

Catasys (NASDAQ: CATS)



- Scalable growth model
- Attractive, underserved market
- Increasing revenues and a strong financial position
- \$45M debt financing commitment by Goldman Sachs

Behavioral health conditions can include substance use disorder, anxiety, and depression, the most common among a broad range of mental illnesses. These diseases have not only become more abundant in recent years, but for some can exacerbate other chronic diseases such as diabetes, hypertension, coronary artery disease, and congestive heart failure.

Catasys, Inc. is a behavioral health company that uses proprietary predictive analytics, artificial intelligence and telehealth to deliver member health and cost savings to health plans through integrated technology enabled treatment solutions. The Company offers treatments for those that suffer from the medical consequences of behavioral health conditions.

Compound Annual Growth Rates

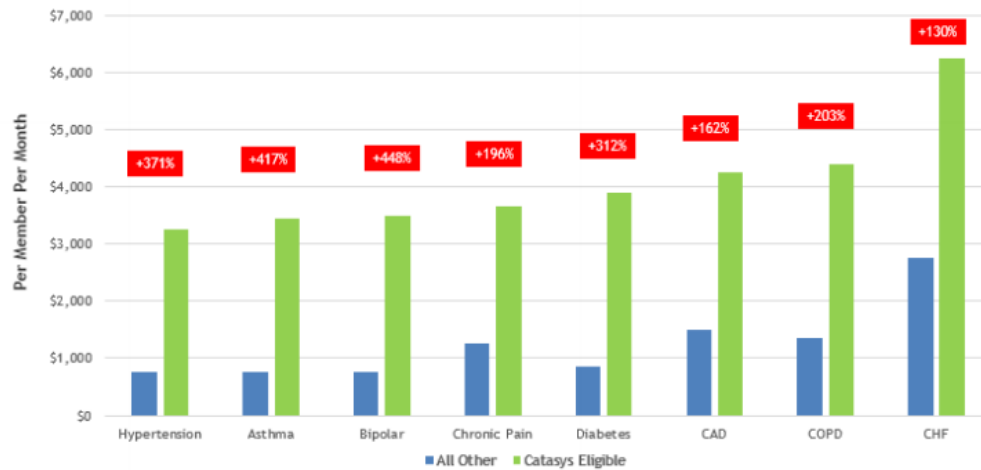
Revenue - %CAGR	1Yr	3Yr	5Yr
Company	160.1	86.9	87.4
Peer Average	8.5	4.2	5.5
S&P 500	6.4	6.8	3.9

Key Statistics

Market Cap [Mln of USD]	273.0
52-Wk Range [USD]	7.510 - 20.830
Value of USD 10K Invested 5 Yrs ago	13,959
Beta vs S&P 500	1.65
Common Shares Outstanding[Mln]	16.5
Average Daily Volume [Mln]	0.132
Insider Ownership[%]	56.26



Business Operations



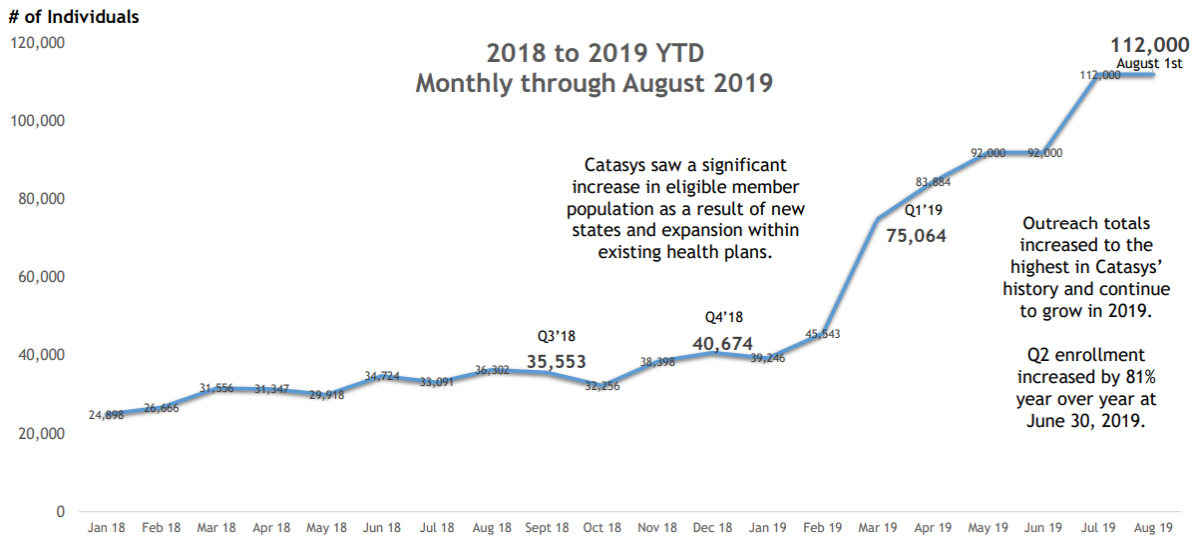
Above, this graph illustrates that eligible members cost health plans up to 4.5x more than that of someone who has just the chronic disease. By partnering with health plans, Catasys is able to improve member health, and provide cost savings to health plans. The total addressable market for Catasys is valued at over \$33 billion. The \$12 billion of this comes from commercial administrative services only (ASO) plans. ASO Benefit plans, also known as self-funded health care, are arrangements where a company pays for employees' eligible health and dental claims, up to chosen deductible level. Once the deductible level is hit, insurance covers any remaining claims. Following commercial ASOs, managed Medicaid amounts account for approximately \$10 billion, with commercial fully insured plans, which is another type of employer-sponsored health plans, making up another \$4 billion worldwide.

OnTrak is a 52 week, fully immersive program, offered by Catasys. It begins with outreach to patients, where they then are evaluated by a doctor, which is followed by involving either a pharmacological professional or a doctor, depending on the condition of the patient. Throughout the program, patients receive care coaching, which includes a personal care coach, intended to be with the patient for continuous support and coaching throughout the recovery process. Outlined below is the revenue per patient, assuming an 80% retention rate:

Revenue per patient enrolled	\$8,500
Revenue per enrolled member at 80% retention	\$6,500
Revenue per 10,000 enrolled members	\$65,000,000

Through predictive engagement, Catasys is launching OnTrak 2.0, with the goal of expanding the member population. OnTrak 2.0 will double the size of the outreach pool, and enhances the previous margins through more use of artificial intelligence.

Significant Ramp in Outreach Pool of Individuals



Through a three part plan, Catasys is gearing up to scale the existing business lines and increase overall enrollment. Currently, Catasys has agreements with 7 of the top 8 health plans in the United States. These plans include United Healthcare, Aetna, Humana, and Health Alliance, to name a few. By expanding to new states, new carriers, and build upon current plans, Catasys plans to re-engineer how patients affected by mental illness deal with their disabilities. As of June 30, 2019, Catasys enrollment increased 81% Y.o.Y. The OnTrak program is currently available through seven plans in 27 states.

The outreach pool of eligible members increased to 112K, up from 92K in May 2019 and 75K in Q12019. If the company can achieve 20% enrollment rate in the next 12 months (which is the company's stated target) this would put forth annual revenue of \$146.0M. However, at the end of Q3-2017, the outreach pool was 25K, a 20% enrollment rate at \$6,500 per member per year would imply a quarterly revenue run-rate of ~\$8.0M. This should have been realized by Q4-2018, but revenue in Q4-2018 was only \$5.6M, and revenue this quarter in Q2-2019 was still below that \$8M. The company still maintains its 20% enrollment ramp target.

Financials

Catasys is guiding for explosive growth in 2019. Catasys expects that their most recent financing will bring them to cash flow positive. Catasys reiterated its 2019 target revenue of \$35.0M. In the model below, I forecasted slightly above. While the company is still going to lose money, adjusted EBITDA losses are projected to shrink from an estimated \$15.6M in 2019. For 2020, revenue is forecasted at \$86M, and an adjusted EBITDA loss of 3.0M.

Projected Cash Flows

	2018					2019					2020E	2021E
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3E	Q4E	Year	Year	Year
Healthcare services Revenue	1,911	3,273	4,369	5,624	15,177	6,811	7,681	9,500	12,400	36,000	88,000	134,000
% Growth		71%	33%	29%		21%	13%	24%	31%	137%	144%	52%
Cost of Services	(2,287)	(2,941)	(3,237)	(2,654)	(11,119)	(3,027)	(4,365)	(5,200)	(6,700)	(19,000)	(48,000)	(65,000)
Gross Margin	(376)	332	1,132	2,970	4,058	3,784	3,316	4,300	5,700	17,000	40,000	69,000
G&A	(3,786)	(4,392)	(5,120)	(4,097)	(17,395)	(6,299)	(8,223)	(8,800)	(9,000)	(32,322)	(38,500)	(44,100)
D&A	(85)	(85)	(59)	(59)	(288)	-	-	-	-	-	-	-
Total Operating Expenses	(3,871)	(4,477)	(5,179)	(4,156)	(17,683)	(6,299)	(8,223)	(8,800)	(9,000)	(32,322)	(38,500)	(44,100)
Gain/Loss From Operations	(4,247)	(4,145)	(4,047)	(1,186)	(13,625)	(2,515)	(4,907)	(4,500)	(3,300)	(15,322)	1,500	24,900
Net Loss	(4,218)	(4,200)	(4,353)	(1,441)	(14,212)	(2,921)	(5,490)	(5,188)	(4,750)	(18,349)	(8,000)	3,400

When looking at Catasys and their income statement, their growth in the top line is extremely indicative of their growth in the market. They have increased revenue every quarter, and their year-to-year growth is tremendous. CATS average General and Administrative expense in the prior 6 quarters was approximately 72%. In their forecasts for 2020 and 2021, that is expected to shrink to 44% and 46%. Through continued operational efficiency, CATS will be able to reduce their expenses further and improve their margins. With no depreciation, amortization, and limited debt, the company's primary expenses will be G&A and their cost of services. Both are very controllable costs, which will allow CATS to better manage its business. The company has plenty of cash on the books, including \$45M from their most recent financing.

Leadership

Terren S. Peizer

Founder, Chairman of the Board, and CEO

Mr. Peizer is the founder of Catasys, Inc. and has also served as the Company's Chairman of the Board of Directors and CEO since the Company's inception in 2004. Mr. Peizer is also the Founder, Chairman and CEO of NeurMedix, Inc., and the Chairman, CEO and majority shareholder of publicly traded BioVie, Inc. Mr. Peizer is Chairman of Acuitas Group Holdings, LLC, his personal holding company, and the owner of all of his portfolio company interests, including Catasys, Inc. Through Acuitas, Mr. Peizer also owns Acuitas Capital Group, LLC, an industry leader in investing in publicly traded micro and small capitalization equities, having invested over \$1.5 billion directly into portfolio companies. Mr. Peizer has held senior executive positions with several other publicly-traded growth companies, including Chairman of internationally renowned Cray, Inc. Mr. Peizer has a background in finance and capital markets having previously served in senior executive positions with the investment banking firms Goldman Sachs, First Boston, and Drexel Burnham Lambert. He received his B.S.E. in Finance from The Wharton School, University of Pennsylvania.

Rick Anderson

President and Chief Operating Officer

Rick is responsible for overall commercial operations, including customer and member experiences. He joined the company in 2005. Rick has spent 20 years in senior healthcare operating and financial roles, with prior experience in finance and mergers and acquisitions for technology, healthcare and entertainment companies.

Omar Manejwala, MD

Chief Medical Officer

Omar leads clinical affairs and new product development efforts. He joined Catasys in 2011 and is one of the nation's leading experts on addiction and behavioral health.



Price Target

Given Catasys' growth prospects, and their additional addressable market, we are expected 30% upside from their current share price of \$15.43 in the next 6-8 months. Our expectation is that Catasys will be trading in the \$20-\$23 range by late spring 2020. This will primarily be driven by their ability to broaden their services in their total addressable market, reel in expenses and keep the cost of services down, and their new loan to push them to cash flow positive.



Disclosures

We are long Catasys (NASDAQ: CATS). The information contained in this communication and any attachments is for information purposes and should not be regarded as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be in violation of any local laws. We do not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. All Offers to sell are made in person through our Private placement memorandum.