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# Chembio Diagnostics Inc. (CEMI- NASDAQ)

***CEMI:*** **INVESTOR NOTE: Significant Pipeline Progress**

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | N/A |
| Date of Last Change | 06/14/2010 |
| Current Price (01/13/15) | $3.86 |
| **Target Price** | **$10.00** |

## 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 has negatively impacted 2014 revenue. DPP international sales have been very strong the last two quarters, likely aided by the recent launch of DPP HIV/Syphilis test.

DPP HIV CLIA waiver was a significant milestone and allows launch to POC channel. DPP U.S. sales will be imminent.

Pipeline progress continues - recent partnerships announced to develop Ebola, Dengue Fever, Febrile illness and cancer test on DPP platform. Most recently traumatic brain injury test under development as well as flu program reinvigorated. CEMI also focused on complementary revenue opportunities including add'l R&D contracts/grants, expansion of international commercialization footprint, and potentially in-licensing products. CEMI maintains strong cash position and balance sheet.
We are maintaining our Outperform rating.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$5.20** |
| **52-Week Low** | **$2.83** |
| **One-Year Return (%)** | **4.61** |
| **Beta** | **0.10** |
| **Average Daily Volume (sh)** | **106,825** |
| **Shares Outstanding (mil)** | **10** |
| **Market Capitalization ($mil)** | **$37** |
| **Short Interest Ratio (days)** | **0.95** |
| **Institutional Ownership (%)** | **18** |
| **Insider Ownership (%)** | **6** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **19.8** |
| **Earnings Per Share (%)** | **-31.0** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **35.1** |
| **P/E using 2014 Estimate** | **N/A** |
| **P/E using 2015 Estimate** | **386.0** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Above Avg.,** |
| **Type of Stock** | **Small-Blend** |
| **Industry** | **Med Products** |

## ZACKS ESTIMATES

**Revenue**
(millions)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2013 | $6.68 A | $5.39 A | $9.62 A | $7.86 A | $29.55 A |
| 2014 | $5.81 A | $7.42 A | $7.31 A | $7.16 E | $27.71 E |
| 2015 | | | | | $28.53 E |
| 2016 | | | | | $34.21 E |

**Adjusted Earnings per Share**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2013 | $0.05 A | -$0.04 A | $0.11 A | -$0.02 A | $0.11 A |
| 2014 | -$0.04 A | -$0.02 A | -$0.03 A | -$0.02 E | -$0.11 E |
| 2015 | | | | | $0.01 E |
| 2016 | | | | | $0.19 E |

Zacks Projected EPS Growth Rate - Next 4 Years % **41**

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## WHAT'S NEW

**Significant Pipeline Progress**
Chembio has made substantial progress over the last few months with development of its pipeline. This includes development of tests for Ebola, Febrile illness and a multiplex test for influenza.

As a reminder, in October the company announced collaboration agreements with new partners for the development of new DPP-based tests. Under one agreement, CEMI is collaborating with Gaithersburg, MD-based Integrated Biotherapeutics (IBT) in development of DPP tests for Ebola and Febrile illness for the POC market. Integrated Bio is providing Ebola antibodies in development of the Ebola assay.

Progress since the collaboration announcements appears to have been very productive. Yesterday (1/12/15) the company announced that a DPP-Ebola assay has been developed and the assay has been tested by both IBT's partner and by the Centers for Disease Control (CDC) at their lab in Atlanta. The test has already been submitted for pre-qualification to the World Health Organization.

Chembio notes in the press release that results of the initial lab testing "look very promising" and that their goal is to have both an Ebola and Febrile illness test to the CDC and begin field testing in West Africa during Q1 2015 (i.e. – the current quarter).

Chembio is also now making further progress on its DPP-influenza program. The company had already done significant work on a DPP-influenza test over the last several years under development agreements with Battelle Memorial Institute and contracts with the CDC. In late November the CEMI announced that they entered into a follow-on agreement with CDC and a private contractor for a multiplex flu immunity test. The project has an estimated timeline of about three months.

But the most recent addition to the product pipeline was announced last week with news that CEMI is collaborating with the Concussion Science Group (CSG) Division of Perseus Science Group LLC in development of a DPP test for traumatic brain injury. Under the agreement CSG will make milestone payments to CEMI in 2015.

Traumatic brain injuries have received significant mainstream media attention of late due to their association with injuries of NFL players and a potential cause for severe depression and some resultant suicides. Identifying the presence of traumatic brain injuries is currently often not possible until either well into their progression or, in some cases, until an autopsy is done. A reliable POC test that could identify traumatic brain injuries therefore would likely have massive appeal.

We are maintaining our Outperform rating and $10/share price target.

## FINANCIAL STATEMENTS

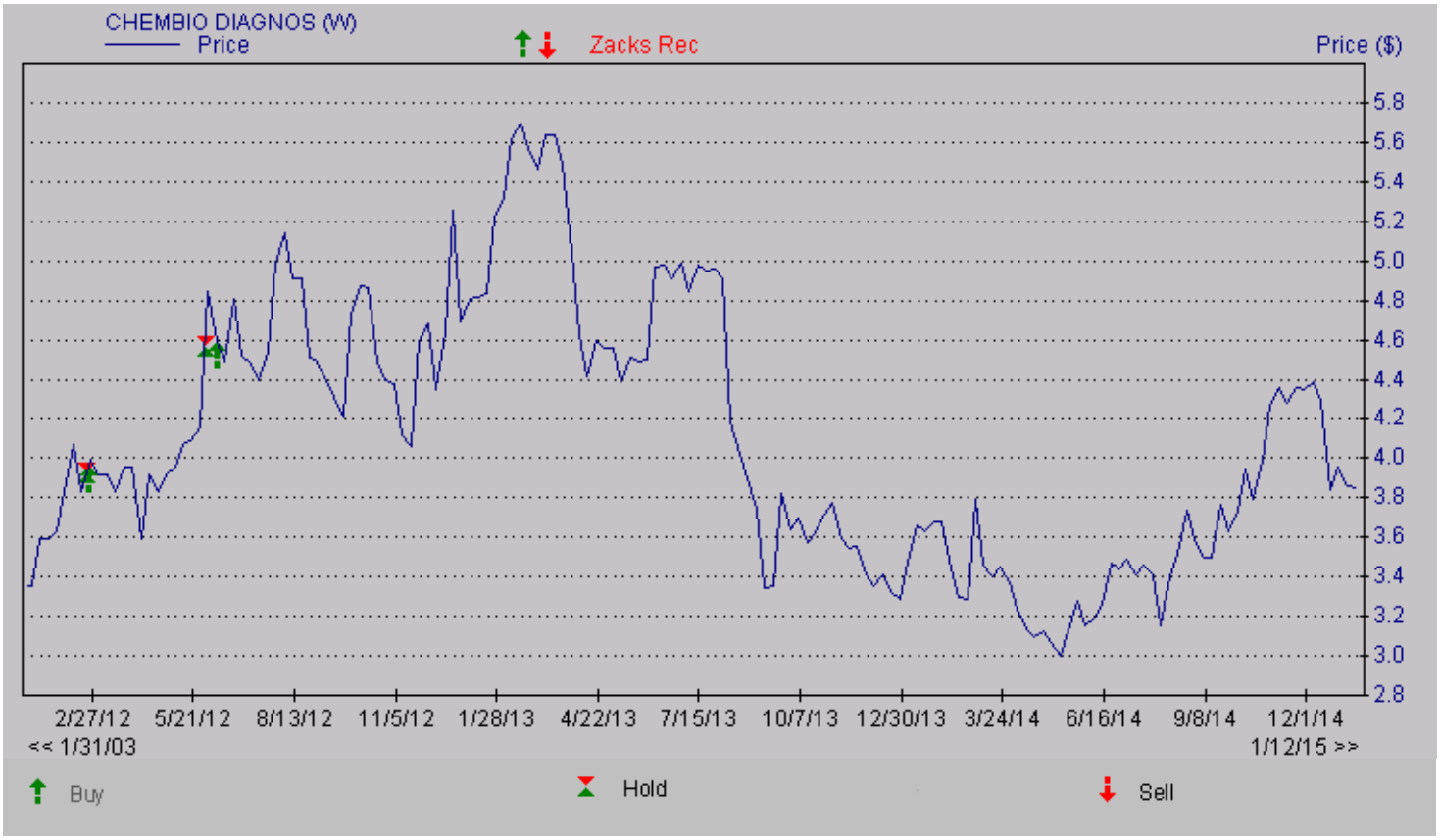
### INCOME STATEMENT

Chembio Diagnostics, Inc.

| | 2013 A | Q1A | Q2A | Q3A | Q4E | 2014 E | 2015 E | 2016 E | 2017 E |
|---|---|---|---|---|---|---|---|---|---|
| **Product sales** | **$27,516** | **$4,904** | **$7,248** | **$7,248** | **$6,978** | **$26,379** | **$26,689** | **$32,314** | **$35,464** |
| *% of total revenue* | *93.1%* | *84.4%* | *97.6%* | *99.1%* | *97.5%* | *95.2%* | *93.6%* | *94.5%* | *94.7%* |
| *YOY Growth* | *13.1%* | *-22.3%* | *43.2%* | *-19.9%* | *-1.7%* | *-4.1%* | *1.2%* | *21.1%* | *9.7%* |
| **License & royalty income** | **$5** | **$0** | **$7** | **$9** | **$30** | **$46** | **$587** | **$598** | **$636** |
| *% of total revenue* | *0.0%* | *0.0%* | *0.1%* | *0.1%* | *0.4%* | *0.2%* | *2.1%* | *1.7%* | *1.7%* |
| **R&D contracts, grants, milestones** | **$2,029** | **$909** | **$167** | **$58** | **$150** | **$1,284** | **$1,250** | **$1,300** | **$1,365** |
| *% of total revenue* | *6.9%* | *15.6%* | *2.2%* | *0.8%* | *2.1%* | *4.6%* | *4.4%* | *3.8%* | *3.6%* |
| Total Revenues | $29,550.2 | $5,813.1 | $7,422.6 | $7,314.3 | $7,158.0 | $27,708.0 | $28,525.7 | $34,212.3 | $37,465.3 |
| *YOY Growth* | *15.4%* | *-13.0%* | *37.6%* | *-23.9%* | *-8.9%* | *-6.2%* | *3.0%* | *19.9%* | *9.5%* |
| Cost of Revenues | $17,249 | $3,540 | $4,440 | $4,664 | $4,361 | $17,006 | $15,800 | $18,419 | $19,789 |
| Gross Income | $12,301 | $2,273 | $2,983 | $2,650 | $2,797 | $10,702 | $12,726 | $15,793 | $17,676 |
| *Gross Margin* | *41.6%* | *39.1%* | *40.2%* | *36.2%* | *39.1%* | *38.6%* | *44.6%* | *46.2%* | *47.2%* |
| *Product Margin* | *37.3%* | *27.8%* | *38.7%* | *35.6%* | *37.5%* | *35.5%* | *40.8%* | *43.0%* | *44.2%* |
| Research & Development | $5,834 | $1,198 | $1,269 | $972 | $1,074 | $4,513 | $4,934 | $5,136 | $4,754 |
| *% R&D* | *19.7%* | *20.6%* | *17.1%* | *13.3%* | *15.0%* | *16.3%* | *17.3%* | *15.0%* | *12.7%* |
| Selling General & Admin | $5,461 | $1,458 | $1,947 | $1,940 | $1,966 | $7,311 | $7,816 | $8,861 | $9,067 |
| *% SG&A* | *18.5%* | *25.1%* | *26.2%* | *26.5%* | *26.1%* | *26.4%* | *27.4%* | *25.9%* | *24.2%* |
| Operating Income | $1,005 | ($383) | ($233) | ($262) | ($243) | ($1,121) | ($24) | $1,796 | $3,856 |
| *Operating Margin* | *3.4%* | *-6.6%* | *-3.1%* | *-3.6%* | *-3.4%* | *-4.0%* | *-0.1%* | *5.3%* | *10.3%* |
| Other income (expense) | $8 | $0 | ($6) | $0 | $0 | ($6) | $0 | $0 | $0 |
| Interest income, net | $5 | $2 | $2 | $1 | ($1) | $4 | $95 | $125 | $155 |
| Pre-Tax Income | $1,018 | ($381) | ($237) | ($261) | ($244) | ($1,124) | $71 | $1,921 | $4,011 |
| Taxes | $487 | ($156) | ($91) | $9 | ($85) | ($323) | $27 | $720 | $1,504 |
| *Tax Rate* | *47.8%* | *41.0%* | *38.4%* | *-3.6%* | *35.0%* | *36.8%* | *37.5%* | *37.5%* | *37.5%* |
| Net Income | $531 | ($225) | ($146) | ($271) | ($159) | ($800) | $44 | $1,201 | $2,507 |
| *YOY Growth* | *-43.6%* | *-170.9%* | *-39.4%* | *-137.8%* | *-39.3%* | *-250.6%* | *-105.6%* | *2603.3%* | *108.8%* |
| *Net Margin* | *1.8%* | *-3.9%* | *-2.0%* | *-3.7%* | *-2.2%* | *-2.9%* | *0.2%* | *3.5%* | *6.7%* |
| GAAP EPS | $0.06 | ($0.02) | ($0.02) | ($0.03) | ($0.02) | ($0.08) | $0.00 | $0.12 | $0.24 |
| Adjusted EPS | $0.11 | ($0.04) | ($0.02) | ($0.03) | ($0.02) | ($0.11) | $0.01 | $0.19 | $0.36 |
| *YOY Growth* | *-34.5%* | *-171.1%* | *-39.3%* | *-125.8%* | *23.4%* | *-242.1%* | *-105.4%* | *2568.0%* | *95.7%* |
| Weighted Avg. Shares O/S | 8,994 | 9,339 | 9,556 | 9,611 | 9,622 | 9,532 | 9,825 | 9,955 | 10,620 |

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## HISTORICAL ZACKS RECOMMENDATIONS




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