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Chembio Diagnostics Inc. (CEMI- NASDAQ)

CEMI: Will Zika Be Next Addition To Fever Portfolio?

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	06/14/2010
Current Price (02/16/16)	$4.84
Target Price	**$7.00**

OUTLOOK

CLIA Waiver granted for DPP HIV assay. CEMI signed distribution agreements and also bldg direct sales force to sell direct in the U.S. Int'l lateral flow sales remain variable which negatively impacted 2014 revenue but could turn back positive with recent launch for self-testing in Europe. DPP international sales have been very strong with FIOCRUZ still very active and HIV/Syph launch in Mexico the drivers in 2014. DPP HIV/Syph in Brazil could be major catalyst. Next up could be the U.S. mrkt. – clinical trials for which slated to commence H1 2016. Meanwhile, new fever portfolio looks like it could be a needle-mover – off to a strong start but still too early to make any concrete predictions. Zika virus looks like it could be a seamless addition.

CEMI also focused on complementary revenue opportunities including add'l R&D contracts/grants, expansion of international commercialization footprint, and potentially in-licensing products.

We are maintaining our Buy rating.

SUMMARY DATA

52-Week High	**$5.34**
52-Week Low	**$3.66**
One-Year Return (%)	**31.57**
Beta	**0.97**
Average Daily Volume (sh)	**21,596**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$48**
Short Interest Ratio (days)	**0.46**
Institutional Ownership (%)	**17**
Insider Ownership (%)	**6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**12.3**
Earnings Per Share (%)	**-51.9**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Blend**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(millions)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$5.81 A	$7.42 A	$7.31 A	$7.10 A	$27.65 A
2015	$6.23 A	$6.72 A	$6.89 A	$6.87 E	$26.71 E
2016					$29.47 E
2017					$35.78 E

Adjusted Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.04 A	-$0.02 A	-$0.03 A	-$0.07 A	-$0.16 A
2015	-$0.09 A	-$0.09 A	-$0.06 A	-$0.07 E	-$0.31 E
2016					-$0.11 E
2017					$0.16 E

Zacks Projected EPS Growth Rate - Next 4 Years % **NA**

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WHAT'S NEW

Updates: CEMI Gears Up To Detail SURE CHECK HIV 1/2 and Could Zika Be Next Pipeline Addition?

- As anticipated, CEMI is preparing to take the reins on detailing SURE CHECK HIV 1/2 in the U.S. after their distribution agreement with Alere concludes on May 31st of this year. Obviously Chembio knew this was coming so preparations have been in the works. And CEMI already has already put infrastructure in place, including a small sales force and U.S. distribution agreements, which has supported sales of STAT-PAK after Alere's rights to that product rolled off in June 2014.

- Yesterday (2/1/16) WHO declared the Zika virus outbreak an international public health emergency. The agency believes the virus could infect as many as four million people by current year-end. Zika, similar to Malaria in that it is transmitted by mosquitos, is traditionally only found in a band around the equator spanning from Africa, Asia and South America. It was detected in Brazil in May and has since rapidly spread throughout South and Latin America. Several dozen cases have even been reported in Texas.

  Zika is believed to be linked to microcephaly which results in babies being born with unusually small heads and most often with brain damage as well. And while WHO has not specifically advised against pregnant women traveling to affected areas, this is a significant concern. The outbreak is particularly problematic and growing in Brazil, which will host the Summer Olympics this year. And while populations in regions where the virus is most common may have developed immunity to it, that is certainly not the case in the U.S.

  WHO's emergency declaration opens up the possibility of government and international aid organizations funding to combat the disease. Last week President Obama called for the accelerated development of tests and therapies to contain the virus. Particularly problematic with Zika is that approximately 80% of people that are infected show no symptoms and there are currently no rapid Zika tests on the market.

  So what does this mean for Chembio? Management has not announced a Zika diagnostic development program but we think it is almost certainly under consideration if not already in the works. Zika seems like it could be a seamless fit to CEMI's already quickly ramping fever portfolio and the most significant portion of the current outbreak is in Brazil – where CEMI has had significant success with its DPP portfolio and where they have a long-standing relationship with Oswaldo Cruz Foundation (FIOCRUZ), an affiliate of the Brazilian Ministry of Health, to which the company has sold tens of millions of dollars worth of their products over the last several years. If we were the wagering type, we'd bet that CEMI will have something to say about Zika on the next conference call.

FINANCIAL STATEMENTS

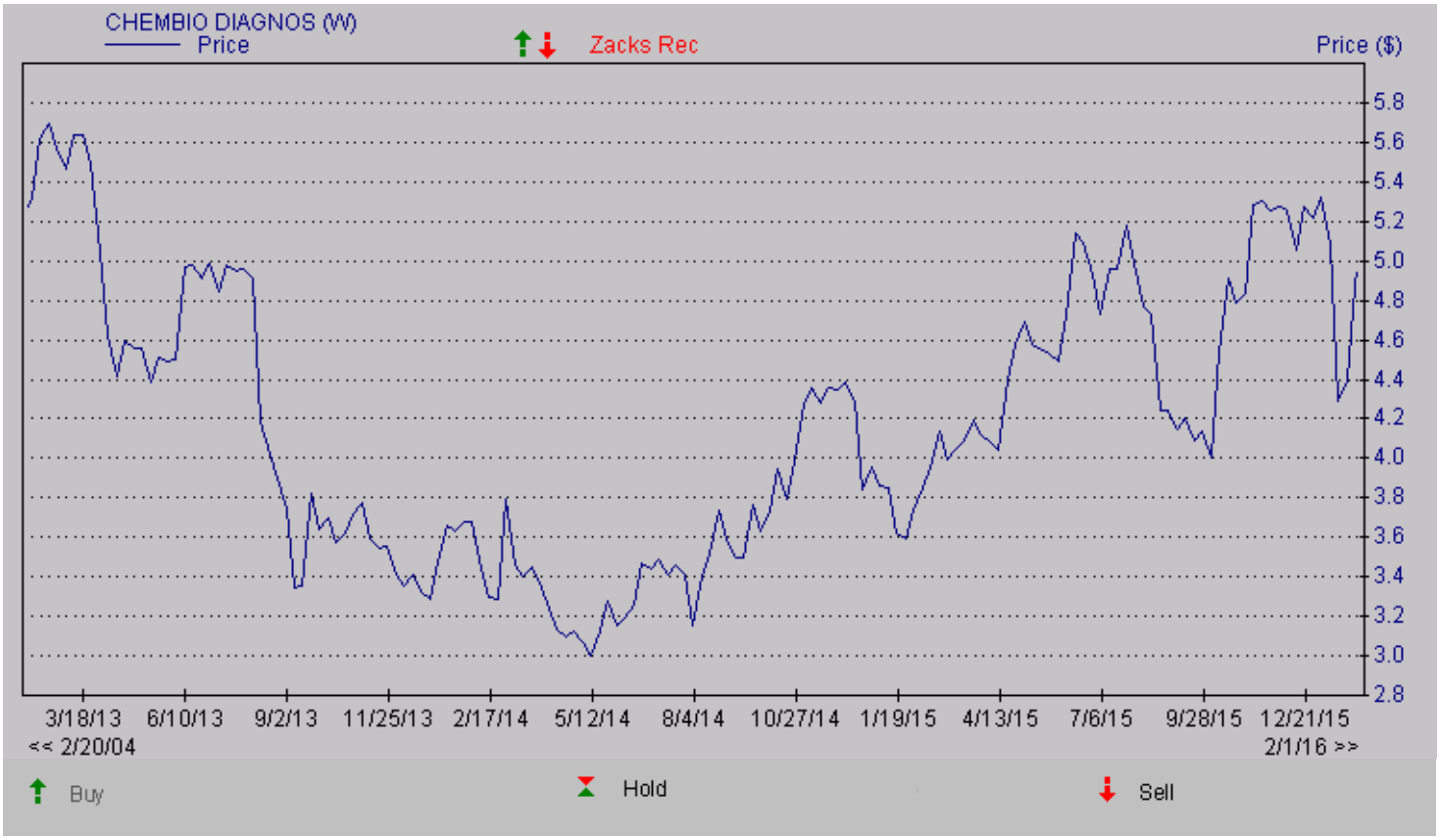
INCOME STATEMENT

Chembio Diagnostics, Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E	2017 E	2018 E
Product sales	**$25,950**	**$5,615**	**$6,322**	**$6,210**	**$6,188**	**$24,334**	**$27,450**	**$33,468**	**$36,181**
% of total revenue	*93.9%*	*90.1%*	*94.1%*	*90.2%*	*90.0%*	*91.1%*	*91.1%*	*93.7%*	*93.7%*
YOY Growth	*-5.7%*	*14.5%*	*-12.8%*	*-14.3%*	*-5.5%*	*-6.2%*	*12.8%*	*21.9%*	*8.1%*
License & royalty income	**$24**	**$7**	**$8**	**$19**	**$35**	**$69**	**$697**	**$899**	**$1,037**
% of total revenue	*0.1%*	*0.1%*	*0.1%*	*0.3%*	*0.5%*	*0.3%*	*2.3%*	*2.5%*	*2.7%*
R&D contracts, grants, milestones	**$1,672**	**$609**	**$387**	**$659**	**$650**	**$2,305**	**$1,975**	**$1,365**	**$1,400**
% of total revenue	*6.0%*	*9.8%*	*5.8%*	*9.6%*	*9.5%*	*8.6%*	*6.6%*	*3.8%*	*3.6%*
Total Revenues	$27,645.3	$6,231.1	$6,716.2	$6,887.4	$6,873.0	$26,708.0	$30,121.4	$35,731.8	$38,617.5
YOY Growth	*-6.4%*	*7.2%*	*-9.5%*	*-5.8%*	*-3.1%*	*-3.4%*	*12.8%*	*18.6%*	*8.1%*
Cost of Revenues	$16,831	$3,545	$3,697	$3,977	$3,806	$15,024	$16,195	$19,412	$20,840
Gross Income	$10,814	$2,687	$3,019	$2,911	$3,067	$11,684	$13,926	$16,320	$17,777
Gross Margin	*39.1%*	*43.1%*	*45.0%*	*42.3%*	*44.6%*	*43.7%*	*46.2%*	*45.7%*	*46.0%*
Product Margin	*35.1%*	*36.9%*	*41.5%*	*36.0%*	*38.5%*	*38.3%*	*41.0%*	*42.0%*	*42.4%*
Research & Development	$4,833	$1,585	$1,757	$1,570	$1,788	$6,700	$6,818	$5,744	$4,844
% R&D	*17.5%*	*25.4%*	*26.2%*	*22.8%*	*26.0%*	*25.1%*	*22.6%*	*16.1%*	*12.5%*
Selling General & Admin	$7,532	$1,978	$2,160	$1,920	$1,966	$8,023	$8,283	$8,861	$9,809
% SG&A	*27.2%*	*31.7%*	*32.2%*	*27.9%*	*28.6%*	*30.0%*	*27.5%*	*24.8%*	*25.4%*
Operating Income	($1,550)	($875)	($898)	($579)	($686)	($3,038)	($1,175)	$1,715	$3,125
Operating Margin	*-5.6%*	*-14.1%*	*-13.4%*	*-8.4%*	*-10.0%*	*-11.4%*	*-3.9%*	*4.8%*	*8.1%*
Other income (expense)	($6)	$0	$0	$0	$0	$0	$0	$0	$0
Interest income, net	$6	$1	$0	($0)	$1	$2	$18	$66	$81
Pre-Tax Income	($1,550)	($874)	($898)	($579)	($685)	($3,036)	($1,157)	$1,781	$3,206
Taxes	($413)	($228)	($234)	($142)	($240)	($843)	($434)	$668	$1,202
Tax Rate	*26.6%*	*26.0%*	*26.0%*	*35.0%*	*35.0%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*
Net Income	($1,137)	($647)	($664)	($437)	($445)	($2,193)	($723)	$1,113	$2,003
YOY Growth	*-314.1%*	*187.8%*	*354.9%*	*61.5%*	*-10.2%*	*92.9%*	*-67.0%*	*-253.9%*	*80.0%*
Net Margin	*-4.1%*	*-10.4%*	*-9.9%*	*-6.3%*	*-6.5%*	*-8.2%*	*-2.4%*	*3.1%*	*5.2%*
GAAP EPS	($0.12)	($0.07)	($0.07)	($0.05)	($0.05)	($0.23)	($0.07)	$0.10	$0.19
Adjusted EPS	($0.16)	($0.09)	($0.09)	($0.06)	($0.07)	($0.31)	($0.11)	$0.16	$0.29
YOY Growth	*-302.1%*	*136.4%*	*286.9%*	*115.1%*	*1.0%*	*90.9%*	*-68.1%*	*-244.2%*	*77.0%*
Weighted Avg. Shares O/S	9,529	9,625	9,628	9,628	9,628	9,627	9,955	10,620	10,800

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