9/29/2016

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Leave it to governments to rattle markets. The combination of the U.S. Justice Department demanding that Deutsche Bank pay a $14 billion fine over mortgage securities issues may have been the last straw that caused hedge funds to reduce derivative exposure to the bank. This combined with a likely investigation over Mylan's misclassifying EpiPen to reduce rebates shook the markets but not to the point where price touched volume at the close. Yes it was a volatile session but companies with improving fundamentals will ride the volatility out. Today we have a small cap idea that has been left for dead despite improving fundamentals as the company's new partnerships begin to contribute to results.

Castlight Health (CSLT)

- Expectations for this fallen unicorn have hit rock bottom over the last 9 months.
- The Anthem partnership is beginning to contribute to deals closing and the SAP partnership should contribute in FY17.
- Results are beginning to improve with revenue and margin upside in Q2, a repeat performance in Q3 may represent a trend.
- Balance Sheet is improved with Cash infusion by SAP.

Opportunity: Castlight is turnaround story just two years after its IPO. We can see why investors would be doubtful after growth slowed so quickly after coming public but new partnerships are beginning to contribute to results at a time when the company has been left for dead. At the end of CY15, the company struck a deal with Anthem that appears to be beginning to pay benefits and a recently signed agreement with SAP may begin to contribute to bookings in 2017. Additionally the capital from the share sale to SAP last quarter brings net cash per share to $1.25 at a time that the company is beginning to beat expectations. If partnership traction accelerates into Q4, the upside could be significant and if the growth does not materialize, the downside is likely limited by the cash position; for the next two quarters at least.

Anthem Partnership: Investors were upset that guidance did not increase in the fourth quarter after the partnership with Anthem was announced but unlike a selling agreement, this is more focused on lead generation. Being introduced to a warm lead can improve the productivity of the sales force and reduce sales operating expense but the sales cycle would remain lengthy. Now that the companies are nearly a year into the agreement, the increased productivity should become more visible.

Financial Results Are Starting To Improve: On August 8th, the company reported financial results that topped expectations and the high end of guidance by $500k. The revenue upside came with a higher gross margin of 66.3%, near the company's LT target of 70-75%. The company added 6 new customers, had 22 cross sale deals and reiterated Operating Cash Flow break even in mid '17. This caused the stock to close 27% higher the day after earnings before trading back down over next month. If this is echoed next quarter the higher growth rate may be considered sustainable and warrant a higher valuation.

SAP Deal: On 5/18, the company announced an investment by software giant SAP. The Class B equity investment was made at a price of $3.77 per share, a considerable premium to the $3.20 market price at the close of business the prior day. More importantly, SAP has the option to purchase an additional 1.9 million shares at a price of $4.91. Clearly SAP is seeing good things for the company if it is locked in an option to purchase additional shares at a 53% premium. Management has said that we shouldn't expect the SAP relationship to begin to contribute until 2H17 but the software company anointing Castlight plus the improved cash position may be enough to push incremental deals through to closure this year. Considering the timing, there was no possibility of improved conversions in 2Q but it could impact management's tone on the Q3 call and possibly even results.