	$4,121	$10,004	$12,114	$15,864	$17,645
Gross Income	$3,573	$536	$1,071	$796	$1,876	$4,279	$6,801	$10,018	$11,735
Total Gross Margin	*27.2%*	*24.9%*	*29.3%*	*32.2%*	*31.3%*	*30.0%*	*36.0%*	*38.7%*	*39.9%*
SG&A	$8,584	$2,480	$2,063	$2,100	$2,741	$9,384	$10,932	$12,967	$14,044
% SG&A	*65.4%*	*115.2%*	*56.3%*	*85.0%*	*45.7%*	*65.7%*	*57.8%*	*50.1%*	*47.8%*
R&D	$189	$50	$20	$58	$82	$210	$530	$611	$710
% R&D	*1.4%*	*2.3%*	*0.5%*	*2.3%*	*1.4%*	*1.5%*	*2.8%*	*2.4%*	*2.4%*
Operating Income	($5,200)	($1,995)	($1,011)	($1,362)	($947)	($5,315)	($4,662)	($3,560)	($3,019)
Operating Margin	*-39.6%*	*-92.6%*	*-27.6%*	*-55.1%*	*-15.8%*	*-37.2%*	*-24.6%*	*-13.8%*	*-10.3%*
Total Other Income	$20	($57)	($71)	($50)	($48)	($226)	($175)	($159)	($181)
Pre-Tax Income	($5,180)	($2,052)	($1,083)	($1,412)	($995)	($5,541)	($4,837)	($3,719)	($3,200)
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)	($1,083)	($1,412)	($995)	($5,541)	($4,837)	($3,719)	($3,200)
Net Margin	*-39.4%*	*-95.3%*	*-29.6%*	*-57.1%*	*-16.6%*	*-38.8%*	*-25.6%*	*-14.4%*	*-10.9%*
EPS	($0.05)	($0.02)	($0.01)	($0.01)	($0.01)	($0.05)	($0.03)	($0.02)	($0.02)
YOY Growth	*-33.9%*	*13.6%*	*-20.3%*	*-7.9%*	*-16.4%*	*-5.1%*	*-32.6%*	*-25.1%*	*-17.8%*
Diluted Shares O/S	101,208	112,319	112,514	113,000	119,000	114,208	148,000	152,000	159,000

Brian Marckx, CFA

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CHART



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