

# Mossberg's Investor Digest

## Best Idea Profile:

## InfuSystem Holdings, Inc. (NYSE:INFU)

### DESCRIPTION:

InfuSystem Holdings is a healthcare company that provides infusion pumps and related products and services primarily for patients at home, and in oncology clinics and ambulatory surgery centers. It serves all 50 states and Canada from five locations. Its niche is in extending clinic services into the home for oncology, post surgical pain and special disease treatments. The company's headquarters are in Madison Heights, Michigan.

### KEY INVESTMENT CONSIDERATIONS:

**Large and Growing Market** – The total home infusion market is estimated at \$10 billion and growing. It's an unfortunate fact that cancer rates are increasing. InfuSystem is the market leader of providing chemotherapy at home and counts nine of the top ten cancer treatment centers as its customers. Also, the aging population is driving more orthopedic surgeries, half of which are projected to be candidates for continuous care. This is a growing at-home therapy that is estimated to represent a \$700 million market. InfuSystem is poised to benefit from these growing market trends.

**Spending for Future** – Investment in electronic connectivity was a key objective over the last year and it has resulted in huge efficiencies. More than 40% of third party payer orders are now received electronically through paperless ordering, versus none in 2013. The investment in connectivity helps the company gain market share, process claims more quickly, eliminate lost revenues and maintain staffing levels in billing. This translates to more efficiency, compared with smaller players, greater revenue per employee and greater customer satisfaction. Electronic connectivity has directly impacted the addition of \$1.6 million annualized revenue from new oncology business in the pipeline.

The technology initiative also increased the amount of data provided from postsurgical pain patients, allowing orthopedic surgery customers to meet requirements that result in increased reimbursement from Medicare. Rollout of a new website and implementation of an asset tracking system round out the aggressive information technology development projects that were going on simultaneously in the last quarter. These improvements are making a big impact on InfuSystem's capabilities as it "transitions from a pump company to a company with value-added software that helps our clients use our pumps more effectively and efficiently." The \$1 million IT investment

has impacted short-term results, but lays groundwork for significant growth.

**Expansion** – InfuSystem is expanding geographically with two new service centers coming online in addition to the five current centers. This reduces the cost of air shipments, improves utilization of pumps and increases market share of the same-day rental market. Additionally, the company is expanding into new therapies, products and services, which are essential to the continued growth of the company. The company is more diversified now than it was five years ago.

**Financial Growth** – The financial metrics all appear to be headed the right direction: growth in revenues, EBITDA, free cash flow, and decline in debt. Following revenue growth of 11% for the first nine months of 2014, management expects revenue growth in the high single digits through 2015.

### VALUATION:

The improvement in IT will continue to drive cost from InfuSystem's processes and allow it to maintain margins. InfuSystem does not have any direct competitors in the small durable medical equipment space that are focused solely on infusion systems; therefore comparisons are difficult. INFU is underfollowed and not widely known, in part because of its volatility over the last six months.

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Investment Data (as of 1/29/15)

<b>Recent Price</b>	<b>\$2.70</b>
52-Week Range	\$2.24 - \$4.50
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	22 M
Average Trading Volume (3 mos)	111k
Market Capitalization	\$60 M
Cash	\$2 M
Long-term Debt	\$28 M
Enterprise Value (EV)	\$87 M
Book Value	\$2.04
TTM Revenue	\$61 M
P/ Revenue	1x
TTM EPS	\$0.14
P/ EPS	19x
TTM EBITDA	\$17 M
EV/ EBITDA	5x

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