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Zacks Small-Cap Research

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Biomerica Inc. (BMRA-NASDAQ)

BMRA: Optimistic About New COVID-19 Test

In response to the global health crisis, BMRA has developed a rapid easy-to-use test for exposure to COVID-19 that uses a finger prick to obtain a blood sample.

OUTLOOK

BMRA's COVID-19 test can be used at point-of-contact sites at high-traffic venues such as airports, schools and businesses and other locations that require a rapid, high-volume method of testing. We believe the test could be additive to BMRA's financial results in the near-term. Importantly, the COVID-19 test is not expected to delay BMRA's ability to continue advancing other products in its pipeline

Current Price (05/26/20)	$6.61
Valuation	**$9.50**

SUMMARY DATA

52-Week High	**$10.00**
52-Week Low	**$2.19**
One-Year Return (%)	**185%**
Beta	**-0.79**
Average Daily Volume (sh)	**1,844,043**
Shares Outstanding (mil)	**11**
Market Capitalization ($mil)	**$75**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**26**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**0.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Med Tech Diagn.**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2019	1.27 A	1.50 A	1.12 A	1.20 A	5.20 A
2020	1.20 A	1.60 A	1.18 A	1.35 E	5.32 A
2021					6.03 E
2022					6.54 E

Price/Sales Ratio (Industry = 2.5x)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2019	-$0.05 A	-$0.05 A	-$0.07 A	-$0.08 A	-$0.26 A
2020	-$0.05 A	-$0.05 A	-$0.09 A	-$0.07 E	-$0.26 A
2021					-$0.33 E
2022					-$0.30 E

Quarters might not sum due to rounding & share counts

Disclosures begin on page 7

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KEY POINTS

- In response to the current global health crisis, Biomerica has developed a high-volume version of its COVID-19 IgG/IgM Rapid Test for exposure to the COVID-19 virus. The test is easy to use and portable, which means that it can be used at point-of-contact locations at airports, schools, businesses and other high traffic venues. Medical personnel and other trained individuals can use the test by obtaining blood from the person being tested through a finger prick.

- BMRA has already begun shipping in the EU following receipt of the required CE mark. We expect the company to leverage its existing distribution network to supply end-users. The speed with which the company came to market in the EU reflects the expertise BMRA has developed through its core operations that enables it to leverage the technology, in our view.

- BMRA also seeks EUA-FDA approval for commercial sales in the U.S. pursuant to the FDA's EUA (Emergency Use Authorization) process that is designed to accelerate the commercial launch of a test during an emergency situation such as that of the COVID-19 pandemic.

- The high-volume production version of the COVID-19 test is intended for larger customers performing high-volume screenings. Given the unmet demand for COVID-19 testing, we believe the new test could be highly additive to BMRA's top-line and to the bottom line, depending on margins once the company has ramped production.

- Separately, 3Q Fiscal 2020 results were impacted by the economic slowdown caused by the pandemic, particularly in China. Revenue came in at $1.17 million versus $1.26 million in the comparable quarter of FY 2019, primarily reflecting lower sales to China.

- Following a private placement of $2 million of convertible preferred shares, BMRA had a cash balance of $2.4 million at February 2020, up from $686,785 at May 2019. Subsequent to the close of 3Q FY 2020, BMRA sold 716,335 shares for net proceeds of roughly $5.4 million, which implies pro forma cash of about $7.8 million through April 14, 2020.

RESPONDING TO EXIGENT NEEDS CREATED BY THE PANDEMIC

Last month Biomerica announced that it had signed two non-exclusive license agreements with New York's Mount Sinai Icahn School of Medicine to license technologies from Mount Sinai in order to scale up a laboratory version COVID-19 serological test. According to the *MIT Technology Review*, researchers at Mount Sinai's Icahn School of Medicine have developed technology for testing to detect antibodies against coronavirus in the blood of someone who has been exposed to the virus. The presence or absence of antibodies can determine whether the person has had exposure.

BMRA's test uses the ELISA microplate format that can run on the existing open system equipment installed in most domestic hospitals and clinical laboratories. Because the format is widely used, it is expected to make the BMRA ELISA format test easy to adopt. If the new ELISA COVID-19 test proves successful, BMRA believes that commercial sales could begin in the near-term, particularly given the significant unmet need for testing for the disease. Under the license agreements, once the test has been launched commercially, BMRA will pay royalties to Mount Sinai based on a percentage of gross sales.

Biomerica has sufficient capacity at its California production facility to produce more than one million tests monthly in the ELISA microplate format. BMRA has also expanded its provisional patent applications.

High-Volume Production Version of COVID-19 Test

In addition, the company launched a new high-volume production point-of-care version of the COVID-19 Rapid Test, using a proprietary card system that eliminates most plastic. It is a serology, finger prick blood test to detect antibodies indicating if the person being tested has had an immune response to the novel Corona Virus (SARS CoV-2). The test can determine if the person has had exposure to the virus even if he or she is asymptomatic. The high-volume production version of the test is intended for larger customers doing high-volume screenings. Because the company has eliminated much of the plastic in the high-volume version, it is also considered to be *greener* with regards to the environment.

BMRA received a Conformitè Europëenne (CE) Mark to market the high-volume test in the EU. The CE mark shows that the test complies with the EU requirements and safety standards. Biomerica received the CE mark on May 5, 2020.

The company also seeks FDA approval for commercial sales in the U.S. pursuant to the FDA's EUA (Emergency Use Authorization) process. In February 2020, FDA issued *Immediately in Effect Guidance* on diagnostics testing for the coronavirus. The EUA process enables the FDA to move rapidly in an emergency situation such as the coronavirus pandemic. Specifically, it allows the FDA to authorize unapproved medical products or new uses of approved medical products to diagnose, treat or prevent serious diseases in an emergency situation when no approved alternatives are available. This enables BMRA to file for expedited clearance with the FDA under the EUA process.

RECENT RESULTS

Decline in Fiscal 3Q 2020 Sales Reflects Economic Slowdown

The company recently reported 3Q F2020 results (FY ends October 31). Revenue came in at $1.17 million for the quarter compared to $1.26 million in the comparable quarter of FY 2019. The decline in revenue primarily reflected lower sales to China as a result of the pandemic caused by the coronavirus. Given how recent the development of the COVID-19 test is, there was no revenue from this new product during the quarter.

Cost of sales increased to 82.0% of sales, or $964,910, from 71.0%, or $895,237 in the prior year third quarter. The increase was driven by higher material costs and wages and benefits. On a lower revenue base and higher costs, the gross margin fell to 18% from 29%. However, the gross margin for the first nine months of fiscal 2020 was down only 1.1 percentage points compared to the same period of fiscal 2019, at 26.4% versus 27.5%.

Selling, general and administrative expenses advanced 13.5% year-over-year to $653,585 versus $576,070 recorded in 3Q19. The majority of the increase was higher non-cash option expense, combined with higher wages and consulting fees. R&D expenses fell 4.8% compared to 3Q19 on lower legal fees related to patent protection. Dividend and interest income advanced 89% year-over-year to $53,964. The company recorded a loss per share of ($0.09) compared to ($0.07) in 3Q FY 2019.

BALANCE SHEET AND LIQUIDITY

Cash Balance Up Substantially Since YE Fiscal 2019

BMRA had a cash balance of $2.4 million at February 2020, up from $686,785 at the end of fiscal 2019, following a private placement of $2 million of convertible preferred stock with Palm Global Small Cap Master Fund. The preferred shares are convertible into BMRA common shares at $3.50 per share, which

represents a premium to the $2.76 price of BMRA share at the time the transaction closed. Palm converted 250,000 shares in March.

Among other initiatives, the proceeds of the Palm Global transaction are earmarked for obtaining FDA clearance for H. Pylori and launching it in the U.S. and completing the IBS clinical trials in order to obtain FDA clearance for InFoods. A portfolio manager of Palm who has served on other public company boards has been appointed as a non-voting observer to the Biomerica board.

BMRA also extended its shelf registration in March with a prospectus enabling the company to rise up to $12.5 million depending on market conditions and capital needs. From the end of February through April 14, 2020, BMRA sold 716,335 shares for roughly $5.4 million, for estimated pro forma cash of $7.8 million.

RECENT NEWS

- BMRA began shipping COVID-19 tests earlier this month.
- BMRA received the CE mark authorizing commercial sales of the high-volume COVID-19 test in the EU on May 5, 2020.
- BMRA reported 3Q FY2020 results on April 15, 2020.
- On April 2, 2020, BMRA announced new licensing agreements with Mount Sinai in New York.

RISKS

We believe risks include those outlined below, among others.

- BMRA might not be able to obtain regulatory approval of its developing product portfolio as quickly as it expects or at all.
- In order to continue advancing its developing pipeline, BMRA might need additional funding that could be dilutive to existing shareholders.
- The company could incur unanticipated costs in commercializing its products.
- Competition could increase.

FINANCIAL MODEL

Biomerica Income Statement & Projections
($ thousands except per share data)

	2019 A	Q1A	Q2A	Q3A	Q4E	2020 E	2021 E	2022 E	2023 E
InFoods TOTAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$205.60	$1,489.50
YOY Growth									
Legacy TOTAL	$5,201	$1,194	$1,597	$1,177	$1,350	$5,318	$6,025	$6,339	$6,789
YOY Growth	-6.5%	-6.2%	6.4%	-6.7%	15.8%	9.3%	10.9%	5.2%	7.1%
Total Revenues	$5,200.7	$1,194.4	$1,596.4	$1,176.9	$1,350.2	$5,317.9	$6,025.3	$6,544.3	$8,278.2
YOY Growth	-6.5%	-6.2%	6.4%	-6.7%	15.8%	2.3%	10.9%	8.6%	26.5%
Cost of Goods Sold	$3,908.7	$827.1	$1,127.5	$964.9	$993.7	$3,913.2	$4,073.1	$4,240.7	$5,165.6
Gross Income	$1,292.0	$367.3	$468.9	$212.0	$356.4	$1,404.6	$1,952.2	$2,303.6	$3,112.6
Gross Margin	24.8%	30.8%	29.4%	18.0%	26.4%	26.4%	32.4%	35.2%	37.6%
SG&A	$2,025.7	$506.4	$553.8	$653.6	$576.5	$2,290.3	$2,537.4	$2,894.0	$3,300.9
% SG&A	39.0%	42.4%	34.7%	55.5%	42.7%	175.3%	42.1%	44.2%	39.9%
R&D	$1,679.1	$370.5	$404.9	$473.3	$462.2	$1,710.9	$3,001.6	$2,747.9	$2,027.4
% R&D	32.3%	31.0%	25.4%	40.2%	34.2%	32.2%	49.8%	42.0%	24.5%
Operating Income	(2,412.8)	(509.6)	(489.7)	(914.9)	(682.3)	(2,596.5)	(3,586.7)	(3,338.4)	(2,215.6)
Operating Margin	-46.4%	-42.7%	-30.7%	-77.7%	-50.5%	-48.8%	-59.5%	-51.0%	-26.8%
Total Other Income (Expense)	$44.0	$4.1	$4.5	$54.0	$4.3	$66.9	$25.0	$40.0	$71.0
Pretax Income	($2,368.7)	($505.5)	($485.3)	($860.9)	($678.0)	($2,529.6)	($3,561.7)	($3,298.4)	($2,144.6)
Tax expense (benefit)	$24.2	$0.8	$0.0	$0.0	$0.0	$0.8	$0.0	$0.0	$0.0
Tax Rate	-1%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	($2,393.0)	($506.3)	($485.3)	($860.9)	($678.0)	($2,530.4)	($3,561.7)	($3,298.4)	($2,144.6)
EPS	($0.26)	($0.05)	($0.05)	($0.09)	($0.07)	($0.26)	($0.33)	($0.30)	($0.19)
Diluted Shares O/S	9,213	9,744	9,817	9,890	9,912	9,841	10,650	10,900	11,250

Source: Company reports, Zacks estimates

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HISTORICAL STOCK PRICE



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