Zacks Small-Cap Research

*Sponsored – Impartial - Comprehensive*

December 9, 2020
John D. Vandermosten, CFA
312-265-9588 / jvandermosten@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Suite 1600, Chicago, IL 60606

# AnPac Bio-Medical Science Co., Ltd. (ANPC - NASDAQ)

## *Updated Guidance Prompts Target Increase*

Target price is based on a 20x multiple of 2027 EPS. The result is discounted to present at a 25% rate. Revenues represent contributions from physical checkup packages and cancer screening tests in China and the United States.

| | |
|---|---|
| Current Price (12/8/2020) | $4.84 |
| **Valuation** | **$8.00** |

## OUTLOOK

AnPac Bio is developing advanced cancer screening with its CDA technology that is able to detect the likelihood of 26 different cancers. The screening tool can serve as a valuable role in early detection and prevention of this common disease.

Revenues are solely generated in China from cancer screening and detection and physical checkup packages. Future growth will come from access to the Chinese hospital market and launch of testing services in the United States.

AnPac is focused on obtaining the license and authorization to provide services more broadly in China. The company is also working to launch testing services in the US having obtained a CLIA & CAP approved lab in California. Efforts to conduct clinical trials to validate the diagnostic platform and to seek FDA approval of its CDA testing platform is also underway.

Commercialization plans include obtaining certification to provide CDA testing services in hospitals in China and completing screening studies performed in the US. ANPC will initially sell the diagnostic as an LDT and later seek FDA approval for its tests, allowing for broader use.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **12.00** |
| **52-Week Low** | **3.15** |
| **One-Year Return (%)** | **N/A** |
| **Beta** | **N/A** |
| **Average Daily Volume (sh)** | **1,041,414** |
| **Shares Outstanding (mil)** | **11.2** |
| **Market Capitalization ($mil)** | **54.2** |
| **Short Interest Ratio (days)** | **0.03** |
| **Institutional Ownership (%)** | **0.03** |
| **Insider Ownership (%)** | **37.8** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **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** | **Above Average** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Med-Biomed/Gene** |

## ZACKS ESTIMATES

### Revenue

(In millions of US$)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2019 | $0.0 A | $0.0 A | $0.0 A | $1.6 A | $1.6 A |
| 2020 | $0.0 A | $0.6 A | $1.2 E | $1.3 E | $3.1 E |
| 2021 | | | | | $6.5 E |
| 2022 | | | | | $11.5 E |

### Earnings per Share

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2019 | $0.00 A | $0.00 A | $0.00 A | -$1.62 A | -$1.62 A |
| 2020 | $0.00 A | -$0.72 A | -$0.16 E | -$0.11 E | -$0.99 E |
| 2021 | | | | | -$0.44 E |
| 2022 | | | | | -$0.23 E |

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

## WHAT'S NEW

**Revenue Guidance Update**

AnPac Bio-Medical Science Co., Ltd. (NASDAQ: ANPC) provided investors updated guidance in a November 25th press release estimating 2020 full year revenues of $3.0 to $3.3 million. This compares to our original estimate of $2.0 million. We had been concerned that pandemic related disruptions would temper growth in the second half of 2020; however, improvement in sales during the third quarter and beginning of the fourth quarter has prompted management to provide favorable guidance. At the midpoint, revenue guidance exceeds 100% year over year growth. Higher revenues are coming from both an increased number of tests and higher average selling price.

In addition to a strong second half in 2020, AnPac has announced other achievements. This includes completion of over 200,000 cancer detection tests, sanction of COVID tests in the US and China, and the addition of a new independent director. AnPac also announced a change in auditor as Ernst & Young Hua Ming resigned followed by the hiring of Friedman LLP.

We increase our revenue estimates to reflect the updated guidance. We now forecast full year 2020 revenues of $3.1 million and net loss of ($0.99) per share, about 4 cents better than our previous numbers. The increase has the knock-on effect of increasing future revenue estimates as well and we increase 2021 revenues to $6.5 million from $3.6 million and 2022 revenue estimates to $11.5 million from $7.0 million. We think these growth rates can be achieved from the relatively small revenue base driven by AnPac's determined marketing effort and anticipated approval of the Class III medical device registration certificate in late 2021. The certificate will allow the company to place CDA diagnostic equipment in hospitals which is where most Chinese receive their annual physical checkups.

Further guidance from the company calls for an increase in average selling price for tests and availability of new products, such as the immunology test in China and COVID tests in the United States. These same factors are also expected to drive higher revenues in 2021.

**COVID Testing**

AnPac's competence in blood-based testing lends itself to providing diagnostics to detect SARS-CoV-2. In early November the company announced that its investee company, Jiangsu AnPac, received certification from the Chinese regulatory authority to provide COVID nucleic acid tests.

Shortly thereafter, the company made public its completion of COVID antibody test verification by the FDA for its San Jose, California lab. The antibody test is AnPac's first test verified in the United States. The Philadelphia, Pennsylvania lab will also offer COVID tests and has test equipment already installed. We anticipate revenues from COVID testing sometime next year.

**Valuation**

We increase our target price to $8.00 per share based on the increase in guidance for 2020 revenues. We see several years of high double digit and even triple digit growth for AnPac as the cost effectiveness of the CDA technology is more widely recognized in China. AnPac may also receive clearance for a Class III medical device registration certificate from the Chinese National Medical Products Administration (NMPA) in late 2021, which would provide an additional catalyst for growth.

Key reasons to own AnPac Bio shares:

- **Swiftly growing demand for cancer screening**
- **Rapid, inexpensive screening process for the most common cancers using a single blood sample**
- **High incidence and prevalence of cancer in primary markets of China and US**
- **Effective screening approach using biophysical properties**
    - **Substantial literature supportive of the approach**
    - **Prospective studies presented at ASCO demonstrate high accuracy**
- **Physical labs in place in China and the US**
- **Extensive history of research associating biophysical properties of blood with cancer**
- **Opportunity to expand suite of products to provide additional services**
    - **Therapy selection**
    - **Treatment monitoring**
    - **Genomic testing**
- **Development platform that can be applied to many genetic tests and cellular therapy applications**

**Summary**

AnPac is approaching diagnostic cancer screening from a new direction that identifies the biophysical properties of blood to identify cancer risk. Not only is this approach uncorrelated with other testing approaches that use DNA sequencing but it is also much less costly with simpler detection mechanisms. The company is in an attractive market as there are an estimated 18 million cases of cancer a year, and as the likelihood of the disease increases with age, there is also a demographic tailwind to anticipated demand as the older population is expected to increase at a faster rate than the population overall. Research has shown that catching cancer early can have a dramatic impact on survival and on the total cost of treatment, which can make a strong economic case to employers and health plans who want to keep their people on the job and reduce spending on preventable disease. Current screening approaches are poor and present accuracy levels that create an undue burden on the health care system and on the patients who use them, either through unnecessary worry and procedures for a false positive, or failure to catch the disease for a false negative.

The coronavirus negatively impacted AnPac's revenue growth rate the early part of 2020 as cancer screenings were postponed due to the more immediate health threat of the pandemic. Despite the difficult environment, the company was able to generate a slight increase in first half 2020 revenues. Along with increased screening activity following the mid-year taming of the coronavirus in China, a multi-million dollar contract in June and an immunology testing contract in September, AnPac's sales experienced a resurgence, setting up a strong third quarter and full year 2020. We increase our revenue and earnings estimates for 2020 and beyond, which increases our price target to $8.00 per share.

## PROJECTED FINANCIALS

**AnPac Bio-Medical Science Co., Ltd. - Income Statement**

| AnPac Biomedical Science Co. | 2019 A | 1HA | Q3 E | Q4 E | 2020 E | 2021 E | 2022 E |
|---|---|---|---|---|---|---|---|
| **Total Revenues ($USD)** | **$1,558** | **$573** | **$1,200** | **$1,300** | **$3,073** | **$6,527** | **$11,489** |
| Revenue Growth | 2.6% | 3.3% | 106.7% | 207.3% | 97.2% | 112.4% | 76.0% |
| Cost of Goods Sold | $869 | $313 | $600 | $650 | $1,563 | $2,891 | $4,825 |
| Gross Margin | 44.2% | 45.4% | 50.0% | 50.0% | 49.1% | 55.7% | 58.0% |
| **Gross Profit** | **$689** | **$260** | **$600** | **$650** | **$1,510** | **$3,636** | **$6,663** |
| Selling & Marketing | $1,958 | $661 | $522 | $525 | $1,708 | $2,240 | $2,417 |
| Research & Development | $1,413 | $1,052 | $320 | $350 | $1,722 | $1,400 | $1,540 |
| General & Administrative | $10,167 | $7,175 | $1,500 | $1,300 | $9,975 | $6,460 | $6,718 |
| Other Income | ($54) | ($7) | $0 | $0 | ($7) | $0 | $0 |
| Operating Income | ($12,795) | ($8,621) | ($1,742) | ($1,525) | ($11,888) | ($6,464) | ($4,012) |
| *Operating Margin* | -821.2% | -1504.5% | -145.2% | -117.3% | -386.9% | -99.0% | -34.9% |
| Interest Income (Expense) | ($375) | ($73) | ($90) | ($90) | ($253) | ($360) | ($360) |
| Total Other Income | ($1,457) | $753 | $0 | $0 | $753 | $0 | $0 |
| Pre-Tax Income | ($14,546) | ($7,938) | ($1,821) | ($1,605) | ($11,364) | ($6,783) | ($4,347) |
| Income Tax | $31 | $5 | $5 | $5 | $15 | $20 | $13 |
| *Tax Rate* | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Net Income | ($14,515) | ($7,933) | ($1,816) | ($1,601) | ($11,349) | ($6,763) | ($4,334) |
| | | | | | | | |
| **Reported EPS** | **($1.62)** | **($0.72)** | **($0.16)** | **($0.11)** | **($0.99)** | **($0.44)** | **($0.23)** |
| *YOY Growth* | 122.2% | | | | -39.2% | -55.2% | -48.4% |
| Shares Outstanding | 8,938 | 10,952 | 11,500 | 14,000 | 11,500 | 15,300 | 19,000 |

*Source: Company Filing // Zacks Investment Research, Inc. Estimates*

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

## HISTORICAL STOCK PRICE

**AnPac Bio-Medical Science Co., Ltd. – Share Price Chart[1]**




[1] Source: Zacks Research System

## DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, John Vandermosten, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

© Copyright 2020, Zacks Investment Research. All Rights Reserved.