



July 28, 2016

Digirad Corporation Reports Financial Results for the Second Quarter and Six Months ended June 30, 2016

- ***Announces second quarter revenue growth of 106 percent year over year***
- ***Confirms financial guidance for 2016***
- ***Announces a regular quarterly cash dividend of \$0.05 cents per share***

SUWANEE, Ga., July 28, 2016 (GLOBE NEWSWIRE) -- Digirad Corporation (Nasdaq:DRAD) today reported its financial results for the second quarter and six months ended June 30, 2016.

Total revenues for the 2016 second quarter were \$32.1 million, an increase of 106 percent compared to the prior year's second quarter revenues of \$15.5 million.

Net income for the 2016 second quarter was \$1.0 million, or \$0.05 per diluted share, or \$0.06 per diluted share from the same period in the prior year. Adjusted net income for the 2016 second quarter was \$1.8 million, or \$0.09 per diluted share, compared to \$1.4 million, or \$0.07 per diluted share from the same period in the prior year.

Adjusted EBITDA for the 2016 second quarter was \$4.2 million, compared to \$2.0 million in the prior year second quarter.

Total revenues for the six months ended June 30, 2016 were \$63.2 million, an increase of 115 percent compared to the prior year's revenues for the first six months of \$29.4 million.

Net income for the six months ended June 30, 2016 was \$12.6 million, or \$0.63 per diluted share, compared to net income of \$1.8 million, or \$0.09 per diluted share in same period in the prior year. Adjusted net income for the six months ended June 30, 2016 was \$3.2 million, or \$0.16 per diluted share, compared to adjusted net income of \$1.7 million, or \$0.09 per diluted share in same period in the prior year.

Adjusted EBITDA for the six months ended June 30, 2016 was \$7.9 million, compared to \$2.8 million in the same period in the prior year. A reconciliation of adjusted net income and adjusted EBITDA is provided later in this release.

The results for the quarter and six months ended June 30, 2016 include the results of the recent acquisition of DMS Health, which closed on January 1, 2016.

Digirad President and CEO Matt Molchan said, "I am very pleased with our results this quarter. With the recent acquisition of DMS Health, we have more than doubled our year over year revenues, and our bottom line results are right in line with our expectations. We continue to believe that the acquisition of DMS Health is a very compelling and strategic acquisition for Digirad, adding scale, diversity and further services to Digirad as a premier provider of healthcare solutions. In addition, all our existing core businesses are performing well and in line with our expectations, ending a very solid quarter."

Molchan continued, "Our integration efforts for DMS Health are going well, and we are on track to complete most major integration activities by the end of the year. Based on the performance of our businesses so far this year and the results of our integration efforts, we feel very confident we will achieve our full year guidance."

The Company also announced a cash dividend of \$0.05 cents per share that will be paid on August 29, 2016, to shareholders of record on August 17, 2016.

2016 Financial Guidance

The Company reaffirms its previously announced fiscal year 2016 financial guidance of revenues between \$125 million and \$130 million, non-GAAP adjusted EBITDA between \$17 million and \$18 million, and adjusted diluted earnings per share of between \$0.30 and \$0.35.

Conference Call Information

A conference call is scheduled for 11:00 a.m. EDT on July 28, 2016 to discuss the results and management's outlook. The call may be accessed by dialing 1-877-407-9039 (international callers: +1-201-689-8470) five minutes prior to the scheduled start time and referencing Digirad. A simultaneous webcast of the call may be accessed online from the Events & Presentations link on the Investor Relations page at <http://drad.client.shareholder.com/events.cfm>; an archived replay of the webcast will be available within 15 minutes of the end of the conference call.

Use of Non-GAAP Financial Measures by Digirad Corporation

This Digirad news release presents the non-GAAP financial measures "adjusted net income," "adjusted net income per diluted share," and "adjusted EBITDA." The most directly comparable measure for these non-GAAP financial measures are net income and diluted net income per share. The Company has included below unaudited adjusted financial information, which presents the Company's results of operations after excluding acquired intangible asset amortization, acquisition related contingent consideration adjustments, transaction and integration costs associated with DMS Health Technologies, and non-recurring related income tax adjustments. Further excluded in the measure of adjusted EBITDA are interest, taxes, depreciation, amortization and stock-based compensation.

A discussion of the reasons why management believes that the presentation of non-GAAP financial measures provides useful information to investors regarding Digirad's financial condition and results of operations is included as Exhibit 99.2 to Digirad's report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2016.

About Digirad Corporation

Digirad delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Digirad's diverse portfolio of mobile healthcare solutions and medical equipment and services, including diagnostic imaging and patient monitoring, provides hospitals, physician practices, and imaging centers through the United States access to technology and services necessary to provide exceptional patient care in the rapidly changing healthcare environment. For more information, please visit www.digirad.com.

Forward-Looking Statements

This press release contains statements that are forward-looking statements as defined within the Private Securities Litigation Reform Act of 1995. Some of these forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "seek," "approximately," "intends," "plans," "estimates," or "anticipates," or the negative of those words or other comparable terminology, or in specific statements such as the Company's ability to deliver value to customers, the ability to grow and generate positive cash flow, the ability to execute on restructuring activities, and ability to successfully execute acquisitions. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These risks are detailed in Digirad's filings with the U.S. Securities and Exchange Commission, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports. Readers are cautioned to not place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement, and Digirad undertakes no obligation to revise or update the forward-looking statements contained herein.

(Financial tables follow)

Digirad Corporation
Condensed Consolidated Statements of Income
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| <u>(in thousands, except per share amounts)</u> | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Services | \$ 24,666 | \$ 12,179 | \$ 48,671 | \$ 22,742 |
| Product and product-related | 7,424 | 3,368 | 14,576 | 6,645 |
| Total revenues | 32,090 | 15,547 | 63,247 | 29,387 |
| Cost of revenues: | | | | |
| Services | 19,179 | 9,213 | 37,685 | 17,719 |
| Product and product-related | 3,146 | 1,567 | 6,732 | 3,253 |
| Total cost of revenues | 22,325 | 10,780 | 44,417 | 20,972 |

| | | | | |
|--|----------------|-----------------|------------------|-----------------|
| Gross profit | 9,765 | 4,767 | 18,830 | 8,415 |
| Total gross profit percentage | 30.4 % | 30.7 % | 29.8 % | 28.6 % |
| Services gross profit percentage | 22.2 % | 24.4 % | 22.6 % | 22.1 % |
| Product and product-related gross profit percentage | 57.6 % | 53.5 % | 53.8 % | 51.0 % |
| Operating expenses: | | | | |
| Marketing and sales | 2,837 | 1,268 | 5,462 | 2,478 |
| General and administrative | 4,878 | 2,203 | 11,292 | 4,371 |
| Amortization of intangible assets | 578 | 133 | 1,157 | 238 |
| Total operating expenses | <u>8,293</u> | <u>3,604</u> | <u>17,911</u> | <u>7,087</u> |
| Income from operations | 1,472 | 1,163 | 919 | 1,328 |
| Other (expense) income: | | | | |
| Other (expense) income, net | (58) | — | 14 | — |
| Interest expense, net | (379) | (1) | (750) | (1) |
| Total other expense | <u>(437)</u> | <u>(1)</u> | <u>(736)</u> | <u>(1)</u> |
| Income before income taxes | 1,035 | 1,162 | 183 | 1,327 |
| Income tax (expense) benefit | (37) | (65) | 12,424 | 515 |
| Net income | <u>\$ 998</u> | <u>\$ 1,097</u> | <u>\$ 12,607</u> | <u>\$ 1,842</u> |
| Net income per share: | | | | |
| Basic | <u>\$ 0.05</u> | <u>\$ 0.06</u> | <u>\$ 0.65</u> | <u>\$ 0.10</u> |
| Diluted | <u>\$ 0.05</u> | <u>\$ 0.06</u> | <u>\$ 0.63</u> | <u>\$ 0.09</u> |
| Dividends declared per common share | <u>\$ 0.05</u> | <u>\$ 0.05</u> | <u>\$ 0.10</u> | <u>\$ 0.10</u> |
| Weighted average shares outstanding - basic | <u>19,529</u> | <u>19,263</u> | <u>19,489</u> | <u>19,036</u> |
| Weighted average shares outstanding - diluted | <u>20,038</u> | <u>19,726</u> | <u>19,991</u> | <u>19,511</u> |

Digirad Corporation
Condensed Consolidated Balance Sheets
(Unaudited)

| <u>(in thousands, except share data)</u> | <u>June 30,</u> <u>2016</u> | <u>December 31,</u> <u>2015</u> |
|--|--------------------------------|------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,284 | \$ 15,868 |
| Securities available-for-sale | 2,259 | 3,227 |
| Accounts receivable, net | 14,067 | 7,274 |
| Inventories, net | 5,806 | 4,381 |
| Restricted cash | 233 | 233 |
| Other current assets | 3,441 | 764 |
| Total current assets | <u>29,090</u> | <u>31,747</u> |
| Property and equipment, net | 32,019 | 6,252 |
| Intangible assets, net | 12,783 | 3,079 |
| Goodwill | 6,819 | 2,897 |
| Deferred tax assets | 26,804 | 18,578 |
| Restricted cash | 1,892 | — |
| Other assets | 1,131 | 1,560 |
| Total assets | <u>\$ 110,538</u> | <u>\$ 64,113</u> |

Liabilities and stockholders' equity

Current liabilities:

| | | |
|--|----------|----------|
| Accounts payable | \$ 5,480 | \$ 1,369 |
| Accrued compensation | 4,875 | 2,453 |
| Accrued warranty | 195 | 213 |
| Deferred revenue | 3,583 | 1,673 |
| Current portion of long-term debt | 5,358 | — |
| Other current liabilities | 4,418 | 2,998 |
| Total current liabilities | 23,909 | 8,706 |
| Long-term debt, net of current portion | 19,240 | — |
| Other liabilities | 2,038 | 1,252 |
| Total liabilities | 45,187 | 9,958 |

Stockholders' equity:

| | | |
|--|------------|-----------|
| Preferred stock | — | — |
| Common stock | 2 | 2 |
| Treasury stock | (5,728) | (5,728) |
| Additional paid-in capital | 152,472 | 153,860 |
| Accumulated other comprehensive loss | (263) | (240) |
| Accumulated deficit | (81,132) | (93,739) |
| Total stockholders' equity | 65,351 | 54,155 |
| Total liabilities and stockholders' equity | \$ 110,538 | \$ 64,113 |

Digirad Corporation
Reconciliation of Non-GAAP Financial Measures
(Unaudited)

| <u>(in thousands, except per share amounts)</u> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 998 | \$ 1,097 | \$ 12,607 | \$ 1,842 |
| Acquired intangible amortization | 578 | 130 | 1,157 | 233 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | (3) | (173) | (3) | (173) |
| Transaction and integration costs of DMS Health Technologies ⁽²⁾ | 171 | 283 | 1,621 | 308 |
| Income tax items ⁽³⁾ | 67 | 51 | (12,207) | (536) |
| Non-GAAP Adjusted net income | \$ 1,811 | \$ 1,388 | \$ 3,175 | \$ 1,674 |
| Net income per share - diluted⁽⁴⁾ | \$ 0.05 | \$ 0.06 | \$ 0.63 | \$ 0.09 |
| Acquired intangible amortization | 0.03 | 0.01 | 0.06 | 0.01 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | — | (0.01) | — | (0.01) |
| Transaction and integration costs of DMS Health Technologies ⁽²⁾ | 0.01 | 0.01 | 0.08 | 0.02 |
| Income tax items ⁽³⁾ | — | — | (0.61) | (0.03) |
| Non-GAAP Adjusted net income per share - diluted⁽⁴⁾ | \$ 0.09 | \$ 0.07 | \$ 0.16 | \$ 0.09 |

| <u>(in thousands)</u> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 998 | \$ 1,097 | \$ 12,607 | \$ 1,842 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | (3) | (173) | (3) | (173) |
| Transaction and integration costs of DMS Health Technologies ⁽²⁾ | 171 | 283 | 1,621 | 308 |
| Depreciation and amortization | 2,383 | 598 | 4,848 | 1,086 |
| Stock-based compensation | 257 | 141 | 480 | 285 |

| | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Interest income | (4) | (11) | (8) | (22) |
| Interest expense | 383 | 12 | 758 | 23 |
| Income tax expense (benefit) | 37 | 65 | (12,424) | (515) |
| Non-GAAP Adjusted EBITDA | \$ 4,222 | \$ 2,012 | \$ 7,879 | \$ 2,834 |

(1) Reflects fair value adjustment to estimate of contingent consideration related to acquisitions.

(2) Reflects diligence, transaction, and integration costs related to the acquisition of DMS Health Technologies. Three and six months ended June 30, 2015 has been reclassified from previously reported amounts to reflect this adjustment.

(3) Reflects income tax effect for adjusted financial data and acquisition related income tax adjustments, and release of previously reserved net operating loss carryforwards.

(4) Per share amounts are computed independently for each discrete item presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal to the total for the year, and sum of individual items may not equal the total.

Digirad Corporation
Reconciliation of Non-GAAP Financial Measures
(Unaudited)

| <u>(in thousands, except per share amounts)</u> | <u>Three Months Ended</u> | | | | |
|--|---------------------------|----------------------|---------------------|------------------|-----------------|
| | <u>June 30,</u> | | | | |
| | <u>2015</u> | <u>September 30,</u> | <u>December 31,</u> | <u>March 31,</u> | <u>June 30,</u> |
| | <u>2015</u> | <u>2015</u> | <u>2015</u> | <u>2016</u> | <u>2016</u> |
| Net income | \$ 1,097 | \$ 19,120 | \$ 678 | \$ 11,609 | \$ 998 |
| Acquired intangible amortization | 130 | 131 | 131 | 577 | 578 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | (173) | — | 113 | — | (3) |
| Investment impairment loss ⁽²⁾ | — | — | 278 | — | — |
| Transaction and integration costs of DMS Health Technologies ⁽³⁾ | 283 | 435 | 595 | 1,450 | 171 |
| Income tax items ⁽⁴⁾ | 51 | (18,163) | (446) | (12,333) | 67 |
| Non-GAAP Adjusted net income | <u>\$ 1,388</u> | <u>\$ 1,523</u> | <u>\$ 1,349</u> | <u>\$ 1,303</u> | <u>\$ 1,811</u> |
| Net income per share - diluted⁽⁵⁾ | \$ 0.06 | \$ 0.97 | \$ 0.03 | \$ 0.58 | \$ 0.05 |
| Acquired intangible amortization | 0.01 | 0.01 | 0.01 | 0.03 | 0.03 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | (0.01) | — | 0.01 | — | — |
| Investment impairment loss ⁽²⁾ | — | — | 0.01 | — | — |
| Transaction and integration costs of DMS Health Technologies ⁽³⁾ | 0.01 | 0.02 | 0.03 | 0.07 | 0.01 |
| Income tax items ⁽⁴⁾ | — | (0.92) | (0.02) | (0.62) | — |
| Non-GAAP Adjusted net income per share - diluted⁽⁵⁾ | <u>\$ 0.07</u> | <u>\$ 0.08</u> | <u>\$ 0.07</u> | <u>\$ 0.07</u> | <u>\$ 0.09</u> |

| <u>(in thousands)</u> | <u>Three Months Ended</u> | | | | |
|--|---------------------------|----------------------|---------------------|------------------|-----------------|
| | <u>June 30,</u> | | | | |
| | <u>2015</u> | <u>September 30,</u> | <u>December 31,</u> | <u>March 31,</u> | <u>June 30,</u> |
| | <u>2015</u> | <u>2015</u> | <u>2015</u> | <u>2016</u> | <u>2016</u> |
| Net income | \$ 1,097 | \$ 19,120 | \$ 678 | \$ 11,609 | \$ 998 |
| Acquisition related contingent consideration valuation adjustment ⁽¹⁾ | (173) | — | 113 | — | (3) |
| Investment impairment loss ⁽²⁾ | — | — | 278 | — | — |
| Transaction and integration costs of DMS health Technologies ⁽³⁾ | 283 | 435 | 595 | 1,450 | 171 |
| Depreciation and amortization | 598 | 665 | 690 | 2,465 | 2,383 |
| Stock-based compensation | 141 | 165 | 166 | 223 | 257 |
| Interest income | (11) | (10) | (7) | (5) | (4) |

| | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Interest expense | 12 | 21 | 19 | 375 | 383 |
| Income tax expense (benefit) | 65 | (18,183) | (425) | (12,461) | 37 |
| Non-GAAP Adjusted EBITDA | \$ 2,012 | \$ 2,213 | \$ 2,107 | \$ 3,656 | \$ 4,222 |

(1) Reflects fair value adjustment to estimate of contingent consideration related to acquisitions.

(2) Reflects impairment loss related to investment in Perma-Fix Medical. Total amount consists of impairment of a Supply Agreement entered into between the two parties and a loss related to the initial excess of the transaction price over fair value.

(3) Reflects diligence, transaction, and integration costs related to the acquisition of DMS Health Technologies. Three and six months ended June 30, 2015 has been reclassified from previously reported amounts to reflect this adjustment.

(4) Reflects income tax effect for adjusted financial data and acquisition related income tax adjustments, and release of previously reserved net operating loss carryforwards.

(5) Per share amounts are computed independently for each discrete item presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal to the total for the year, and sum of individual items may not equal the total.

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