



**CRAIG-HALLUM**  
CAPITAL GROUP LLC

**ALPHA SELECT LIST**

August 3, 2018  
Institutional Research

**CAS Medical Systems, Inc.**

(CASM - \$2.19)

**BUY**

Price Target: \$4

**Another Solid Quarter With A Transformational Near-Term Catalyst On The Horizon. OEM Module Remains On Track. Reiterating BUY Rating And Increasing Price Target To \$4.**

*CAS Medical Systems is a manufacturer and marketer of medical technology used to measure cerebral blood oxygen levels and patient monitoring.*

**OUR CALL**

Yesterday, CASMED reported another strong quarter with Q2 revenues that were a touch better than our forecast. While system sales moderated a bit from record levels the past two quarters, management indicated that RFPs and customer evaluations remain at very high levels – to the point that the company recently hired a field clinical resource with plans to add another in Q3 to help from a capacity standpoint. We think these two additions will also help once the OEM partnership is launched early next year. On the margin front, record gross margins in the quarter of 60.1% have likely peaked for the time being as previously anticipated improvements of 200-300 bps will now be impacted by tariffs that went into effect on 7/1. While management is working on some work-arounds, we have tempered our margin assumptions. Despite this minor speed bump, we continue to see significant leverage in the model and commend management on their focus of bringing the company to profitability by the end of 2019. Given CASM’s clinically superior product, accelerating growth, and low valuation (3.3x FY19 EV/Sales), we are maintaining our Buy rating and increasing our price target to \$4.

	Q2-18A		Q3-18E		FY18E		FY19E	
	Revenue	EPS	Revenue	EPS	Revenue	EPS	Revenue	EPS
<b>Actuals:</b>	\$5.3	(\$0.08)	--	--	--	--	--	--
C-H Prior Estimate:	\$5.0	(\$0.07)	\$5.0	(\$0.07)	\$21.3	(\$0.25)	\$24.2	(\$0.18)
Consensus Estimate:	\$5.0	(\$0.07)	\$5.0	(\$0.07)	\$21.3	(\$0.25)	\$24.2	(\$0.18)
Prior Guidance:	--	--	--	--	--	--	--	--
Guidance:	--	--	--	--	--	--	--	--
<b>C-H Revised Estimate:</b>	--	--	\$5.1	(\$0.07)	\$21.5	(\$0.28)	\$24.7	(\$0.20)

Source: FactSet, CAS Medical Systems, Inc., and Craig-Hallum estimates

**KEY POINTS**

**Continued Revenue Growth And Steady Progress Towards Profitability** – Q2 revenue from continuing operations grew by 16% Y/Y and was above our estimate, while EPS came in a penny below (see table above), but better than the year ago period. Growth was driven by the placement of 66 monitors during the quarter with the company placing 43 systems domestically and another 23 internationally. Additionally, sensor revenue increased 13% Y/Y to \$4.7 million, consistent with Q1. Management indicated that the pipeline remains robust which should enable them to meet their reaffirmed FY18 guidance of mid-teens oximetry growth.

**OEM Module Now Approved** – On May 16th, CASM announced that the 510(k) for an OEM version of its technology (which could be integrated with third-party monitors) had been approved. This opens the door to a potential partnership with a third-party monitor manufacturer. We see the unveiling of a partner as a significant catalyst for the stock, as management has indicated the partner they are working with is a “major player” with “many thousands of monitors” and similar call points. This announcement is expected in the coming months and would be followed by the submission of a joint 510(k) application incorporating FORE-SIGHT into the partner’s monitor. This relationship should drive faster penetration through a much larger sales organization and provide meaningful contribution margin for CASM. Importantly, we believe that other partnerships could come to fruition in the future.

**Matt G. Hewitt**  
Senior Research Analyst  
612-334-6314  
matthew.hewitt@craig-hallum.com

**Lucas Baranowski**  
Research Analyst  
612-334-8224  
lucas.baranowski@craig-hallum.com

**Charlie Eidson, CPA**  
Research Analyst  
612-334-6352  
charlie.eidson@craig-hallum.com

[www.craig-hallum.com](http://www.craig-hallum.com)

Changes	Previous	Current
Rating:	--	Buy
Fundamental Trend:	Mixed	Improving
Price Target:	\$2.00	\$4.00
FY18E Rev M:	\$21.3	\$21.5
FY19E Rev M:	\$24.2	\$24.7
FY18E EPS:	(\$0.25)	(\$0.28)
FY19E EPS:	(\$0.18)	(\$0.20)

Profile		
Price:		\$2.19
52 Wk Range:	\$0.59	- \$2.19
Avg Daily Vol:		126,967
Shares Out M:		28.8
Market Cap M:		\$63.2
Insiders Own:		21%
Short Interest:		0%
Book Value/Sh:		\$0.00
Est LT EPS Gr:		15%
Net Cash/Sh:		(\$0.14)
Debt / Capital:		11%
Year End:		Dec.

Rev (M)	2017A	2018E	2019E
Mar	\$4.5	\$5.4A	\$6.0
Jun	\$4.6	\$5.3A	\$6.0
Sep	\$4.5	\$5.1	\$6.0
Dec	\$5.1	\$5.7	\$6.6
FY	\$18.8	\$21.5	\$24.7

EPS*	2017A	2018E	2019E
Mar	(\$0.09)	(\$0.07)A	(\$0.05)
Jun	(\$0.09)	(\$0.08)A	(\$0.05)
Sep	\$0.10	(\$0.07)	(\$0.05)
Dec	(\$0.07)	(\$0.06)	(\$0.04)
FY	(\$0.27)	(\$0.28)	(\$0.20)

\*Cont. ops.

FY P/E	NA	NA	NA
FY EV/S**	4.3x	3.8x	3.3x
**includes \$13M preferred			

Management	
CEO	Tom Patton
CFO	Jeff Baird



## QUARTERLY RESULTS AND ESTIMATE CHANGES

CASM Quarterly Results and Guidance Snapshot									
\$ thousands	Actual	Estimates	Variance	Notes	Last Q	Q/Q Growth	Last Y	Y/Y Growth	
Cerebral Oximetry	\$5,152	\$4,894	\$258.3	Sensor revenue accounts for the entirety of the beat	\$5,312	(3%)	\$4,395	17%	
Service and Other	\$139	\$120	\$19.2		\$132	5%	\$177	(21%)	
<b>Total Revenue</b>	<b>\$5,291</b>	<b>\$5,014</b>	<b>\$277.5</b>	Sales force productivity continues to drive strong Y/Y growth	<b>\$5,444</b>	<b>(3%)</b>	<b>\$4,572</b>	<b>16%</b>	
GAAP Gross Profit	\$3,181	\$2,858	\$322.8	Gross margin improvement drove this	\$3,087	3%	\$2,378	34%	
GAAP Operating Income	(\$1,126)	(\$1,275)	\$149.1		(\$1,146)	N/A	(\$1,983)	N/A	
Net Income Avail. to Common from Cont. Ops.*	(\$2,137)	(\$1,980)	(\$157.3)	Had some expenses in interest and other	(\$1,833)	N/A	(\$2,592)	N/A	
<b>GAAP EPS from Cont. Ops.</b>	<b>(\$0.08)</b>	<b>(\$0.07)</b>	<b>(\$0.01)</b>		<b>(\$0.07)</b>	<b>N/A</b>	<b>(\$0.09)</b>	<b>N/A</b>	
GAAP Gross Margin	60.1%	57.0%	311 bps	Likely has peaked due to Trump tariffs	56.7%	342 bps	52.0%	810 bps	
Research and development (% of sales)	15.8%	15.5%	30 bps		14.7%	103 bps	18.8%	(302) bps	
Selling, general and administrative (% of sales)	65.6%	67.0%	(134) bps	Not planning to do any sales hiring until OEM negotiations are finished	63.0%	261 bps	76.6%	(1,098) bps	
<b>GAAP Operating Margin</b>	<b>(21.3%)</b>	<b>(25.4%)</b>	<b>415 bps</b>	Gross margin beat flowed through	<b>(21.1%)</b>	<b>(23) bps</b>	<b>(43.4%)</b>	<b>2,210 bps</b>	

Source: CAS Medical Systems, Inc. and Craig-Hallum estimates

Guidance	Current	Prior
U.S. FORE-SIGHT sensor sales	Mid-teens	Mid-teens
Total FORE-SIGHT revenue growth	Mid-teens	Mid-teens

\*Numbers reflect results and estimates from continuing operations

Estimate Changes						
\$ thousands	Q3-18 New	Q3-18 Prev.	FY18 New	FY18 Prev.	FY19 New	FY19 Prev.
Cerebral Oximetry	\$4,941	\$4,877	\$21,020	\$20,763	\$24,211	\$23,766
Y/Y Growth	12.9%	11.5%	16.1%	14.7%	15.2%	14.5%
Service and Other	\$120	\$120	\$512	\$492	\$480	\$480
Y/Y Growth	(20.7%)	(20.7%)	(22.9%)	(25.8%)	(6.2%)	(2.5%)
<b>Total Revenue</b>	<b>\$5,061</b>	<b>\$4,997</b>	<b>\$21,531</b>	<b>\$21,255</b>	<b>\$24,691</b>	<b>\$24,246</b>
Y/Y Growth	11.8%	10.4%	14.8%	13.3%	14.7%	14.1%
GAAP Gross Profit	\$3,021	\$3,063	\$12,741	\$12,615	\$14,798	\$14,970
GAAP Operating Income	(\$1,312)	(\$1,120)	(\$4,585)	(\$4,167)	(\$2,783)	(\$2,086)
Net Income Avail. To Common*	(\$2,029)	(\$1,835)	(\$7,726)	(\$6,997)	(\$5,711)	(\$5,005)
<b>GAAP EPS from Cont. Ops.</b>	<b>(\$0.07)</b>	<b>(\$0.07)</b>	<b>(\$0.28)</b>	<b>(\$0.25)</b>	<b>(\$0.20)</b>	<b>(\$0.18)</b>
GAAP Gross Margin	59.7%	61.3%	59.2%	59.4%	59.9%	61.7%
Research and development	16.7%	15.5%	15.5%	14.7%	13.8%	13.2%
Selling, general and administrative	68.9%	68.2%	64.9%	64.2%	57.4%	57.1%
<b>GAAP Operating Margin</b>	<b>(25.9%)</b>	<b>(22.4%)</b>	<b>(21.3%)</b>	<b>(19.6%)</b>	<b>(11.3%)</b>	<b>(8.6%)</b>

\*Numbers reflect results and estimates from continuing operations

Source: Craig-Hallum estimates

**Balance Sheet:** CASMED exited Q2 with a balance sheet consisting of \$5.2M in cash and \$9.3M in debt. DSO in Q1 was 51, up 6 days sequentially, but within the company's historical range for this metric.

## STOCK OPPORTUNITY

We're increasing our DCF-driven price target to \$4 on CASM, which equates to an EV/Sales multiple of 5.4x our FY19 revenue estimate of \$24.7 million. Overall, we view CASM as a company shifting from a capital-intensive low-margin business built around monitor sales to a higher margin disposables business built around sensor sales. Importantly, this shift has the potential to accelerate once CASM finalizes an OEM partnership, as this would allow CASM to stop selling monitors and to instead partner with a third-party monitor manufacturer that would integrate the technology into its own monitors. Coupled with the potential for growth acceleration if this occurs, we believe CASM is undervalued.



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## RISKS

We believe an investment in CAS Medical involves the following risks:

- **Clinical & Regulatory**  
CASM relies on the FDA for product clearance and approval. If they are unable to prove efficacy, safety, or if the FDA delays approval/clearance of their products, this may adversely affect the company and its stock price.
- **Key Personnel**  
We believe that Tom Patton is a key member of the management team and if CASM were to lose the services or cooperation of these individuals, the business or stock price may be adversely affected.
- **Hospital Adoption**  
One of the challenges for any small medical device company is to gain approval of hospitals' VAC (value assessment committees). This approval is required before physicians can use products in a hospital. CAS Medical will need to secure a place on VAC, GPO, and IDN platforms in order for physicians to use their products. If they are unsuccessful, it will be difficult for them to achieve success.
- **Competition**  
Medtronic (Somanetics division) has a market leading position in the cerebral oximetry market. Medtronic is a large, well-capitalized company which may create unexpected challenges for CASM.
- **Sales Execution**  
Since CAS Medical currently has limited capital, it is important that they use it wisely to maximize returns for shareholders. At this time, they do not have the financial resources to rapidly develop a vast sales force and will have to be thoughtful with their uses of capital. If CAS Medical uses capital inefficiently, this may negatively impact current shareholders.
- **Manufacturing Risk**  
CAS Medical assembles and manufactures their products at their Branford, CT facility. If there were material manufacturing flaws this may adversely affect their business. If this facility were to fail an FDA inspection, this may present regulatory challenges to their operations and inhibit their ability to introduce new products.
- **Customer Concentration**  
CAS Medical's five largest customers account for ~15% of their total revenue. If they were to lose some of these customers, this would adversely affect their business operations.

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## CRAIG-HALLUM ALPHA SELECT LIST

The Alpha Select list is an actively researched collection of small, under-followed public companies that we believe have the potential to become much larger. The Alpha Select List will typically consist of sub-\$250M market cap companies with attractive business models, above average growth trends, favorable macro/secular themes and management teams that we believe have the ability to take the business to the next level.

**CAS Medical Systems, Inc.**  
Fiscal Year Ends December

Income Statement (\$ thousands)	Fiscal 2016A	Mar Q1-17A	Jun Q2-17A	Sep Q3-17A	Dec Q4-17A	Fiscal 2017A	Mar Q1-18A	Jun Q2-18A	Sep Q3-18E	Dec Q4-18E	Fiscal 2018E	Mar Q1-19E	Jun Q2-19E	Sep Q3-19E	Dec Q4-19E	Fiscal 2019E
Total Revenue (adjusted for divestitures)	18,674	4,543	4,572	4,526	5,121	18,763	5,444	5,291	5,061	5,735	21,531	6,002	6,024	6,037	6,628	24,691
<b>Total Revenue (as originally reported)</b>	<b>22,238</b>	<b>4,572</b>	<b>4,572</b>	<b>4,526</b>	<b>5,121</b>	<b>18,763</b>	<b>5,444</b>	<b>5,291</b>	<b>5,061</b>	<b>5,735</b>	<b>21,531</b>	<b>6,002</b>	<b>6,024</b>	<b>6,037</b>	<b>6,628</b>	<b>24,691</b>
Cost of sales:																
Total cost of sales	10,091	2,061	2,194	1,882	2,368	8,505	2,358	2,111	2,040	2,282	8,790	2,413	2,404	2,439	2,638	9,893
<b>GAAP Gross Profit</b>	<b>12,147</b>	<b>2,482</b>	<b>2,378</b>	<b>2,644</b>	<b>2,754</b>	<b>10,258</b>	<b>3,087</b>	<b>3,181</b>	<b>3,021</b>	<b>3,452</b>	<b>12,741</b>	<b>3,589</b>	<b>3,620</b>	<b>3,598</b>	<b>3,990</b>	<b>14,798</b>
Operating expenses:																
Research and development	3,437	787	858	804	785	3,235	802	834	845	865	3,345	850	850	850	850	3,400
Selling, general and administrative	13,575	3,574	3,503	3,133	3,208	13,418	3,431	3,473	3,488	3,588	13,980	3,481	3,523	3,538	3,638	14,180
<b>GAAP Operating Expenses</b>	<b>17,012</b>	<b>4,361</b>	<b>4,362</b>	<b>3,937</b>	<b>3,993</b>	<b>16,653</b>	<b>4,233</b>	<b>4,307</b>	<b>4,333</b>	<b>4,453</b>	<b>17,326</b>	<b>4,331</b>	<b>4,373</b>	<b>4,388</b>	<b>4,488</b>	<b>17,580</b>
<b>GAAP Operating Income</b>	<b>(4,865)</b>	<b>(1,879)</b>	<b>(1,983)</b>	<b>(1,293)</b>	<b>(1,239)</b>	<b>(6,395)</b>	<b>(1,146)</b>	<b>(1,126)</b>	<b>(1,312)</b>	<b>(1,001)</b>	<b>(4,585)</b>	<b>(742)</b>	<b>(753)</b>	<b>(790)</b>	<b>(498)</b>	<b>(2,783)</b>
Adjusted EBITDA	(3,852)	(1,627)	(1,727)	(1,032)	(982)	(5,369)	(886)	(863)	(1,052)	(741)	(3,542)	(482)	(493)	(530)	(238)	(1,743)
Interest and other income:																
Other expenses	1,006	260	265	275	277	1,076	272	589	290	295	1,446	280	285	290	295	1,150
<b>GAAP Pre-tax Income from Continuing Operations</b>	<b>(5,871)</b>	<b>(2,139)</b>	<b>(2,248)</b>	<b>(1,568)</b>	<b>(1,516)</b>	<b>(7,471)</b>	<b>(1,418)</b>	<b>(1,715)</b>	<b>(1,602)</b>	<b>(1,296)</b>	<b>(6,030)</b>	<b>(1,022)</b>	<b>(1,038)</b>	<b>(1,080)</b>	<b>(793)</b>	<b>(3,933)</b>
Income tax expense (benefit)	(948)	(104)	(50)	(1,630)	37	(1,746)	-	-	-	-	0	-	-	-	-	0
<b>GAAP Income (Loss) from Continuing Operations</b>	<b>(4,922)</b>	<b>(2,035)</b>	<b>(2,198)</b>	<b>62</b>	<b>(1,554)</b>	<b>(5,725)</b>	<b>(1,418)</b>	<b>(1,715)</b>	<b>(1,602)</b>	<b>(1,296)</b>	<b>(6,030)</b>	<b>(1,022)</b>	<b>(1,038)</b>	<b>(1,080)</b>	<b>(793)</b>	<b>(3,933)</b>
Discontinued operations:																
Income (loss) from discontinued operations	(201)	295	142	268	40	746					0					0
Gain (loss) on sale of discontinued operations	2,911			4,388		4,388					0					0
Income tax expense (benefit)	948	104	50	1,630	(37)	1,746					0					0
<b>Income (loss) from discontinued operations</b>	<b>1,762</b>	<b>191</b>	<b>93</b>	<b>3,027</b>	<b>77</b>	<b>3,388</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GAAP Net Income</b>	<b>(3,161)</b>	<b>(1,844)</b>	<b>(2,106)</b>	<b>3,089</b>	<b>(1,476)</b>	<b>(2,337)</b>	<b>(1,418)</b>	<b>(1,715)</b>	<b>(1,602)</b>	<b>(1,296)</b>	<b>(6,030)</b>	<b>(1,022)</b>	<b>(1,038)</b>	<b>(1,080)</b>	<b>(793)</b>	<b>(3,933)</b>
Preferred Dividends	1,483	387	394	401	408	1,589	415	422	427	432	1,696	437	442	447	452	1,778
<b>GAAP Net Income Available to Common</b>	<b>(4,643)</b>	<b>(2,231)</b>	<b>(2,499)</b>	<b>2,688</b>	<b>(1,884)</b>	<b>(3,926)</b>	<b>(1,833)</b>	<b>(2,137)</b>	<b>(2,029)</b>	<b>(1,728)</b>	<b>(7,726)</b>	<b>(1,459)</b>	<b>(1,480)</b>	<b>(1,527)</b>	<b>(1,245)</b>	<b>(5,711)</b>
<b>Net Income Available to Common from Continuing</b>	<b>(6,405)</b>	<b>(2,422)</b>	<b>(2,592)</b>	<b>(339)</b>	<b>(1,961)</b>	<b>(7,314)</b>	<b>(1,833)</b>	<b>(2,137)</b>	<b>(2,029)</b>	<b>(1,728)</b>	<b>(7,726)</b>	<b>(1,459)</b>	<b>(1,480)</b>	<b>(1,527)</b>	<b>(1,245)</b>	<b>(5,711)</b>
GAAP EPS	(\$0.17)	(\$0.08)	(\$0.09)	\$0.10	(\$0.07)	(\$0.14)	(\$0.07)	(\$0.08)	(\$0.07)	(\$0.06)	(\$0.28)	(\$0.05)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.20)
<b>GAAP EPS from Continuing Operations</b>	<b>(\$0.24)</b>	<b>(\$0.09)</b>	<b>(\$0.09)</b>	<b>(\$0.01)</b>	<b>(\$0.07)</b>	<b>(\$0.27)</b>	<b>(\$0.07)</b>	<b>(\$0.08)</b>	<b>(\$0.07)</b>	<b>(\$0.06)</b>	<b>(\$0.28)</b>	<b>(\$0.05)</b>	<b>(\$0.05)</b>	<b>(\$0.05)</b>	<b>(\$0.04)</b>	<b>(\$0.20)</b>
Weighted average shares outstanding, diluted	26,827	27,026	27,330	27,430	27,351	27,261	27,612	27,750	27,850	27,950	27,791	28,050	28,150	28,250	28,350	28,200

\*Company provided full pro-forma 1Q17 financials to adjust for the 2Q17 divestiture of the blood pressure monitoring business

% Revenue Analysis:																
<b>GAAP Gross Margin</b>	54.6%	54.6%	52.0%	58.4%	53.8%	54.7%	56.7%	60.1%	59.7%	60.2%	59.2%	59.8%	60.1%	59.6%	60.2%	59.9%
Research and development	15.5%	17.3%	18.8%	17.8%	15.3%	17.2%	14.7%	15.8%	16.7%	15.1%	15.5%	14.2%	14.1%	14.1%	12.8%	13.8%
Selling, general and administrative	61.0%	78.7%	76.6%	69.2%	62.6%	71.5%	63.0%	65.6%	68.9%	62.6%	64.9%	58.0%	58.5%	58.6%	54.9%	57.4%
<b>GAAP Operating Expenses</b>	<b>76.5%</b>	<b>96.0%</b>	<b>95.4%</b>	<b>87.0%</b>	<b>78.0%</b>	<b>88.8%</b>	<b>77.8%</b>	<b>81.4%</b>	<b>85.6%</b>	<b>77.7%</b>	<b>80.5%</b>	<b>72.2%</b>	<b>72.6%</b>	<b>72.7%</b>	<b>67.7%</b>	<b>71.2%</b>
<b>GAAP Operating Margin</b>	<b>(21.9%)</b>	<b>(41.4%)</b>	<b>(43.4%)</b>	<b>(28.6%)</b>	<b>(24.2%)</b>	<b>(34.1%)</b>	<b>(21.1%)</b>	<b>(21.3%)</b>	<b>(25.9%)</b>	<b>(17.5%)</b>	<b>(21.3%)</b>	<b>(12.4%)</b>	<b>(12.5%)</b>	<b>(13.1%)</b>	<b>(7.5%)</b>	<b>(11.3%)</b>
Tax rate	16.2%	4.9%	2.2%	103.9%	(2.5%)	23.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>GAAP Net Margin</b>	<b>(22.1%)</b>	<b>(44.8%)</b>	<b>(48.1%)</b>	<b>1.4%</b>	<b>(30.3%)</b>	<b>(30.5%)</b>	<b>(26.0%)</b>	<b>(32.4%)</b>	<b>(31.6%)</b>	<b>(22.6%)</b>	<b>(28.0%)</b>	<b>(17.0%)</b>	<b>(17.2%)</b>	<b>(17.9%)</b>	<b>(12.0%)</b>	<b>(15.9%)</b>

Y/Y Growth:																
Total Revenue (adjusted for divestitures)	9.9%	1.7%	(1.7%)	(8.8%)	11.4%	0.5%	19.8%	15.7%	11.8%	12.0%	14.8%	10.2%	13.9%	19.3%	15.6%	14.7%
<b>Total Revenue (as originally reported)</b>	<b>2.8%</b>	<b>N/A</b>	<b>(17.5%)</b>	<b>(21.4%)</b>	<b>(6.6%)</b>	<b>(15.6%)</b>	<b>19.8%</b>	<b>15.7%</b>	<b>11.8%</b>	<b>12.0%</b>	<b>14.8%</b>	<b>10.2%</b>	<b>13.9%</b>	<b>19.3%</b>	<b>15.6%</b>	<b>14.7%</b>
GAAP Gross Profit	14.0%	N/A**	N/A**	N/A**	N/A**	N/A**	24.4%	33.7%	14.3%	25.4%	24.2%	16.3%	13.8%	19.1%	15.6%	16.1%
GAAP Operating Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Income Available to Common from Continuing Operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GAAP EPS from Continuing Operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

\*\*Not comparable to prior year numbers due to the divestiture of the blood pressure monitoring business



<b>Balance Sheet</b> (\$ thousands)	<b>Fiscal</b> <b>2016A</b>	<b>Mar</b> <b>Q1-17A</b>	<b>Jun</b> <b>Q2-17A</b>	<b>Sep</b> <b>Q3-17A</b>	<b>Dec</b> <b>Q4-17A</b>	<b>Fiscal</b> <b>2017A</b>	<b>Mar</b> <b>Q1-18A</b>	<b>Jun</b> <b>Q2-18A</b>
<b>Total Cash &amp; Investments</b>	<b>5,489</b>	<b>4,663</b>	<b>4,100</b>	<b>6,289</b>	<b>5,653</b>	<b>5,653</b>	<b>4,762</b>	<b>5,195</b>
Cash and cash equivalents	5,489	4,663	4,100	6,289	5,653	5,653	4,762	5,195
Short Term Equivalents	-	-	-	-	-	-	-	-
Accounts receivable	3,322	2,748	2,545	2,329	2,919	2,919	2,705	2,970
Notes and other receivables	-	-	-	-	15	15	-	-
Inventories	1,596	1,457	1,114	1,542	1,076	1,076	927	1,164
Other current assets	322	325	505	413	338	338	333	452
Assets associated with discontinued operations	-	730	509	626	-	-	-	-
<b>Total Current Assets</b>	<b>11,371</b>	<b>9,923</b>	<b>8,773</b>	<b>11,199</b>	<b>10,001</b>	<b>10,001</b>	<b>8,727</b>	<b>9,781</b>
Property and equipment, net	2,562	2,503	2,417	2,349	2,171	2,171	2,134	2,143
Intangible and other assets, net	791	797	812	815	802	802	797	764
<b>Total Assets</b>	<b>14,724</b>	<b>13,223</b>	<b>12,001</b>	<b>14,362</b>	<b>12,975</b>	<b>12,975</b>	<b>11,658</b>	<b>12,688</b>
Accounts payable	1,075	1,100	687	740	692	692	852	1,240
Accrued Expenses	2,240	1,783	1,701	1,762	1,652	1,652	1,748	1,628
Notes Payable	70	44	151	67	86	86	58	164
Note payable - line-of-credit	-	-	1,000	-	-	-	-	-
Current portion of long-term debt	840	1,518	1,096	1,911	2,734	2,734	3,019	-
Liabilities associated with discontinued operations	93	58	87	76	35	35	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>4,318</b>	<b>4,503</b>	<b>4,722</b>	<b>4,556</b>	<b>5,198</b>	<b>5,198</b>	<b>5,677</b>	<b>3,031</b>
Deferred gain on sale and leaseback of property	92	58	24	-	-	-	-	-
Income taxes payable	-	-	-	-	-	-	-	-
Long-term debt, less current portion	6,581	5,972	6,459	5,706	4,943	4,943	4,183	9,145
Other long-term liabilities	320	320	320	320	320	320	320	400
<b>Total Liabilities</b>	<b>11,311</b>	<b>10,853</b>	<b>11,526</b>	<b>10,582</b>	<b>10,462</b>	<b>10,462</b>	<b>10,180</b>	<b>12,576</b>
Total Stockholders' Equity	3,413	2,370	475	3,780	2,513	2,513	1,477	111
<b>Total Liabilities and Stockholders' Equity</b>	<b>14,724</b>	<b>13,223</b>	<b>12,001</b>	<b>14,362</b>	<b>12,975</b>	<b>12,975</b>	<b>11,658</b>	<b>12,688</b>
<b>Book value per share</b>	<b>\$0.13</b>	<b>\$0.09</b>	<b>\$0.02</b>	<b>\$0.14</b>	<b>\$0.09</b>	<b>\$0.09</b>	<b>\$0.05</b>	<b>\$0.00</b>

CAS Medical Systems, Inc.  
Discounted Cash Flow Model

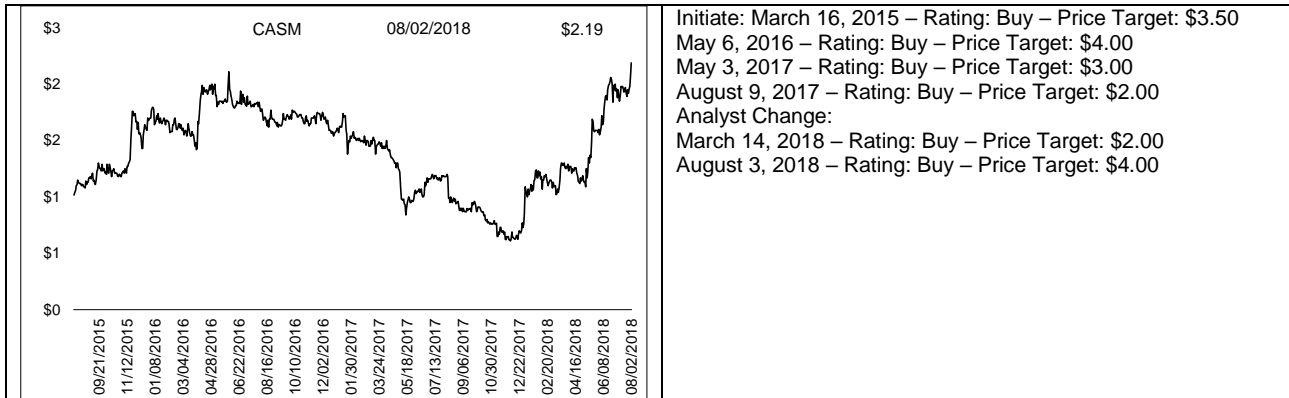
(\$ thousands)	FY Estimates (Fiscal Year Ends December)									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Total Revenue</b>	<b>21,531</b>	<b>24,691</b>	<b>29,012</b>	<b>34,815</b>	<b>42,648</b>	<b>53,310</b>	<b>66,638</b>	<b>83,297</b>	<b>104,122</b>	<b>107,245</b>
Operating Profit	(4,585)	(2,783)	725	2,611	5,331	9,329	13,328	18,742	26,030	24,130
Less: Cash taxes paid	0	0	0	0	0	0	0	0	3,905	6,033
<b>Operating Profit After Tax</b>	<b>(4,585)</b>	<b>(2,783)</b>	<b>725</b>	<b>2,611</b>	<b>5,331</b>	<b>9,329</b>	<b>13,328</b>	<b>18,742</b>	<b>22,126</b>	<b>18,098</b>
Depreciation and amortization	1,043	1,040	1,113	1,191	1,274	1,363	1,459	1,561	1,670	1,787
Capital expenditures	851	728	757	788	819	852	886	921	958	997
Net investments in working capital	(533)	200	302	406	548	746	933	1,166	1,458	219
<b>FCF</b>	<b>(3,859)</b>	<b>(2,671)</b>	<b>778</b>	<b>2,608</b>	<b>5,238</b>	<b>9,094</b>	<b>12,967</b>	<b>18,215</b>	<b>21,380</b>	<b>18,669</b>
<i>PV of FCF</i>	<i>(3,508)</i>	<i>(2,207)</i>	<i>585</i>	<i>1,781</i>	<i>3,252</i>	<i>5,133</i>	<i>6,654</i>	<i>8,497</i>	<i>9,067</i>	<i>7,198</i>
<b>Perpetual FCF</b>										
Base FCF	18,669									
Weighted Avg. Cost of Capital (k)	10%									
Perpetual Growth Rate (g)	3%									
Base Year	2017									
Perpetual Start Year	2027									
Perpetual Value	274,705									
PV of Perpetual Growth Period	105,911									
<b>Total FCF</b>										
Present Value of FCF	135,165									
<b>Intrinsic Value</b>										
Cash	5,195									
Debt	9,309									
Preferred Stock	13,938									
ESO	3,235									
<i>Value of Equity</i>	113,879									
Shares Outstanding	28,836									
<b>Intrinsic Value per Share</b>	<b>\$3.95</b>									

Sensitivity Analysis						
		FCF Growth				
		3.95%	2.5%	3.0%	3.5%	4.0%
Cost of Capital	9.0%	\$4.67	\$5.05	\$5.50	\$6.04	
	9.5%	\$4.14	\$4.46	\$4.82	\$5.26	
	10.0%	\$3.69	<b>\$3.95</b>	\$4.25	\$4.60	
	10.5%	\$3.29	\$3.51	\$3.77	\$4.06	
	11.0%	\$2.95	\$3.14	\$3.35	\$3.59	
	11.5%	\$2.65	\$2.81	\$2.99	\$3.19	
	12.0%	\$2.38	\$2.52	\$2.67	\$2.84	



**REQUIRED DISCLOSURES**



Initiate: March 16, 2015 – Rating: Buy – Price Target: \$3.50  
 May 6, 2016 – Rating: Buy – Price Target: \$4.00  
 May 3, 2017 – Rating: Buy – Price Target: \$3.00  
 August 9, 2017 – Rating: Buy – Price Target: \$2.00  
 Analyst Change:  
 March 14, 2018 – Rating: Buy – Price Target: \$2.00  
 August 3, 2018 – Rating: Buy – Price Target: \$4.00

Source: FactSet

**Ratings definitions:**

**Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

**Fundamental trend definitions:**

**Improving** means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

**Ratings Distribution (6/30/2018)**

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	76%	19%
Hold	23%	0%
Sell	1%	0%
Total	100%	14%

**Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.**

CHLM makes a market in this security.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm’s investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm’s business, including investment banking.

**OTHER DISCLOSURES**

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