Lumisys

Unfocused marketing efforts and industry setbacks have plagued Lumisys, Inc. for the past two years. Lackluster revenues have forced the Sunnyvale, CA-based company to wake up and employ a number a strategies to stimulate sales and profitability.

Lumisys manufactures hardware and software products for medical image digitization and computer radiography. The company shipped its first products in 1990. Teleradiology and Picture Archiving and Communication Systems ("PACS") integration are its target markets. Lumisys markets its products to Original Equipment Manufacturers ("OEM"), and Value-added Resellers ("VAR") who use these components in their PACS and teleradiology systems. The company's products are technically superb and have set the standard for the industry. In addition, Lumisys provides technical support for most of its products. However, reliance on OEMs and third party integrators for product sales has had an adverse affect on Lumisys' business, as several of these companies have merged and consolidated.

To take advantage of an otherwise expanding market, the company hired a new marketing director in June 1999. Moreover, two major events occurred in November 1999 to set the stage for growth:

- Lumisys entered into a service and financial agreement with GE Medical Systems and GE Healthcare Financial Management. This alliance will provide the company with GE's world-class service and financial solutions for smaller health care facilities not supported by Lumisys' existing channel partners.

- On November 28, 1999, the company launched AuntMinnie.com, a vertical Internet portal for radiologists and medical imaging professionals. Besides offering daily updated content, it is anticipated that AuntMinnie.com will generate multiple revenue streams from a combination of sponsorships, partnerships, e-commerce activities, premium service fees, business-to-business pay per view and advertising. (The term "Aunt Minnie" describes a recognized medical condition, as one would recognize the face of a favorite aunt.)

The company experienced consistent growth from 1994 to 1997 due to rising demand for teleradiology and PACS networks as well as its acquisition of Imagraph. In 1997 sales began to plateau: $28.7 million in 1996 to $29.7 million in 1997. Then, in 1998, sales deceased by 35%, to $19.2 million, due to decreased demand from domestic digitizer markets. Interestingly, the company has managed to remain practically unleveraged: its debt to equity ratio has remained below 1% from 1995 to 1999. Earnings have been hit hard, declining to a negative ($0.46) per share at year-end 1999 from $0.07 per share in the same period a year ago. The company completed its 500,000 share common stock repurchase program in third quarter 1999 using existing cash balances to purchase 330,800 shares.

1999 was a tough year for Lumisys. The Imagraph subsidiary performed poorly as sales declined 36% in first quarter 1999 from the year-ago period. Total third quarter sales decreased 17% year over year due to lower than expected orders for the ACR-2000
computer radiology system, a decline in digitizer sales, and higher pretax expenses related to development costs for the new Internet portal. Fourth quarter 1999 revenues were also down, to $4.4 million from $5.2 million in 1998.

However the company claims that "1999 was a year of repositioning and reinvestment". Only time will tell, but the prospects do look promising. Lymisys:

- Successfully launched the web site, AuntMinnie.com. Thousands of radiology professionals are registered users on the new site and company expects to generate revenues from the site by first quarter 2000.
- Introduced new DesktopCRTM products, the ACR-2000i (an upgrade of ACR-2000) and iLuminatorTM, which have been well received by the radiology community.
- Established agreements with GE Healthcare Services Inc. and GE Healthcare Financial Services, Inc. in which GE will provide nationwide on-site service and financing options for Desktop CRTM products.
- Expanded direct sales capacity that complements exiting channel and OEM partnerships.
- Received ISO-9001 Certification, a quality assurance standard recognized throughout the world.

Furthermore, the increased growth of PACS bodes well for Lumisys since their products are utilized in PACS and are the recognized standard for quality in the industry. However, development costs estimated at close to $1 million for AuntMinnie.com will significantly impact first quarter 2000 income. To counter this, the company says it is exploring a number of financing alternatives to fund the web site's business expansion.

It appears obvious that the company is hesitant to take on more debt because it does not yet have the confidence to redirect earnings and revenues. However, given its strategic plays, namely the GE alliance and AuntMinnie.com, coupled with Lumisys' expert technology, we take a cautiously optimistic stance over the next few months.