

## "2017 Healthcare Update: 2 Healthcare Dividend Stocks With Low Debt"

by Robert Hauver

Looking at Sector performance for 2017, it appears that Healthcare has regained some of its luster - it's the 2nd leading sector, behind Tech, and is up nearly 8% in 2017:

| <b>INDUSTRY SECTOR</b>        | <b>YTD % CHANGE</b> | <b>THIS MONTH'S CHANGE</b> | <b>THIS WEEKS CHANGE %</b> |
|-------------------------------|---------------------|----------------------------|----------------------------|
| <b>Financials</b>             | 1.16%               | -0.88%                     | -0.88%                     |
| <b>Energy</b>                 | -6.59%              | 0.66%                      | 0.66%                      |
| <b>Tech</b>                   | 9.72%               | -0.47%                     | -0.47%                     |
| <b>Industrials</b>            | 4.68%               | 0.11%                      | 0.11%                      |
| <b>Basic Materials</b>        | 5.81%               | 0.34%                      | 0.34%                      |
| <b>Consumer Staples</b>       | 5.78%               | 0.22%                      | 0.22%                      |
| <b>Consumer Discretionary</b> | 7.20%               | -0.78%                     | -0.78%                     |
| <b>Health Care</b>            | 7.93%               | 0.07%                      | 0.07%                      |
| <b>Utilities</b>              | 5.83%               | 0.18%                      | 0.18%                      |
| <b>Telecoms (US)</b>          | -3.71%              | 2.72%                      | 2.72%                      |
| <b>Real Estate</b>            | 3.48%               | 0.70%                      | 0.70%                      |

Even though there's a lot of uncertainty in the US revolving around the future of the Affordable Care Act, the bottom line is that America, like most industrialized nations, is aging rapidly. You've probably heard that attention-grabbing statistic - "10,000 Americans are turning 65 every day". That certainly means that we'll be needing more, not less, healthcare in coming years, regardless of what happens in DC.

With this in mind, we searched for some healthcare dividend stocks with steady payouts, good dividend coverage, an attractive dividend yield, and, to keep the rate hike fears at bay, low debt.

We came up with 2 companies, both of which are micro cap stocks, in the \$50M - \$300M range, in the Medical Equipment sub-industry:

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| Ticker | Company                      | Sector     | Industry                       | Country | Market Cap |
|--------|------------------------------|------------|--------------------------------|---------|------------|
| SPAN   | Span-America Medical Systems | Healthcare | Medical Appliances & Equipment | USA     | \$59.39M   |
| DRAD   | Digirad Corporation          | Healthcare | Medical Appliances & Equipment | USA     | \$100.4M   |

(Profiles for both stocks are listed at the bottom of this article.)

**Dividends:** You can track both stocks in our [High Dividend Stocks By Sector Tables](#), in the Healthcare section. DRAD has the highest yield, and the lowest Dividend Payout Ratio of the pair - it has paid \$.05/quarter since its 2013 IPO. SPAN yields just under 3%, with a higher payout ratio of over 43%. Both stocks go ex-dividend in mid-May 2017.

| Ticker | Dividend Yield | Payout Ratio | Most Recent Quarterly Dividend | Next Ex-Dividend Date (approx.) | Next Pay Date (approx.) | 5-Year Dividend Growth rate |
|--------|----------------|--------------|--------------------------------|---------------------------------|-------------------------|-----------------------------|
| SPAN   | 2.95%          | 43.20%       | \$0.16                         | 5/12/17                         | 6/2/17                  | 1.50%                       |
| DRAD   | 4.00%          | 27.30%       | \$0.05                         | 5/11/17                         | 5/26/17                 | 2013 IPO                    |

**Options:** Only DRAD has options, but they are very thinly traded, and the only strike price with a current bid is the Sept. 2017 \$5.00 call option, which is in the money.

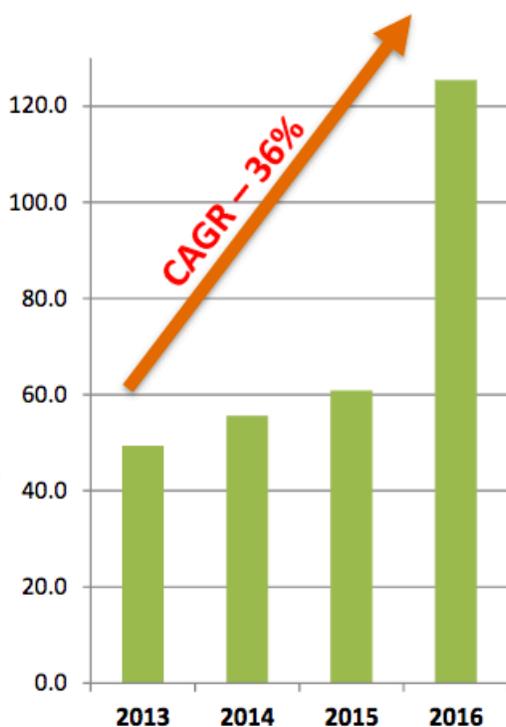
However, our free [Covered Calls](#) and [Cash Secured Puts Tables](#) track over 25 income-enhancing trades daily.

**Earnings:** DRAD acquired DMS Health Technologies in Jan. 2016, which ramped up its non-GAAP earnings in 2016 - EBITDA rose 133%, and Revenue also more than doubled.

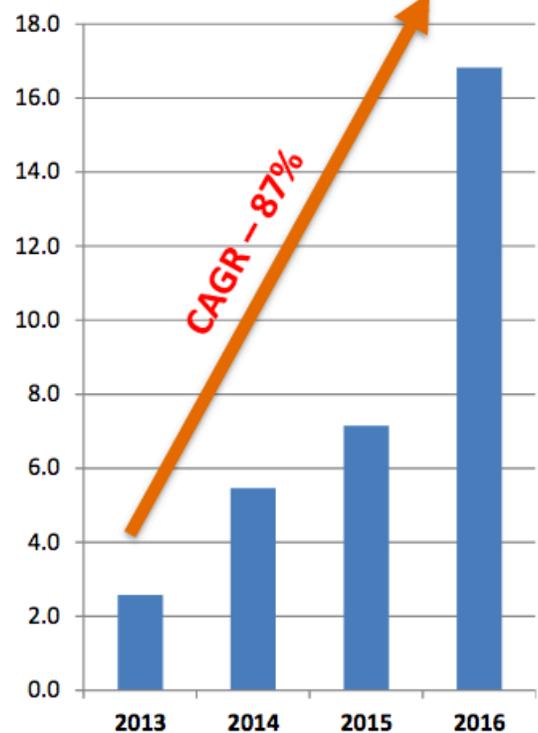
|  | Q4 2016 <sup>(4)</sup> | Q4 2015 <sup>(4)</sup> | YTD<br>Q4 2016 <sup>(4)</sup> | YTD<br>Q4 2015 <sup>(4)</sup> |
|--|------------------------|------------------------|-------------------------------|-------------------------------|
| (in millions, except per share data)   | (Unaudited)            | (Unaudited)            | (Unaudited)                   | (Unaudited)                   |
| <b>Net income</b>  | \$ 2.0                 | \$ 0.7                 | \$ 14.3                       | \$ 21.6                       |
| Acquisition related contingent consideration valuation adjustment <sup>(1)</sup> | (0.1)                  | 0.1                    | (0.1)                         | (0.1)                         |
| Investment impairment loss <sup>(2)</sup>  | -                      | 0.3                    | 0.4                           | 0.3                           |
| Transaction and integration costs of DMS Health Technologies <sup>(3)</sup>      | 0.2                    | 0.6                    | 1.9                           | 1.3                           |
| Goodwill impairment  | 0.3                    | -                      | 0.3                           | -                             |
| Depreciation and amortization  | 2.6                    | 0.7                    | 9.9                           | 2.4                           |
| Stock-based compensation   | 0.3                    | 0.2                    | 1.0                           | 0.6                           |
| Interest expense   | 0.3                    | -                      | 1.4                           | 0.1                           |
| Income tax benefit   | (0.2)                  | (0.4)                  | (12.4)                        | (19.1)                        |
| <b>Adjusted EBITDA</b>   | \$ 5.4                 | \$ 2.1                 | \$ 16.8                       | \$ 7.2                        |

DRAD has also had a history of growth since its IPO:

### Revenue



### Adjusted EBITDA



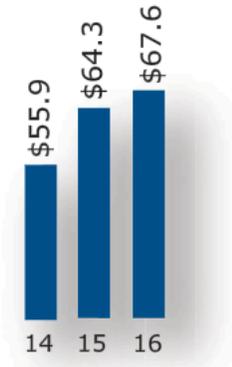
(Source:DRAD site)

SPAN had less spectacular 2016 growth, (although 21% EPS growth is very impressive), but really hit it out of the park in 2015, due to strong sales growth and margin improvements within its Span-Canada product lines, and solid sales growth from its other lines:

(Source:SPAN site)

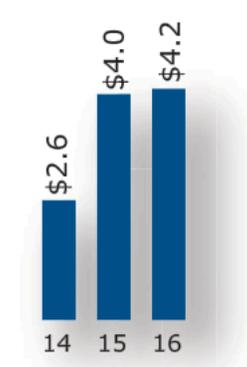
### Net Sales

(\$ in millions)

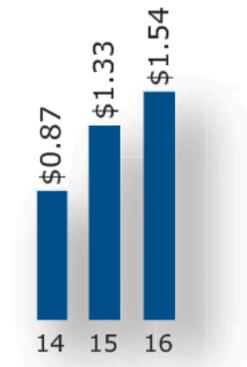


### Net Income

(\$ in millions)



### Diluted Earnings Per Share



**Valuations:** Both stocks have very similar EV/EBITDA valuations, but DRAD looks cheaper, in other valuations, especially on a P/E basis.

| Ticker | 4/7/17 Price | P/E ttm | P/SALES | P/BOOK | EV/EBITDA |
|--------|--------------|---------|---------|--------|-----------|
| SPAN   | \$21.67      | 14.72   | 0.97    | 2.19   | 7.85      |
| DRAD   | \$5.00       | 6.99    | 0.80    | 1.49   | 7.88      |

**Performance:** To paraphrase Dickens, it's a "tale of 2 equities", when you compare their performance - SPAN has outperformed in all of these time periods, while DRAD has gotten very little support from the market.

| Ticker | Performance (Month) | Performance (Quarter) | Performance (Year) | Performance (YTD) | 52-Week High | 52-Week Low |
|--------|---------------------|-----------------------|--------------------|-------------------|--------------|-------------|
| SPAN   | 3.17%               | 13.49%                | 16.22%             | 19.71%            | -1.16%       | 32.56%      |
| DRAD   | -4.76%              | -5.66%                | -2.72%             | 0.00%             | -18.70%      | 20.48%      |

**Analysts' Targets:** SPAN's outperformance has sent it right through analysts' consensus price target of \$19.00, whereas DRAD is a whopping 32% below its \$7.35 consensus price target.

| Ticker | 4/7/17 Price | Target Price | Variance |
|--------|--------------|--------------|----------|
| SPAN   | \$21.67      | \$19.00      | -14.05%  |
| DRAD   | \$5.00       | \$7.35       | 31.97%   |

**Financials:** SPAN is debt-free, and DRAD has a low .32 Debt/Equity ratio and a very low 1.30x Net Debt/EBITDA ratio. They have similar ROA ratios, but DRAD has a better ROE figure. However, SPAN has a higher Operating Margin.

| Ticker | Return on Assets | Return on Equity | Current Ratio | Total Debt/Equity | Net DEBT/ EBITDA | Operating Margin |
|--------|------------------|------------------|---------------|-------------------|------------------|------------------|
| SPAN   | 12.60%           | 15.40%           | 3.8           | NO DEBT           | NO DEBT          | 9.60%            |
| DRAD   | 13.00%           | 21.90%           | 1.2           | 0.32              | 1.30             | 2.50%            |

**Profiles:**

*Digirad Corp.* operates through 4 segments: Diagnostic Services, Mobile Healthcare, Diagnostic Imaging, and Medical Device Sales and Services.

-The Diagnostic Services segment provides nuclear and ultrasound imaging services to physicians who perform nuclear imaging, echocardiography, vascular or general ultrasound tests, or any combination of these procedures in their offices, hospitals, and imaging centers, as well as offers remote cardiac event monitoring services.

-The Mobile Healthcare segment offers contract sales and diagnostic imaging services, including computerized tomography (CT), magnetic resonance imaging (MRI), positron emission tomography (PET), PET/CT, and nuclear medicine and healthcare services to hospitals, integrated delivery networks, and federal institutions on a long-term contract basis, as well as provisional services to institutions that are in transition.

-The Diagnostic Imaging segment develops and sells gamma camera imaging systems, such as nuclear cardiac imaging systems and general purpose nuclear imaging systems to physician offices and hospitals; and offers camera maintenance services.

-The Medical Device Sales and Services segment primarily sells Philips branded imaging systems, including CT, MRI, PET, and PET/CT, and ultrasound and patient monitoring systems, as well as offers warranty and post-warranty services under its contract with Philips Healthcare in the upper Midwest region of the US. Digirad Corporation was founded in 1985 and is headquartered in Suwanee, Georgia.

*Span-America Medical Systems, Inc.* manufactures and distributes therapeutic support surfaces and other related products for the medical, consumer, and industrial markets in the US and Canada. It operates through 2 segments, Medical and Custom Products.

-The Medical segment offers various medical products consisting of non-powered and powered therapeutic support surfaces, medical bed frames, patient positioners, polyurethane foam mattress overlays, seating products, and skin care and fall protection products, as well as tables and related in-room furnishings for long-term care facilities, acute care hospitals, and home health care providers.

-The Custom Products segment provides consumer bedding products comprising convoluted and contoured mattress overlays, and specially designed pillows for the consumer bedding market; and engineered industrial products, including engineered foam products that are used in various markets, such as automotive, packaging, durable goods, electronics, and water sports equipment industries. Span-America Medical Systems, Inc. was founded in 1970 and is headquartered in Greenville, South Carolina.

All tables furnished by DoubleDividendStocks.com, unless otherwise noted.

*Disclosure:* Author owned no shares of any stock mentioned in this article at the time of publication.

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