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Zacks Small-Cap Research

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

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

CAS Medical Systems Inc. (CASM-NASDAQ)

CASM: Q4 Preannouncement, Initial 2018 Guidance. Maintaining $3/Share PT

Based on EV/S and P/S comps other publicly traded companies in the tissue oximeter, patient monitoring and cardiac surgery industries including BABY, MASI, BRSYF and MDT, CASM should trade near $3.00/share.

Current Price (01/04/18)	$0.84
Valuation	**$3.00**

OUTLOOK

This morning CASM released preliminary Q4 revenue and unit sales data and also provided the initial glimpse of their anticipated performance for 2018.
We have adjusted our model based on the Q4 preliminary numbers and 2018 guidance. Our Q4 total revenue number moved up 3% - also, based on implied cash burn, we also now show a moderately better operating loss for Q4. Meanwhile, our 2018 total revenue came down less than 1% from what we were previously modeling.

And, we think the fundamentals continue to improve and are highly encouraged to see domestic sensors growth as well as significantly higher U.S. monitor placements – we think both of these are a testament to productivity gains of the sales force as well as payoff from the recently minted strategy of also targeting the IDN and GPO channels. We are maintaining our $3/share price target.

SUMMARY DATA

52-Week High	**$1.75**
52-Week Low	**$0.59**
One-Year Return (%)	**-51.59**
Beta	**-1.18**
Average Daily Volume (sh)	**80,195**
Shares Outstanding (mil)	**28**
Market Capitalization ($mil)	**$24**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**25**
Insider Ownership (%)	**36**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-1.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	4.5 A	4.7 A	5.0 A	4.6 A	18.7 A
2017	4.5 A	4.6 A	4.5 A	5.1 E	18.7 E
2018					20.8 E
2019					23.2 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.05 A	-$0.09 A	-$0.07 A	-$0.07 A	-$0.27 A
2017	-$0.09 A	-$0.09 A	-$0.01 A	-$0.07 E	-$0.27 E
2018					-$0.22 E
2019					-$0.11 E

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

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Q4 Preannouncement, Initial 2018 Guidance

This morning CASM released preliminary Q4 revenue and unit sales data and also provided an initial glimpse of their anticipated performance for 2018. While the preannouncement does not include all the detail provided with quarterly earnings, the preliminary Q4 numbers look to be quite a bit better than what were estimating, including a 12% beat to our total FORE-SIGHT revenue forecast – which is attributable to relatively very strong U.S. sales (including 18% yoy growth in monitor placements and 8% yoy growth in sensor sales).

CASM expects to report record ("by a significant margin") U.S. monitor placements as well as record new customer acquisitions for Q4 – much of which is attributable to productivity gains of the domestic sales force. The company also notes that their newly implemented strategy of targeting wholesale customer channels is bearing fruit and credited this with three IDNs recently adopting FORE-SIGHT for most of their adult cardiac surgeries. Management also mentioned on the Q3 earnings call that CASM recently became the exclusive provider of tissue oximetry to one of the larger children's hospitals in the mid-Atlantic – which we think may have also contributed to both U.S. monitor and sensor sales in Q4.

While the Q4 preliminary revenue is not broken down by monitors versus sensors, based on our calculations, we think both monitor revenue and sensors revenue in Q4 will be the higher than any other quarter in 2017. Given that sensors revenue has been relatively lackluster as of late (through the first nine months of 2017 domestic sensor sales increased just 2%, despite 15% growth in the U.S. installed monitor base), the 8% U.S. sensors sales growth in Q4 is also encouraging. Given that sensors account for about 92% of FORE-SIGHT related revenue and U.S. sales contribute ~86%, growth in domestic sensors revenue can be particularly influential to total revenue growth.

Q4 and full-year 2017 FORE-SIGHT revenue are expected to be $5.0M and $18.1M, respectively, reflecting yoy growth of 12% and 0%. All (and more) of this growth is coming from the U.S. market – which should post 18% growth in Q4 and about 5% for all of 2017. Meanwhile, the international FORE-SIGHT business continues to struggle and is estimated to show a contraction of 17% in Q4 and 22% for the full year.

CASM's initial 2018 guidance is for total revenue to grow in the low double-digits, which includes low-teens % increase in U.S. FORE-SIGHT sales (mostly from expected mid-teens % growth in U.S. sensor sales) and which they think will be partially offset by a "slight decline" in international FORE-SIGHT sales.

We have adjusted our model based on the Q4 preliminary numbers and 2018 guidance. Our Q4 total revenue number moved up 11%. Also, based on implied cash burn, we also now show a moderately better operating loss for Q4. Meanwhile, our 2018 total revenue came down less than 1% from what we were previously modeling.

And, we think the fundamentals continue to improve and are highly encouraged to see domestic sensors growth as well as accelerating U.S. monitor placements – we think both of these are a testament to productivity gains of the sales force as well as payoff from the recently minted strategy of also targeting the IDN and GPO channels. We are maintaining our $3/share price target.

FINANCIAL MODEL

CAS Medical Systems Inc. (figures in 000s of $)

	2016 A	Q1 A	Q2 A	Q3 A	Q4 E	2017 E	2018 E	2019 E
FORE-SIGHT Sensors	$15,883.0	$4,035.0	$4,126.0	$3,902.0	$4,324.1	$16,387.1	$18,306.5	$20,588.4
yoy growth	22.0%	8.1%	1.9%	-4.1%	7.3%	3.2%	11.7%	12.5%
% of total oximetry sales	88.2%	93.0%	93.9%	89.2%	86.8%	90.6%	91.1%	91.6%
FORE-SIGHT Monitors & Access.	$2,124.0	$302.0	$269.0	$473.0	$660.0	$1,704.0	$1,786.7	$1,890.4
yoy growth	-10.6%	-44.4%	-37.6%	-34.3%	53.5%	-19.8%	4.9%	5.8%
% of total oximetry sales	11.8%	7.0%	6.1%	10.8%	13.2%	9.4%	8.9%	8.4%
Tissue Oximetry Total Sales	$18,007.0	$4,337.0	$4,395.0	$4,375.0	$4,984.1	$18,091.1	$20,093.2	$22,478.8
yoy growth	16.9%	1.4%	-1.9%	-8.6%	11.8%	0.5%	11.1%	11.9%
% of total revenue	96.4%	95.5%	96.1%	96.7%	97.7%	96.5%	96.8%	96.9%
Service & Other	$667.0	$206.0	$177.0	$151.0	$115.0	$649.0	$655.5	$707.9
yoy growth	-83.7%	8.4%	6.0%	-12.7%	-16.1%	-2.7%	1.0%	8.0%
% of total revenue	3.6%	4.5%	3.9%	3.3%	2.3%	3.5%	3.2%	3.1%
Total Revenues	$18,674.0	$4,543.4	$4,572.0	$4,526.3	$5,099.1	$18,740.7	$20,748.7	$23,186.7
YOY Growth	-4.2%	1.7%	-1.7%	-8.8%	10.9%	0.4%	10.7%	11.8%
Cost of Revenues	$8,176.00	$2,061.3	$2,193.8	$1,882.4	$2,218.1	$8,355.60	$8,880.4	$9,645.7
Gross Income	$10,498.0	$2,482.1	$2,378.2	$2,643.8	$2,881.0	$10,385.1	$11,868.3	$13,541.0
Gross Margin	56.2%	54.6%	52.0%	58.4%	56.5%	55.4%	57.2%	58.4%
R&D	$3,277.0	$786.6	$858.4	$803.8	$831.4	$3,280.1	$3,150.0	$3,170.0
% R&D	17.5%	17.3%	18.8%	17.8%	16.3%	17.5%	15.2%	13.7%
SG&A	$13,570.0	$3,574.3	$3,503.1	$3,133.2	$3,304.2	$13,514.8	$13,569.7	$13,912.0
% SG&A	72.7%	78.7%	76.6%	69.2%	64.8%	72.1%	65.4%	60.0%
Operating Income	($6,349.0)	($1,878.7)	($1,983.3)	($1,293.2)	($1,254.6)	($6,409.8)	($4,851.4)	($3,541.0)
Operating Margin	-34.0%	-41.4%	-43.4%	-28.6%	-24.6%	-34.2%	-23.4%	-15.3%
Interest Income, net	($1,048.2)	($259.7)	($265.0)	($274.8)	($266.8)	($1,066.3)	($995.4)	($618.1)
Other income	$42.5	$0.1	$0.1	$0.1	$10.0	$10.4	$30.0	$30.0
Pre-Tax Income	($7,354.7)	($2,138.3)	($2,248.2)	($1,567.8)	($1,511.4)	($7,465.7)	($5,816.8)	($4,129.1)
Taxes	($1,468.0)	($103.2)	($49.9)	($1,629.7)	$15.1	($1,767.7)	$0.0	$0.0
Tax Rate	20.0%	4.8%	2.2%	103.9%	-1.0%	23.7%	0.0%	0.0%
Preferred Dividends	$1,482.6	$387.0	$393.8	$400.7	$408.0	$1,589.5	$1,700.0	$0.0
Net Income (cont ops)	($7,369.3)	($2,422.1)	($2,592.1)	($338.8)	($1,934.5)	($7,287.5)	($7,516.8)	($4,129.1)
YOY Growth	-14.9%	100.1%	12.9%	-82.0%	-2.4%	-1.1%	3.1%	-45.1%
Net Margin	-	-	-	-	-	-	-	-17.8%

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EPS (cont ops)	($0.27)	($0.09)	($0.09)	($0.01)	($0.07)	($0.27)	($0.22)	($0.11)
YOY Growth	-18.5%	98.4%	10.8%	-82.3%	-7.4%	-3.5%	-16.6%	-52.1%
Diluted Shares O/S	26,827	27,026	27,330	27,336	28,300	27,498	34,000	39,000

Brian Marckx, CFA

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