

### Action Summary – 20 February 2020

Analyst Theodore R. O'Neill *is initiating coverage of Digirad Corporation*

- **We are initiating coverage of Digirad Corporation with a Buy rating and a \$12.00 price target.** Despite recent losses, 2020 looks to be a break-out year. Our price target is based on the discounted value of future earnings and is supported by DRAD's discount to peers
- DRAD acquired ATRM holdings last year in exchange for preferred stock which trades under the ticker DRADP. **With that acquisition, DRAD transformed into a diversified holding company**
- **With the incremental revenue from ATRM and the reduction in costs from not having two full management teams or the duplicate cost of Sarbanes-Oxley, we believe it will cease reporting losses as early as 2Q20**
- Predicting exactly when companies will achieve breakeven is fraught and we wouldn't be surprised if our timing changed, but at the current valuation, the market appears to be assuming the merger changes nothing
- Company guidance for FY2020 is for revenues of \$130 million to \$150 million and adjusted EBITDA of \$10 million to \$12 million. At the current price, the company is valued at less than 1x times EBITDA guidance and if you include the value of the preferred in EV, the multiple is half its peers
- **We are issuing this report simultaneously with a report on Digirad's preference A stock – which we also feel is undervalued**
- **Shares appear to be priced significantly below absolute and comparative metrics: e.g. 2021 Sales Multiple is a 95% discount to peers**

2/18 Closing price: \$3.12	Market cap: \$6 million	Multiple of book: 0.29	EV/2021 Sales: 0.30
Shares outstanding: 2.05 million	Insider ownership: 10%	Avg. trading volume: 37,000	Dividend/Yield: NA/NA

### Non-GAAP estimates (EPS in dollars – Revenue in millions)

Period	EPS	Revenue	Op Margin
1Q19A	(\$0.50)	\$23.9	(4.7%)
2Q19A	\$0.04	\$25.8	(4.4%)
3Q19A	\$0.01	\$28.3	(4.3%)
4Q19E	<u>(\$0.04)</u>	<u>\$35.6</u>	<u>(1.5%)</u>
FY19E	<u>(\$0.51)</u>	<u>\$113.6</u>	<u>(3.6%)</u>
1Q20E	(\$0.03)	\$31.6	(2.6%)
2Q20E	\$0.39	\$34.5	0.4%
3Q20E	\$0.35	\$34.1	0.1%
4Q20E	<u>\$0.42</u>	<u>\$36.0</u>	<u>1.2%</u>
FY20E	<u>\$1.12</u>	<u>\$136.2</u>	<u>(0.1%)</u>
1Q21E	\$0.23	\$34.3	(0.1%)
2Q21E	\$0.42	\$36.7	1.2%
3Q21E	\$0.54	\$38.6	1.9%
4Q21E	<u>\$0.30</u>	<u>\$38.5</u>	<u>0.3%</u>
FY21E	<u>\$1.49</u>	<u>\$148.1</u>	<u>0.9%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

### Cash balance (in millions)

- 2018A • \$1.7
- 2019E • \$1.8
- 2020E • \$9.9
- 2021E • \$18.3

### Debt (in millions)

- 2018A • \$9.5
- 2019E • \$17.5
- 2020E • \$17.5
- 2021E • \$17.5

### Adjusted EBITDA

- 2018A • \$6.0
- 2019E • \$6.6
- 2020E • \$10.7
- 2021E • \$11.4

Quarterly adjusted EBITDA and non-GAAP EPS are detailed in Figure 17.

### Risks/Valuation

- Risks include: Changes in healthcare reimbursement, weather impact on construction projects
- Our \$12.00 target is derived using a discounted future earnings model

**Company description:** Digirad Corporation is a diversified holding company operating with three business divisions: Healthcare, Building & Construction, and Real Estate & Investments.

Figure 1 – Digirad Corporation - Trading snapshot



Source: Refinitiv Eikon

## Investment Thesis

**We are initiating coverage of Digirad Corporation with a Buy rating and a \$12.00 price target.** Despite recent losses, 2020 looks to be a break-out year. Our price target is based on the discounted value of future earnings and is supported by DRAD's discount to peers.

DRAD acquired ATRM holdings last year in exchange for preferred stock which trades under the ticker DRADP. **With that acquisition, DRAD transformed into a diversified holding company.**

**With the incremental revenue from ATRM and the reduction in costs from not having two full management teams or the duplicate cost of Sarbanes-Oxley, we believe it will cease reporting losses as early as 2Q20**

Predicting exactly when companies will achieve breakeven is fraught and we wouldn't be surprised if our timing changed, but at the current valuation, the market appears to be assuming the merger changes nothing

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In Figure 1 above, the spike in volume followed the announcement that the company had acquired ATRM Holdings and transformed DRAD from a healthcare company to a holding company. We believe funds that invest in healthcare companies could not make the switch.

## Valuation Methodology

We believe DRAD is undervalued and we support that belief with two valuation techniques, below. For the purposes of determining our price target we use a discounted future earnings model. The following valuation techniques are being used:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

### Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$12.00 is based on a discounted earnings model. Our assumptions are that the incremental revenue from the ATRM acquisition, but without having to duplicate the management team or the Sarbanes-Oxley costs, will result in positive GAAP earnings in 2020. The company reports GAAP and non-GAAP EPS, but for our price target calculations we use **fully-taxed** GAAP because it is the more conservative approach. Our valuation model is shown in Figure 2 below. The model sums up all earnings per share, discounted at 10% to arrive at a per share value. The near-term EPS shows above GDP growth which we lower to GDP after year 5. Note, this model understates future acquisitions, products or markets, probably understates the tax benefits, but offsetting that, the earnings never have a down year.

The implied share price is \$12.04 which we round down to \$12.00. Although this target is substantially above where the stock is currently, it has traded at and above that level in the last 2-years.

*Figure 2 – Digirad Corporation – Price Target Calculation*

Target Price: <b>\$12.04</b>		
YEAR	EPS	Discounted EPS
2020	\$0.12	\$0.12
2021	\$0.49	\$0.45
2022	\$0.70	\$0.58
2023	\$0.95	\$0.71
2024	\$0.99	\$0.67
Terminal Value		\$9.50

Source: Litchfield Hills Research LLC

### Valuation Relative to Peers

If we compare DRAD to a simple average of its peers (Figure 3), the shares sell at a significant discount on every metric. These metrics indicate the stock price should be more than 100% higher than where it is today. This supports our \$12 price target. If the shares traded for \$12.00 today, its 2021 EV/Revenue would still be below average. Details on each of the peers can be found in Figure 16 near the back of the report. The companies we used in Figure 16 are in similar lines of business although none of them are a perfect match.

*Figure 3 – Digirad Corporation – Summary Discount to Peers*

	2021 Sales Multiple	Multiple of book	2021 PE	2021 EV / Revenue	2021 EV / EBITDA
Peers	0.88	1.65	26.82	1.27	9.00
DRAD	0.04	0.29	6.37	0.30	3.92
<b>Discount to Peers</b>	<b>95%</b>	<b>82%</b>	<b>76%</b>	<b>76%</b>	<b>56%</b>

Source: Litchfield Hills Research LLC and Refinitiv Eikon

## Guidance and Financial Forecasts

For FY 2020, Digirad's guidance ranges are revenues of \$130 million to \$150 million, adjusted EBITDA of \$10 million to \$12 million, and free cash flow of \$7 million to \$9 million. (\$5 million to \$7 million after preferred stock dividends). Free cash flow will be used for debt reduction, internal growth initiatives, and acquisitions. Our estimates are detailed in Figures 17, 18, 19, and 20. For valuation purposes we are projecting fully-taxed earnings but we do not expect the company to pay any taxes near-term. It has significant NOL carryforwards.

The holding company structure allows each division to benefit from the use of a shared services center, which will handle corporate functions so that the management teams of the operating businesses can focus on operations, growth, and bolt-on acquisition opportunities. The Company believes that this model will result in lower costs and improved operating and financial performance going forward. It will also optimize the use of capital and other internal resources.

## Company Overview

Digirad is a holding company seeking to acquire assets, and businesses, where its people, and other assets provide a competitive advantage. It currently has five business operating segments in three divisions:

- **Digirad Healthcare** division designs, manufactures, and distributes diagnostic medical imaging products, and offers mobile healthcare services, and solutions to hospitals, and physicians;
- **ATRM Holdings** division designs, and manufactures residential, and commercial construction projects by manufacturing modular housing units, structural wall panels, permanent wood foundation systems, and other engineered wood products, and supplies general contractors with building materials;
- **Real Estate & Investments** division manages real estate assets (currently three manufacturing plants in Maine), and investments

Digirad's goal as a diversified holding company is to focus on generating attractive, risk-adjusted returns on investment, and long-term value creation. It intends to accomplish this principally through:

- continuous review of acquisitions of businesses, securities, and assets that generate attractive risk-adjusted returns, and exhibit the potential for significant long-term value creation;
- effective use of the skills of its team, and its financial resources, including its tax assets, its willingness to curate solutions, and its ability to prudently assume risks; and
- constant evaluation of the retention, and disposition of its operations, and holdings.

In recent years, it has made a number of changes in its business:

During the current fiscal year ending December 31, 2020

- the Real Estate & Investment division raised \$2.5 million in new capital and \$3.0 million of refinancing to support the expansion of its ATRM Holdings, building and construction division.

During the year ended December 31, 2019, it:

- converted into a diversified holding company following its September 10, 2019 acquisition of ATRM Holdings, Inc.
- created, and issued Digirad Series A Preferred stock in exchange for ATRM Holdings Common, and Preferred stock which trades on the NASDAQ as DRADP
- formed a real estate subsidiary named Star Real Estate Holdings USA, Inc. (SRE), purchased three manufacturing plants in Maine for ~\$5.1 million, and determined it was a separate reportable segment
- Raised \$3.0 million through the issuance of 300,000 series A preferred 10% dividend shares in a private placement

During the year ended December 31, 2018, it:

- completed the sale of its customer contracts relating to the Medical Device Sales, and Service ("MDSS") post-warranty service business to Philips North America LLC ("Philips") pursuant to an Asset Purchase Agreement, dated as of December 22, 2017 for \$8.0 million
- the Company entered into a membership interest purchase agreement (the "Telerhythmics Purchase Agreement") with G Medical Innovations USA, Inc. ("G Medical"), pursuant to which it sold all the outstanding membership interests in Telerhythmics ("Telerhythmics") to G Medical for \$2 million
- announced that its board of directors approved the conversion of Digirad into a diversified holding company (the "HoldCo Conversion"), and the potential acquisition of ATRM Holdings, Inc., ("ATRM") as an initial "kick-off" transaction

As of December 31, 2018, the company had approximately \$83.7 million of Federal, and \$26.7 million of State net operating loss (NOL) carryforwards.

## Growth Strategy

**Organic growth.** We believe that DRAD operates in markets, and geographies that will allow it to continue to grow its core businesses. It plans to focus efforts on markets in which it already has a presence in order to take advantage of the personnel, infrastructure, and brand recognition it has in these areas.

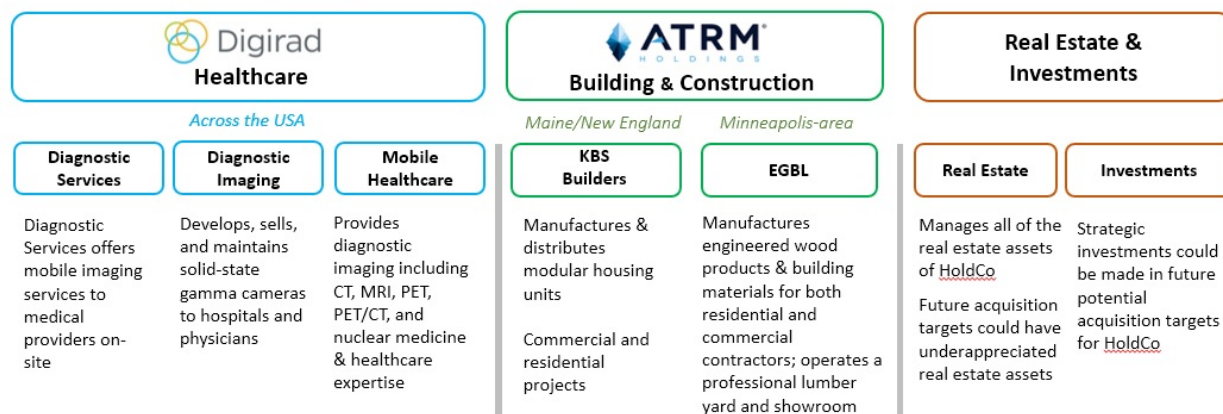
**Introduction of new services.** The Company continues to focus on its portfolio of businesses that deliver necessary assets, services, and logistics directly to the customer site. We also expect it to either purchase or develop new, and complementary businesses, and take advantage of its customer loyalty, and distribution channels.

**Acquisition of similar or complementary businesses.** DRAD plans to continue to look at similar or complementary businesses that meet its internally developed financially disciplined approach for acquisitions to grow the company. We believe there are many potential targets in the range of \$3 million to \$10 million in annual revenues that can be acquired over time, and integrated into its businesses. It will also look at larger, more transformational acquisitions if it believes the appropriate mix of value, risk, and return is present for its stockholders. The timing of these potential acquisitions will always depend on market conditions, available capital, and the value for each transaction.

It continues to explore strategic alternatives to improve the market position, and profitability of its product offerings in the marketplace, generate additional liquidity, and enhance valuation.

## Operating Division Overview

Digirad Corporation has three operating business divisions:



Source: Digirad Corporation

### *Digirad Healthcare, the Healthcare Imaging Division (73% of expected 2020 revenue)*

Digirad Healthcare designs, manufactures, and distributes diagnostic medical imaging products and services. Digirad Health operates in three businesses:

- 1) **Diagnostic Services** - The Diagnostic Services business offers imaging and monitoring services to healthcare providers as an alternative to purchasing the equipment or outsourcing the work.
- 2) **Mobile Healthcare** - The Mobile Healthcare business provides contract diagnostic imaging, including computerized tomography ("CT"), magnetic resonance imaging ("MRI"), positron emission tomography ("PET"), PET/CT, and nuclear medicine and healthcare expertise through a convenient mobile service
- 3) **Diagnostic Imaging** - The Diagnostic Imaging business develops, sells, and maintains solid-state gamma cameras.

Because "imaging" occurs in all three segments, it helps to keep in mind that the Diagnostic Imaging segment sells cameras to hospitals, and physician groups, while the Services, and Mobile segment offers imaging as part of the "services" it provides its customers. In the Healthcare Division DRAD offers both a service-based model to its customers, allowing them to avoid making costly capital, and logistical investments, and if needs change, it has the ability to sell the underlying capital equipment directly to its customers. This ability to serve customers in a variety of capacities from selling equipment directly, or providing more flexibility through a service-based model, allows it to serve customers according to their exact needs, as well as the ability to capture both ends of the revenue spectrum.

### Relevant Market Data

We believe there are multiple opportunities for growth driven by fragmentation and outsourcing trends. Like much of the healthcare industry, the market for the services of the Healthcare Imaging Division are highly fragmented. We believe this creates multiple opportunities, all of which are being pursued in one way or another at Digirad.

- 1) Consolidate the market by acquiring other companies where Digirad is already operating or enter into or make acquisitions in new territories



- 2) Take market share from competitors
- 3) Turn competitors into customers. Digirad's healthcare imaging division buys radiopharmaceuticals in bulk and has the specialized skills and licenses to handle and store these materials. There may be opportunities to sell these materials at a profit to a competitor who doesn't get a bulk discount from its suppliers.

There is also a trend to outsourcing. Providing excellent care requires substantial manpower and resources. Facilities must spend more, both on a recurring basis and with larger capital investments. Unless, of course, they outsource. Commonly outsourced clinical services now include (Digirad in **bold**) medical and technical offerings such as laboratory (pathology and microbiology), pharmacy, **radiology**, dialysis, **magnetic resonance imaging**, **nuclear medicine**, mental health services, physiotherapy and rehabilitation, speech and language therapy, occupational health therapy, medical tourism, and home-delivered healthcare. Curbing costs quickly and substantially is necessary for providers to stay competitive and profitable. Hospitals, especially, are facing dwindling margins, higher patient expectations, and shrinking federal and state support. Add in the cost of highly skilled, full-time employee resources and it often outweighs the cost of working with a third-party vendor. Plus, outsourcing service lines like diagnostic imaging allows hospitals to offer cutting-edge medical services without making the substantial investments necessary to upgrade in-house equipment.

#### *Diagnostic Services (47% of expected 2020 division revenue)*

Through Diagnostic Services, DRAD offers a convenient, and economically efficient imaging, and monitoring services program as an alternative to purchasing equipment or outsourcing the procedures to another physician or imaging center. For physicians who wish to perform nuclear imaging, echocardiography, vascular or general ultrasound tests, DRAD provides imaging systems, qualified personnel, radiopharmaceuticals, licensing services, and the logistics required to perform imaging in their own offices, and thereby the ability to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for those services, which are primarily cardiac in nature. Digirad provides these imaging services primarily to cardiologists, internal medicine physicians, and family practice doctors who typically enter annual contracts for a set number of days ranging from once per month to five times per week. Digirad makes it easy for physicians to engage then with a menu of services (see Figure 4).

DRAD's portable nuclear, and ultrasound imaging operations utilize a "hub and spoke" model in which centrally located regional hubs anchor multiple van routes in the surrounding metropolitan areas. At these hubs, clinical personnel load the equipment, radiopharmaceuticals, and other supplies onto specially equipped vans for transport to customer locations, where they set up the equipment for the day. After quality assurance testing, a technologist under the physician's supervision will gather patient information, inject the patient with a radiopharmaceutical as needed, and then acquire images for interpretation by the physician. At the conclusion of the day of service, all equipment, and supplies are removed from the customer location, and transported back to the central hub location. This model relies on density, and customer concentration to allow for efficiencies, and maximum profitability, and therefore it is only located in geographies where there is a high concentration of people, cardiac disease, and associated likely customer locations.

For its nuclear imaging services, DRAD has obtained Intersocietal Accreditation Commission ("IAC"), and Intersocietal Commission for Echocardiography Laboratories ("ICAEL") accreditation for its services. DRAD's licensing infrastructure provides radioactive materials licensing, radiation safety officer services, radiation safety training, monitoring, and compliance policies, and procedures, and quality assurance functions, to ensure adherence to applicable state, and federal nuclear regulations.

Figure 4 – Digirad Corporation - Diagnostic service package options

Digirad Select provides **everything** you need to operate and manage your nuclear lab.

**Package Options**  
Digirad Select lab packages allow you to bundle the services you need.

	Complete	Imaging	Staff & Support	Maintenance
Staff	●		●	
Equipment	●	●		
Maintenance	●		●	●
Licensing	●		●	
Accreditation	●	●	●	●
Supplies	●	●	●	

Digirad offers far more than cameras or mobile imaging. We help cardiologists and healthcare systems of any size with all aspects of their nuclear lab needs.

Source: Digirad Corporation

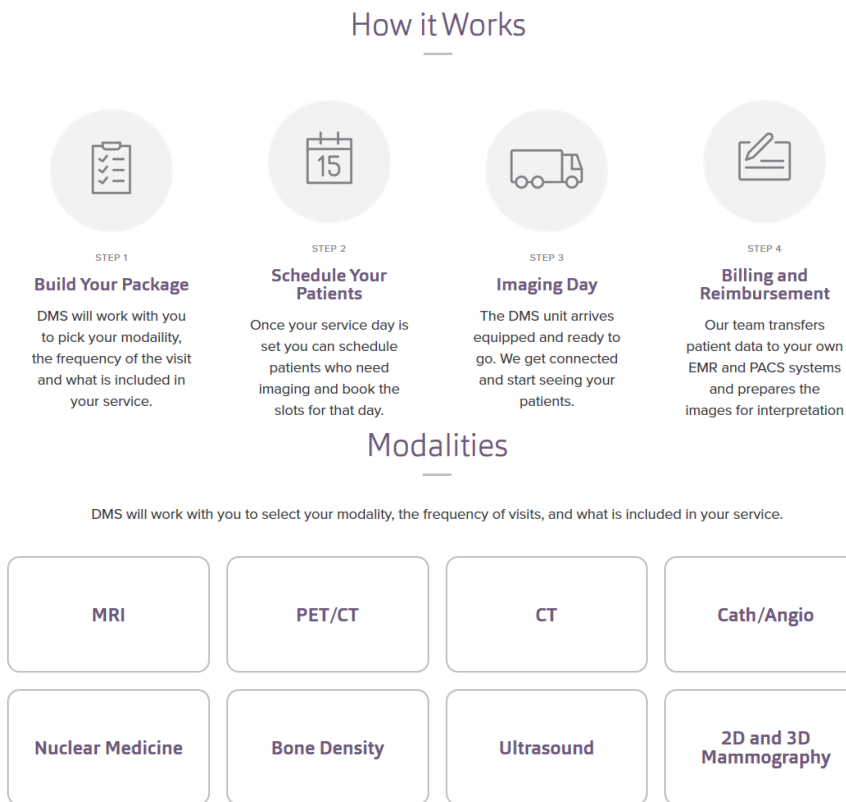
### Mobile Healthcare (41% of expected 2020 division revenue)

Through Mobile Healthcare, operated as DMS Health ([www.dmshealth.com](http://www.dmshealth.com)) it provides convenient one-stop shopping for contract diagnostic imaging, including computerized tomography ("CT"), magnetic resonance imaging ("MRI"), positron emission tomography ("PET"), PET/CT, and nuclear medicine, and healthcare expertise to hospitals, integrated delivery networks ("IDNs"), and federal institutions on a long-term contract basis, as well as provisional (short-term) services to institutions that are in transition (see Figure 5). These services are provided primarily when there is a cost, ease, and efficiency component of providing the services directly rather than owning, and operating the related services, and equipment directly by its customers. For others, customers who are having their own equipment repaired or replaced may contract with it for mobile equipment on a short-term transitional basis.

Mobile Healthcare operates throughout the United States, with a heavier concentration in rural areas, particularly in the Upper Midwest region of the United States. It has a range of customer types, but its typical customer is a small or regional hospital that does not have enough volume of activity to justify owning a piece of imaging equipment on a full-time basis. The diagnostic imaging equipment is typically placed in a large, patient friendly coach or tractor-trailer (see Figure 6), coupled with either an owned or operator-owned tractor, that is then transported to each customer location where they will rendezvous with DRAD's technical staff. The routes are designed to provide for maximum utilization, and efficiency by allowing its units to travel to the next customer location during non-working clinical hours. DRAD's customers commit to annual contracts ranging from service once every two weeks to up to two days of service per week, depending on modality type, and their local demand for services.



Figure 5 – Digirad Corporation – DMS makes Mobile healthcare easy as 1 2 3



Source: DMS Healthcare

Figure 6 – Digirad Corporation – Mobile Imaging on-site at a hospital



Source: DMS Healthcare

*Diagnostic Imaging (12% of expected 2020 revenue)*

Through Diagnostic Imaging, DRAD sells its internally developed solid-state gamma cameras, imaging systems, and camera maintenance contracts (see Figure 7). The imaging systems include nuclear cardiac imaging systems, as well as general purpose nuclear imaging systems that is sells to physician offices, and hospitals primarily in the United States. Imaging systems are sold in both portable, and fixed configurations, provide enhanced operability, and improved patient comfort, are designed to fit easily into floor spaces as small as seven feet by eight feet, and facilitate the delivery of nuclear medicine procedures in a physician's office, an outpatient hospital setting, or within multiple departments of a hospital (e.g., emergency, and operating rooms). Diagnostic Imaging segment revenues derive primarily from selling solid-state gamma cameras, and post-warranty camera maintenance contracts.

The central component of a nuclear camera is the detector, which ultimately determines the overall clinical quality of images a camera produces. DRAD's nuclear cameras feature detectors with advanced proprietary solid-state technology developed internally. The company believes it is a market leader in the mobile solid-state nuclear camera segment.

The company believes its patented state-of-the-art technology, will allow it to hold its market leading position for the foreseeable future. It plans to continue to enhance, and adjust its existing systems for the changing nuclear imaging market, including software updates, and smaller enhancements. However, to accomplish any significant changes, and enhancements, it will utilize what it believes is a deep available pool of contract engineers on a flexible, as needed basis. The Company does not currently maintain an internal research, and development department.

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*Figure 7 – Digirad Corporation – Solid-state cameras*

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Source Digirad Corporation

## Sales

DRAD maintains separate sales organizations that are aligned with each of its business units, which operate independently but in cooperation with each other. Mobile Healthcare sales efforts are throughout the United States, and Canada, though there typically is more effort expended in rural, and smaller hospital areas, as these are the primary customers that purchase this service, and provide the most value. Diagnostic Services concentrates its efforts on twelve regional areas where the majority of the business is concentrated based on concentrations of people, and cardiac disease. Diagnostic Imaging sales efforts are conducted throughout the United States, and certain foreign countries, and are not concentrated to any particular region or area within the United States as the customer profile for this business can be at any hospital or physician practice. Diagnostic Services, and Diagnostic Imaging, though separate sales teams, work collaboratively to help fulfill customer needs in either small practice mobile nuclear cardiac imaging services, or the potential to provide capital equipment sales should the customer decide to own the equipment in house.

**Intellectual Property**

Digirad relies on a combination of patent, trademark, copyright, trade secret, and other intellectual property laws, nondisclosure agreements, and other measures to protect its intellectual property.

Digirad has developed a patent portfolio that covers its products, components, and processes. It has 16 non-expired U.S. patents. The patents cover, among other things, aspects of solid-state radiation detectors that make it possible for Digirad to provide mobile imaging services, and its scan technology that provides for lower patient doses, and more specific cardiac images. Its patents expire between 2020, and 2030 (see Figure 8). While each of the patents applies to nuclear medicine, many also apply to the construction of area detectors for other types of medical, and non-medical imagers, and imaging methods.

*Figure 8 – Digirad Corporation – Table of active patents*

Title	Number	Expiration
Insulator/metal bonding island for active-area silver epoxy bonding	6,630,735	4/7/2020
Indirect back surface contact to semiconductor devices (Diode)	6,504,178	6/29/2020
Fabrication of low leakage-current backside illuminated photodiodes	6,670,258	4/20/2021
Fabrication of low leakage-current backside illuminated photodiodes	6,734,416	4/20/2021
Fabrication of low leakage-current backside illuminated photodiodes	7,297,927	4/20/2021
Fabrication of low leakage-current backside illuminated photodiodes	7,256,386	4/20/2021
Fabrication of low leakage-current backside illuminated photodiodes (Diodes)	7,417,216	4/20/2021
Charge pump power supply with noise control	7,019,783	10/4/2024
Automated three-dimensional patient tracking during medical imaging procedures	7,365,334	12/22/2025
Discrete sampling of gamma ray field over multiple portions using multiple heads with spaces between the different portions	7,668,288	11/13/2026
Combined cold plate and radiation shield	7,732,780	8/27/2027
Using large field-of-view data to improve small field-of-view imaging	7,683,341	2/2/2028
Multi-short-scan technique in SPECT imaging	7,700,921	1/11/2028
Emission data-based photon scatter correction in computed nuclear imaging technology	7,569,827	8/4/2029
Use of Hybrid Collimation for Interleaved Emission and Transmission Scans for SPECT	8,362,438	8/27/2030

Source: Digirad Corporation

*ATRM© Holdings, the Building & Construction Division (27% of expected 2020 revenue)*

ATRM manufactures modular housing units for commercial and residential applications. ATRM operates in two businesses:

- 1) **Modular building manufacturing** - The modular building manufacturing business is operated by KBS Builders, Inc. ("KBS")
- 2) **Structural wall panel and wood foundation manufacturing, including building supply retail operations** - The structural wall panel and wood foundation manufacturing segment is operated by EdgeBuilder, Inc. ("EdgeBuilder"), and the retail building supplies are sold through Glenbrook Building Supply, Inc. ("Glenbrook"). KBS Builders, EdgeBuilder and Glenbrook are wholly-owned subsidiaries of ATRM.

KBS Builders, Inc., Glenbrook Building Supply, Inc., and EdgeBuilder, Inc. are the companies in the Building and Construction Division. KBS Builders manufactures modular buildings for commercial, and residential applications in production facilities located in South Paris, Oxford and Waterford, Maine, and markets its products for sale in New England. Glenbrook, and EdgeBuilder are managed by a single management team, are run as a single company, share the same contact information, and the combination of the two is known as EGBL. Glenbrook Building Supply operates a lumber yard located in Oakdale, Minnesota, and serves markets in the greater Minneapolis, MN, and Western Wisconsin. EdgeBuilder, Inc. manufactures structural wall panels, permanent wood foundation systems, and other engineered wood products for use in construction of residential, and commercial buildings in a production facility located in Prescott, Wisconsin. It serves markets in Wisconsin, Iowa, Minnesota, and North, and South Dakota.

**Relevant Market Data**

We believe the market for modular housing units, and components is growing faster than for stick-built housing, and this is largely due to costs. According to the U.S. Census Bureau, and the U.S. Department of Housing, and Urban Development, single-family, and multi-family residential construction costs have risen 40%, and 80% respectively since 2005, and this exceeds wage growth. According to the U.S. Census Bureau, and the U.S. Department of Housing and Urban Development, and our estimates, housing starts (both single family, and multi-family) in the Northeast region, where KBS operates rose 4% in 2019 after no growth the previous two years. According to the same sources, housing starts in the Midwest where EGBL operates are on track to have been unchanged in 2019.

*KBS Builders, Inc.*

KBS started business in 2001 as a manufacturer of modular homes (see Figure 9). In 2008, KBS began manufacturing commercial modular multi-family housing units. In subsequent years, KBS expanded its product offerings to include a variety of commercial buildings including apartments, condominiums, townhouses, dormitories, hospitals, office buildings, and other structures. The structures are built inside its climate-controlled factory, and transported to the site where they are set, assembled, and secured on the foundation. Electrical, plumbing, and HVAC systems are inspected, and tested in the factory, prior to transportation to the site, to ensure the modules meet all local building codes, and quality requirements. Modular construction has gained increased acceptance, and is a preferred method of building by many architects, and general contractors. The advantages of modular construction include: modules are constructed in a climate-controlled environment; weather conditions usually do not interrupt or delay construction; the building is protected from weather, reducing the risk of mold due to materials absorbing moisture from rain or snow; reduced site work; improved safety, and security; reduced vandalism, and attrition, as the building is immediately secured; a significant reduction in overall project time all of which can contribute to lower cost per square foot.

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*Figure 9 – Digirad Corporation – KBS built home*

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*Source: KBS Builders*

KBS leases two manufacturing plants: a 90,000 square foot facility in South Paris, Maine, and a 60,000 square foot facility in Waterford, Maine.

KBS markets its modular homes products through direct sales people, and through a network of independent dealers, builders, and contractors in New England. KBS's direct sales organization is responsible for all commercial building projects, and works with developers, architects, owners, and general contractors to establish the scope of work, terms of payment, and general requirements for each project. KBS's sales people also work with independent dealers, builders, and contractors to accurately configure, and place orders for residential homes for their end customers. KBS's network of independent dealers, and contractors do not work with it exclusively, although many have KBS model homes on display at their retail centers. KBS does not assign exclusive territories to its independent dealers, and contractors, but they tend to sell in areas of New England where they will not be competing against another KBS dealer or contractor.

The KBS competitive strategy is to offer top quality products for both commercial, and residential buildings with a focus on customization to suit the project requirements, provide value with its engineering, and design expertise, and meet the timeframe needed by the customer. Its production strategy is to maintain, and grow the resources necessary to build a variety of commercial, and residential buildings focusing on the most efficient methods of manufacturing to meet quality standards. The sales team works to attract new architects, and contractors in New England who need the flexibility that KBS offers.

#### *EdgeBuilder, Inc.*

EdgeBuilder Wall Panels, Inc. started business in 2003 as a manufacturer of pre-built interior, and exterior wall structural components produced off-site for delivery on a just in time basis (see Figure10). Pre-built walls have benefits over on-site stick-built walls in that it can reduce construction time which lowers costs, and reduces waste, and weather exposure. All EdgeBuilder wall panel projects begin with architectural plans, and are transformed into drawings for custom wall panels. EdgeBuilder estimators, and designers work in full partnership with all levels of the contractor's organization throughout the construction process. Panelized construction, especially in large-scale projects, is becoming increasingly popular because wall panels can be constructed ahead of time, and stored until needed, they



## Digirad Corporation

DRAD-\$12.00 PT

can reduce overall site construction time, and the on-site assembly can be performed with smaller crews. Additionally, because the wall panels are constructed in a controlled indoor environment: weather conditions do not usually interrupt or delay construction, and the building, and materials are not exposed to the weather as they are during a traditional build. EdgeBuilder leases a 34,000 square foot manufacturing plant where it manufactures wall panels, and permanent wood foundation systems.

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*Figure 10 – Digirad Corporation – Installation of Pre-built wall panel*

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Source: EdgeBuilder

EdgeBuilder's has extensive experience with projects from small duplexes to large 100+ commercial office, and dwelling units (see Figure 11).

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*Figure 11 – Digirad Corporation – 60-unit condominium built with EdgeBuilder wall panels*

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Source: EdgeBuilder

### EdgeBuilder Panelized Foundations

In 2005, EdgeBuilder began marketing its engineered permanent wood foundations (PWF).

EdgeBuilder PWF consist of load-bearing walls framed with pressure treated lumber, and sheathed with American Wood Protection Association (AWPA) rated pressure-treated plywood. The walls are designed to withstand backfill, and vertical loading. They are supported laterally at the top floor, and at the bottom by a cast-in-place slab or pressure treated wood basement floor, and at the base by backfill, and foundation footings of crushed stone, gravel, coarse sand or poured concrete. PWF's are similar to its wall panels in that they are pre-built, and made of wood, and use all the same tools, and construction techniques. The benefits over concrete are that it makes the basement warmer, and dryer, the walls are immediately ready for interior drywall, and it can be less expensive than concrete (see Figure 12)

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*Figure 12 – Digirad Corporation – PWF under construction*

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Source: EdgeBuilder

EdgeBuilder markets its engineered structural wall panels, and permanent wood foundation systems through direct sales people, and a network of builders, contractors, and developers in the Upper Midwest states. Its direct sales organization is responsible for both residential, and commercial projects, and it works with general contractors, developers, and builders to provide bids, and quotes for specific projects.

### Glenbrook Building Supply

Glenbrook Building Supply specializes in providing quality building materials, service, and design know-how to professional contractors. The Glenbrook competitive strategy is to provide top-quality building materials, and unmatched service, and attention to detail to building professionals, as well as homeowners. In addition, Glenbrook provides highly personalized service, knowledgeable salespeople, and attention to detail.

### Customers

Building and Construction customers include residential home builders, general contractors, owners/developers of commercial buildings, and individual retail customers. Since 2014, KBS has pursued a strategy of moving away from very large, complex commercial projects to focus on single-family residential homes, and smaller commercial projects, which has helped to further diversify its customer base, and limit exposure to any one customer or project.

### Seasonality

Although modular home, and wall panel construction in its factories eliminates many of the weather-related challenges encountered with site-built construction, the business can still be impacted by weather, and other seasonal factors. Weather can cause delays in site preparation, including delays in building the foundation for a commercial project or residential home, access to building sites, and customer delays in setting wall panels or modular homes due to weather



conditions, and temperature. Additionally, sales demand, especially for residential homes, generally weakens in the winter months, particularly in the northeast, and upper-Midwest regions of the United States. As a result, both KBS, and EdgeBuilder experience some seasonality. At KBS, the third/fourth quarter is typically strong while the first quarter is typically the weakest. Although EdgeBuilder experiences some seasonality, it is less pronounced than KBS. EdgeBuilder's fluctuations in business are impacted more by the timing of its large wall panel projects. At EdgeBuilder, the first quarter typically is the strongest demand period, and the third quarter typically is the lowest demand period during the year.

*Real Estate & Investments Division (<1% of expected 2020 revenue)*

As part of its HoldCo strategy, in 2019 Digirad formed a real estate subsidiary named Star Real Estate Holdings USA, Inc. ("SRE"). Digirad believes future acquisition opportunities could have underappreciated real estate asset values and the Company anticipates placing any significant real estate assets into its new SRE subsidiary. SRE expects to be substantially self-funded over time by raising its own capital in the form of commercial mortgages on the properties it owns and it could potentially raise other forms of external capital. As an initial transaction to create the real estate division and launch this aspect of the Holding Company strategy, Digirad purchased three manufacturing plants in Maine (Figure 13, 14, and 15). These three plants were all built to construct modular buildings for residential, multi-family, and commercial real estate development products and are all within 15 miles of each other. The Company believes owning these three facilities serving the same industry within close proximity to each other creates significant strategic value for its SRE division and Digirad's stockholders. Two of the facilities were owned by KBS Builders, Inc., and the third facility was owned by a private company that had leased it to a competitor of KBS. The purchase price for the three plants and associated equipment was approximately \$5.1 million and was based on independent appraisal values. All three plants have been leased to KBS on a triple-net basis and are expected to generate, on an annualized basis, annual rental income to Digirad of \$0.5 to \$0.6 million. The Company believes the return on investment for Digirad in the form of rental income and future asset value appreciation significantly exceeds its cost of funds. One of the three buildings (Figure 14) is part of the expansion plan for KBS but has other strategic value. Because it previously held a competitor and was purpose built to make modular housing, it both prevents a new competitor from gaining a foothold and demonstrates to new KBS customers that it has significant bandwidth for large projects.

Lone Star Value Management, LLC ("LSVM"), a Connecticut-based exempt reporting advisor, provides services that include investment advisory services, and the servicing of pooled investment vehicles.

*Figure 13 – Digirad Corporation – 90,000 ft<sup>2</sup> plant at 300 Park Street South Paris, ME showing modular homes on left wrapped in weatherproofing, and ready for delivery*



Source: Google Maps

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*Figure 14 – Digirad Corporation – 90,000 ft<sup>2</sup> plant Mechanic Falls Road, Oxford, ME;  
currently idle*

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Source: Google Maps

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*Figure 15 – Digirad Corporation – 60,000 ft<sup>2</sup> Plant at 947 Waterford Road sub-leased  
to a steel fabricator*

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Source: Google Maps

*Competition*

**Digirad Healthcare**

*Diagnostic Services.* In providing diagnostic services, DRAD competes against many smaller local, and regional nuclear, and/or ultrasound providers, often owner-operators that may have lower operating costs. The fixed-installation operators often utilize older, used equipment, and the mobile operators may use older Digirad single-head cameras or newer dual-head cameras. DRAD is the only mobile provider with its own exclusive source of triple-head mobile systems. Some competing operators place new or used cameras into physician offices, and then provide the staffing, supplies, and other support as an alternative to a Diagnostic Services service contract. In addition, it competes against imaging centers that install fixed nuclear gamma cameras, and make them available to referring physicians in their geographic vicinity. In these cases, the physician sends their patients to the imaging center.

*Diagnostic Imaging.* In selling imaging systems, DRAD competes against several large medical device manufacturers who offer a full line of imaging cameras for each diagnostic imaging technology, including x-ray, MRI, CT, ultrasound, nuclear medicine, or SPECT/CT, and PET/CT hybrid imagers. The existing nuclear imaging systems sold by these competitors have been in use for a longer period of time than internally developed nuclear gamma cameras, and are more widely recognized, and used by physicians, and hospitals for nuclear imaging; however, they are generally not solid-state, lightweight, as flexible, or portable. Additionally, certain medical device companies have developed a version of solid-state gamma cameras that may directly compete with DRAD's product offerings. Many of the larger multi-modality competitors enjoy significant competitive advantages over DRAD, including greater brand recognition, greater financial, and technical resources, established relationships with healthcare professionals, broader distribution networks, more resources for product development, and marketing, and sales, and the ability to bundle products to offer discounts. These include Siemens, and Philips

*Mobile Healthcare.* The market for selling, servicing, and operating diagnostic imaging services, patient monitoring equipment, and imaging systems is highly competitive. DRAD competes against a few large national, and regional providers. In addition to direct competition from other providers of services similar to those offered by DRAD, it competes with freestanding imaging centers, and healthcare providers that have their own diagnostic imaging systems, as well as with equipment manufacturers that sell imaging equipment directly to healthcare providers for permanent installation. Some of the direct competitors, which provide contract MRI, and PET/CT services, have access to greater financial resources than does DRAD. In addition, some of DRAD's customers are capable of providing the same services it provides to their patients directly, subject only to their decision to acquire a high-cost diagnostic imaging system, assume the financial, and technology risk, and employ the necessary technologists, rather than obtain equipment, and services from DRAD. It may also experience greater competition in states that currently have certificate of need laws if such laws were repealed, thereby reducing barriers to entry, and increasing competition in those states. It also competes against other similar providers in quality of services, quality of imaging systems, relationships with healthcare providers, knowledge, and service quality of technologists, price, availability, and reliability.

**ATRM Holdings Building and Construction Division**

KBS is a regional manufacturer of modular housing units. KBS's market is the New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont). Several modular manufacturers are located in these states, and in nearby Pennsylvania. Some competitors have manufacturing locations in Canada, and ship their products to the United States. KBS's competitors include Apex Homes, Commodore Corporation, Skyline Champion Homes, Custom Building Systems, Durabuilt, Excel Homes, Huntington Homes (VT), Icon Legacy Homes, Kent Homes (Canada), Maple Leaf Homes (Canada), Muncy Homes, New England Homes, New Era, PennWest, Premier Builders (PA), Professional Builders Systems, RCM (Canada), Redmond Homes, Ritzcraft, Simplex Homes, Westchester Modular.

EdgeBuilder is a regional manufacturer of engineered structural wall panels, and permanent wood foundation systems, and also has a local retail business. EdgeBuilder's market is primarily the Upper Midwest States (Iowa, Minnesota, Missouri, North Dakota, Oklahoma, South Dakota, and Wisconsin). EdgeBuilder's competitors include Precision Company, Component Manufacturing Company, Schwieters Building Supply, and Construction Company, Arrow Building Center, and Marshall Truss.

Glenbrook Building Supply's building supply business competes on a more local level against both small, local lumber yards, regional building supply companies, and, to a certain degree, the "big box" stores such as Home Depot, and Lowe's.

### *Management*

#### **JEFF EBERWEIN**

##### *Chairman of the Board*

Mr. Eberwein has 25 years of Wall Street experience and is the Founder and CEO of Lone Star Value Management ("LSVM"), a U.S. investment advisory firm. Prior to founding LSVM in January 2013, Mr. Eberwein was a Portfolio Manager at Soros Fund Management from January 2009 to December 2011 and Viking Global Investors from March 2005 to September 2008. Mr. Eberwein is Chairman of the Board of four public companies: Digirad Corporation, Hudson Global, Inc., a global recruitment company, AMERI Holdings, Inc., an IT services company, and ATRM Holdings, Inc., a modular building company. Mr. Eberwein also serves on the Board of Novation Companies, Inc., a specialty finance company. Previously Mr. Eberwein served as a director and chairman of the board of Crossroads Systems, Inc., from April 2013 until May 2016. Mr. Eberwein also served as a director of The Goldfield Corporation from May 2012 until May 2013, On Track Innovations Ltd. from December 2012 until March 2014, and NTS, Inc. from December 2012 until its sale to a private equity firm was completed in June 2014. Mr. Eberwein served on the Board of Hope for New York, a 501(c)3 organization dedicated to serving the poor in New York City from 2011 until 2014 where he was Treasurer and on the Executive Committee. Mr. Eberwein earned an MBA from The Wharton School, University of Pennsylvania and a BBA with High Honors from The University of Texas at Austin.

#### **MATT MOLCHAN**

##### *Chief Executive Officer and Director, Digirad Corporation*

Matt Molchan has held a variety of increasing responsibility roles since he joined Digirad in May 2007 via the acquisition of Ultrascan, Inc., the southeast's largest mobile ultrasound business. These roles include Chief Operating Officer of Digirad Ultrascan Solutions from May 2007 to January 2012, President of Digirad Imaging Solutions until January 2013, President of Digirad beginning January 2013, and most recently Chief Executive Officer of Digirad since July 2013.

Prior to joining Ultrascan, Inc., he held various executive level positions in business development, finance and operations at Somera, Inc., and Equifax, Inc. He holds a Bachelor of Science degree in Economics from the United States Air Force Academy, and a Masters of Business Administration in Finance from the University of Southern California.

#### **DAVID NOBLE**

##### *Chief Operating Officer and Chief Financial Officer*

Prior to being named Chief Operating Officer of Digirad, Mr. Noble served as Managing Member of Noble Point LLC, a business and financial advisory firm. He engaged in M&A idea generation, as well as advised medical practices around operations, growth opportunities, and financing. He has more than 20 years of experience in investment banking, and most recently was Head of Equity Capital Markets (ECM) for the Americas at HSBC, where he established the Latin American franchise, and grew regional revenues to account for a significant portion of their global ECM business. Beyond his direct P&L responsibility, he managed all aspects of the ECM business, which involved strategy, forecasting and budgeting, finance, legal and compliance, regulatory, HR, and IT. Mr. Noble earned an MBA in Finance from MIT and a BA from Yale University.

#### **MARTIN B. SHIRLEY**

##### *President, DIS*

Martin Shirley became President of DIS in January of 2016. Prior to that role, he was Senior Vice President of Digirad Imaging Solutions Sales and Marketing since January of 2012. In June of 2010, he was appointed Vice President of Sales & Operations for Digirad Imaging Solutions. From January 2008 through June of 2010, he served as Vice President of Sales for DIS. Prior to this, he served in a variety of roles during his tenure at Digirad including National, Regional, and Territory Sales Management positions in both the Digirad Imaging Solutions Division, and the Product Division.

## Digirad Corporation

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He has been in Medical Imaging for over 25 years with both clinical, and industrial experience. His other professional experience includes regional, and territory sales positions at SMV America, a manufacturer of nuclear medicine equipment that was purchased by General Electric, and with Sopha Medical Systems. He was also a Territory Manager for DuPont Radiopharmaceuticals. His clinical experience includes Multi-Modality Department Management, Nuclear Medicine Department Management, and Staff Nuclear Medicine Technologist positions. He holds degrees in both Nuclear Medicine Technology, and Liberal Arts.

### **MICKEY KING, JR.**

*Executive Chairman, Digirad Imaging Solutions*

Mickey King, Jr. joined Digirad, and became President, and CEO of Digirad Ultrascan Solutions, a wholly owned subsidiary of Digirad Imaging Solutions, upon the acquisition of Ultrascan, Inc. by Digirad Corporation in May 2007. He has held the role of Executive Chairman, Digirad Imaging Solutions since January of 2012. Prior to joining Digirad, he founded Ultrascan, Inc. in 1996, where he held the position of President, and CEO until May 2007. He attended the University of Tennessee at Martin.



Figure 16 – Digirad Corporation – Comp Table

Company Name	Last	Market Cap (\$ millions)	EV (\$ millions)	2020 Sales Multiple	2021 Sales Multiple	Price to Book	2021 PE	2021 EV / Revenue	2020 EV/ Revenue	2021 EV / EBITDA	2020 EV / EBITDA
Bidvest Group Ltd	\$28.10	4,913.83	5,776.90	0.78	0.72	2.85	12.92	0.84	0.92	6.46	7.12
Compass Diversified H	\$22.72	1,375.30	2,015.35	0.90	0.91	1.33		1.33	1.31	7.78	8.38
Raven Industries Inc	\$30.83	1,096.06	1,018.97	2.84	2.59	3.47	42.31	2.41	2.64	17.77	18.06
B. Riley Financial Inc	\$27.16	721.94	2,074.20			2.42					
Boston Omaha Corp	\$20.32	477.64	353.64	*	*	1.41		*	*	*	*
BBX Capital Corp	\$3.93	379.49	853.60	0.39	0.38	0.65	43.78	0.86	0.88	6.87	7.87
Steel Partners Holdings	\$10.87	272.00	735.10			0.53					
HC2 Holdings Inc	\$4.07	184.66	-3,502.94	0.09	0.09	0.44					
SWK Holdings Corp	\$13.95	180.58	176.09			0.79					
Great Elm Capital Grou	\$3.15	77.28	153.62			1.36					
Crawford United Corp	\$19.75	56.48	82.69	0.63	0.62	2.76	8.26	0.90	0.92	6.11	6.71
ALJ Regional Holdings	\$1.12	47.23	139.97			0.57					
Elah Holdings Inc	\$61.50	45.45	34.82			2.90					
<b>Average</b>				0.94	0.88	1.65	26.82	1.27	1.34	9.00	9.63
<b>Digirad Corp</b>	\$3.12	6.11	44.80	0.05	0.04	0.29	6.37	0.30	0.33	3.92	4.50
<b>Digirad Discount To Peers</b>				<b>95%</b>	<b>95%</b>	<b>82%</b>	<b>76%</b>	<b>76%</b>	<b>75%</b>	<b>56%</b>	<b>53%</b>
* Metric too rich to include in averages											

Source: Litchfield Hills Research LLC and Refinitiv Eikon (formerly Thomson Reuters Eikon)

Figure 17 – Digirad Corporation – Non-GAAP estimates

	FULL YEAR	FY19 Q1A	FY19 Q2A	FY19 Q3A	FY19 Q4E	FULL YEAR	FY20 Q1E	FY20 Q2E	FY20 Q3E	FY20 Q4E	FULL YEAR	FY21 Q1E	FY21 Q2E	FY21 Q3E	FY21 Q4E	FULL YEAR
<b>Non-GAAP adjusted EPS</b>																
EPS from continuing operations	(\$0.19)	(\$0.80)	(\$0.72)	(\$0.74)	(\$0.34)	(\$2.62)	(\$0.28)	\$0.14	\$0.10	\$0.17	\$0.12	(\$0.02)	\$0.17	\$0.29	\$0.05	\$0.49
Acquired intangible amortization	0.08	0.10	0.14	0.20	0.25	0.69	0.25	0.25	0.25	0.25	1.00	0.25	0.25	0.25	0.25	1.00
Unrealized (gain) loss on securities	0.00					0.00					0.00					0.00
Restructuring costs	0.00		0.03	0.03		0.06					0.00					0.00
Loss on extinguishment of debt	0.00	0.10				0.10					0.00					0.00
Goodwill impairment	0.02					0.00					0.00					0.00
Loss on sale of building	0.03		0.11			0.11					0.00					0.00
Write-off of SRE Holding Assets	0.00		0.07			0.07					0.00					0.00
Transaction costs	0.00	0.10	0.36	0.52	0.10	1.08					0.00					0.00
Write off of pfd stock issuance cost	0.00		0.13			0.13					0.00					0.00
Income tax benefit	(0.04)		(0.08)		(0.05)	(0.13)					0.00					0.00
<b>Non-GAAP EPS</b>	<b>(\$0.10)</b>	<b>(\$0.50)</b>	<b>\$0.04</b>	<b>\$0.01</b>	<b>(\$0.04)</b>	<b>(\$0.51)</b>	<b>(\$0.03)</b>	<b>\$0.39</b>	<b>\$0.35</b>	<b>\$0.42</b>	<b>\$1.12</b>	<b>\$0.23</b>	<b>\$0.42</b>	<b>\$0.54</b>	<b>\$0.30</b>	<b>\$1.49</b>
<b>Non-GAAP adjusted EBITDA</b>																
Income from continuing operations	(\$3,839)	(\$1,657)	(\$1,475)	(\$1,504)	(\$700)	(\$5,336)	(\$576)	\$276	\$196	\$356	\$252	(\$36)	\$356	\$588	\$100	\$1,008
Unrealized (gain) loss on securities	62	(28)	5	(6)	5	(24)					0					0
Restructuring costs	93		62	60		122					0					0
Loss on extinguishment of debt	0	151				151					0					0
Depreciation and amortization	8,706	1,809	1,851	1,975	2,150	7,785	2,150	2,150	2,150	2,150	8,600	2,150	2,150	2,150	2,150	8,600
Stock-based comp	634	112	190	114	120	536	120	120	120	120	480	120	120	120	120	480
Loss on sale of building	507		232	4		236					0					0
Interest expense, net	794	181	254	292	275	1,002	275	275	275	275	1,100	275	275	275	275	1,100
Goodwill impairment	476					0					0					0
Write-off of SRE Holding Assets	0		143			143					0					0
Transaction costs	91	230	726	1,059		2,015					0					0
Write off of pfd stock issuance cost	0		273			273					0					0
Income tax benefit	(1,561)	(8)	(162)	2	(100)	(268)	25	69	49	89	232	(9)	89	147	25	252
<b>Non-GAAP Adjusted EBITDA</b>	<b>\$5,963</b>	<b>\$790</b>	<b>\$2,099</b>	<b>\$1,996</b>	<b>\$1,750</b>	<b>\$6,635</b>	<b>\$1,994</b>	<b>\$2,890</b>	<b>\$2,790</b>	<b>\$2,990</b>	<b>\$10,664</b>	<b>\$2,500</b>	<b>\$2,990</b>	<b>\$3,280</b>	<b>\$2,670</b>	<b>\$11,440</b>

Source: Company filings and Litchfield Hills Research LLC



Figure 18 – Digirad Corporation – Income Statement

(\$ in thousands except per share)																
December ending year	2018 Year	2019E				2019E Year	2020E				2020E Year	2021E				2021E Year
		Q1A	Q2A	Q3A	Q4E		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$104,180	\$23,912	\$25,798	\$28,333	\$35,550	\$113,593	\$31,550	\$34,550	\$34,050	\$36,050	\$136,200	\$34,250	\$36,650	\$38,650	\$38,550	\$148,100
Growth	14%	-6%	-5%	10%	37%	9%	32%	34%	20%	1%	20%	9%	6%	14%	7%	9%
Cost of Goods	85,909	19,931	20,794	23,137	29,300	93,162	25,350	27,550	27,350	29,150	109,400	27,940	29,750	31,360	31,570	120,620
Gross Profit	18,271	3,981	5,004	5,196	6,250	20,431	6,200	7,000	6,700	6,900	26,800	6,310	6,900	7,290	6,980	27,480
Gross Margin	17.5%	16.6%	19.4%	18.3%	17.6%	18.0%	19.7%	20.3%	19.7%	19.1%	19.7%	18.4%	18.8%	18.9%	18.1%	18.6%
Marketing and SG&A	\$20,456	\$4,833	\$4,867	\$4,948	\$6,200	\$20,848	\$6,100	\$6,000	\$5,800	\$5,800	\$23,700	\$5,700	\$5,800	\$5,900	\$6,200	\$23,600
% of total revenue	19.6%	20.2%	18.9%	17.5%	17.4%	18.4%	19.3%	17.4%	17.0%	16.1%	17.4%	16.6%	15.8%	15.3%	16.1%	15.9%
Amortization of intangibles	1,377	283	283	399	600	1,565	600	600	600	600	2,400	600	600	600	600	2,400
Merger and finance costs	-	-	1,000	1,058	-	2,058	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	476	-	-	-	-	-	11	55	55	55	176	55	55	55	55	220
Total Operating Expenses	22,309	5,116	6,150	6,405	6,800	24,471	6,711	6,655	6,455	6,455	26,276	6,355	6,455	6,555	6,855	26,220
Operating Income	(4,038)	(1,135)	(1,146)	(1,209)	(550)	(4,040)	(511)	345	245	445	524	(45)	445	735	125	1,260
Operating Margin	-3.9%	-4.7%	-4.4%	-4.3%	-1.5%	-3.6%	-1.6%	1.0%	0.7%	1.2%	0.4%	-0.1%	1.2%	1.9%	0.3%	0.9%
Total Other Items	(1,362)	(530)	(491)	(293)	(250)	(1,564)	(40)	0	0	0	(40)	0	0	0	0	0
Pre-Tax Income	(5,400)	(1,665)	(1,637)	(1,502)	(800)	(5,604)	(551)	345	245	445	484	(45)	445	735	125	1,260
Pre-Tax Margin	-5.2%	-7.0%	-6.3%	-5.3%	-2.3%	-4.9%	-1.7%	1.0%	0.7%	1.2%	0.4%	-0.1%	1.2%	1.9%	0.3%	0.9%
Taxes (benefit)	(1,561)	(8)	(162)	2	(100)	(268)	25	69	49	89	232	(9)	89	147	25	252
Tax Rate	28.9%	0.5%	9.9%	-0.1%	12.5%	4.8%	-4.5%	20.0%	20.0%	20.0%	48.0%	19.9%	20.0%	20.0%	20.0%	20.0%
Net income from continuing ops	(3,839)	(1,657)	(1,475)	(1,504)	(700)	(5,336)	(576)	276	196	356	252	(36)	356	588	100	1,008
Net income from disc. ops.	4,575	0	266	0	0	266	0	0	0	0	0	0	0	0	0	0
Net income	736	(1,657)	(1,209)	(1,504)	(700)	(5,070)	(576)	276	196	356	252	(36)	356	588	100	1,008
Net Margin	-3.7%	-6.9%	-5.7%	-5.3%	-2.0%	-4.7%	-1.8%	0.8%	0.6%	1.0%	0.2%	-0.1%	1.0%	1.5%	0.3%	0.7%
EPS from cont. ops.	(0.19)	(0.80)	(0.72)	(0.74)	(0.34)	(2.62)	(0.28)	0.14	0.10	0.17	0.12	(0.02)	0.17	0.29	0.05	0.49
EPS from disc. Ops.	0.23	0.00	0.13	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total GAAP EPS	0.04	(0.80)	(0.59)	(0.74)	(0.34)	(2.49)	(0.28)	0.14	0.10	0.17	0.12	(0.02)	0.17	0.29	0.05	0.49
Non-GAAP adjusted EPS	(0.10)	(0.50)	0.04	0.01	(0.04)	(0.51)	(0.03)	0.39	0.35	0.42	1.12	0.23	0.42	0.54	0.30	1.49
Diluted Shares Outstanding	20,158	2,073	2,038	2,046	2,050	2,040	2,044	2,040	2,040	2,040	2,041	2,040	2,040	2,040	2,040	2,040
Sources: Company reports and Litchfield Hills Research, LLC																

Sources: Company reports and Litchfield Hills Research, LLC

Source: Company reports and Litchfield Hills Research LLC

Figure 19 – Digirad Corporation – Balance Sheet

(\$ in thousands except per share)				
December ending year	FY2021E	FY2020E	FY2019E	FY2018
<b>Balance sheet</b>				
Current Assets				
Cash and S.T.I.	\$18,305	\$9,882	\$1,786	\$1,698
Accounts receivable	20,000	18,000	16,500	12,642
Inventories	10,000	9,000	8,000	5,402
Other assets	2,000	2,000	2,000	1,452
<b>Total Current Assets</b>	<b>50,305</b>	<b>38,882</b>	<b>28,286</b>	<b>21,194</b>
Net PP&E	24,000	24,000	23,400	21,645
Other non-current assets	39,000	39,000	39,000	7,755
<b>Total Assets</b>	<b>\$113,305</b>	<b>\$101,882</b>	<b>\$90,686</b>	<b>\$50,594</b>
Current Liabilities				
Accounts payable	\$15,000	\$13,000	\$10,000	\$5,206
Accrued expenses	10,000	8,000	6,300	5,746
Other current liabilities	13,000	12,000	10,000	2,265
<b>Total current liabilities</b>	<b>38,000</b>	<b>33,000</b>	<b>26,300</b>	<b>13,217</b>
Long-term debt net of current	17,500	17,500	17,500	9,500
Other non-current	8,500	8,000	7,000	2,077
<b>Total Liabilities</b>	<b>64,000</b>	<b>58,500</b>	<b>50,800</b>	<b>24,794</b>
<b>Preferred stock</b>	<b>19,156</b>	<b>19,156</b>	<b>19,156</b>	<b>0</b>
Stockholders' Equity				
Preferred stock				
Total stockholders' equity	30,149	24,226	20,730	25,800
<b>Total Liabilities and equity</b>	<b>\$113,305</b>	<b>\$101,882</b>	<b>\$90,686</b>	<b>\$50,594</b>

Source: Company reports and Litchfield Hills Research LLC

*Figure 20 – Digirad Corporation – Cash Flow*

Cash Flow	2020E	2020E	2019E	2018
Net Income	\$1,008	\$252	(\$5,336)	\$736
Accounts receivable	(2,000)	(1,500)	(3,858)	3,245
Inventories	(1,000)	(1,000)	(2,598)	99
Other assets	0	0	(548)	762
PP&E	0	(600)	(1,755)	6,720
Other non-current	0	0	(31,245)	5,007
Accounts payable	2,000	3,000	4,794	(1)
Accrued expenses	1,000	1,500	441	(1,652)
Deferred revenue	1,000	200	113	(615)
Other current liabilities	1,000	2,000	7,735	(1,485)
Long-term debt net of current	0	0	8,000	(10,000)
Other non-current	500	1,000	4,923	(357)
Preferred stock	0	0	19,156	0
Common stock	0	0	0	0
Capital in excess of par	3,000	1,328	244	(2,735)
Accumulated other comp. income	0	0	22	(17)
Treasury stock and note	0	0	0	0
Dividend/Financing/Adj. Other	1,916	1,916	0	17
Total Cash Flow	\$8,424	\$8,096	\$88	(\$276)

Source: Litchfield Hills Research LLC

#### Disclosures:

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