Zacks Small-Cap Research
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John D. Vandermosten, CFA
312-265-9588 / jvandermosten@zacks.com

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

MiMedx Group, Inc. (MDXG: NASDAQ)

MDXG: KOA Program Discontinued

We use a multiple of earnings and a multiple of EBITDA methodology to generate our target price for MiMedx. We apply a 20x multiple of earnings to 2026 EPS, a 15x multiple to 2026 EBITDA and discount a blend of the two approaches to generate our valuation.

Current Price (6/21/2023)	$6.27
Valuation	**$10.50**

OUTLOOK

MiMedx is a wound care and therapeutic biologics company, developing and distributing allografts. The company derives its products from human placental tissues processed using the Purion technology. MiMedx differentiates itself in the regenerative medicine market through the substantial library of supportive research for its products. The company's platform includes numerous solutions for wound & burn repair & expects to expand the portfolio yearly with new offerings. The products are derived from placental and umbilical cord tissue.

MiMedx recently announced a restructuring that will suspend the knee osteoarthritis (KOA) program and disband the regenerative medicine business. The change is expected to support stronger operating margins and improve use of capital.

We forecast continued growth in commercialized products and success in the development pipeline that will drive topline growth. International opportunities include Japan, the UK and Germany which have approved MiMedx products and are in process to determine reimbursement.

SUMMARY DATA

52-Week High	**$6.54**
52-Week Low	**$2.43**
One-Year Return (%)	**79.1**
Beta	**1.5**
Average Daily Volume (sh)	**690,412**
Shares Outstanding (mil)	**148**
Market Capitalization ($mil)	**928**
Short Interest Ratio (days)	**4.0**
Institutional Ownership (%)	**65.3**
Insider Ownership (%)	**4.8**
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 2023 Estimate	**N/A**
P/E using 2024 Estimate	**22.4**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of USD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	$58.9 A	$66.9 A	$67.7 A	$74.4 A	$267.8 A
2023	$71.7 A	$74.2 E	$75.8 E	$83.7 E	$305.3 E
2024					$342.0 E
2025					$400.1 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	-$0.09 A	-$0.10 A	-$0.06 A	$0.00 A	-$0.21 A
2023	-$0.03 A	$0.01 E	$0.04 E	$0.06 E	$0.07 E
2024					$0.28 E
2025					$0.53 E

*EPS is as calculated by our model ignoring Series B Convertible effect.

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WHAT'S NEW

MiMedx Announces Strategic Realignment

MiMedx Group, Inc. (NASDAQ: MDXG) announced a suspension of the Knee Osteoarthritis (KOA) Program and the disbanding of the regenerative medicine business unit in a June 20th release. A conference call was held following the report which provided additional detail and an opportunity for analysts and investors to ask questions.

Management consulted advisors, conducted a thorough review of the KOA program and considered multiple areas of risk, regulatory uncertainty and cost of the program as part of the decision. The management team felt that the decision to focus on the wound and surgical markets better supports the long-term prospects of the company.

The strategic realignment is expected to cost $5 million in wind down expenses and save $25 million per year in costs if it had taken place on January 1, 2023. The change is expected to improve operating margins and free cash flow. MiMedx has also raised its revenue guidance for the year from low double digits to mid-teens based on the strength of operations year to date. Management was not willing to discuss other strategic initiatives that may take advantage of the freed-up capital but did hint that international expansion is on the table and that the company has an active corporate development team which could stimulate M&A activity. Based on the forward outlook, EBITDA margins are guided to 20% for the latter half of 2023.

While there had been high hopes for the knee osteoarthritis program, the environment has changed substantially over the last few years. Cost of capital has increased, creating a higher hurdle for positive net present value (NPV) projects. The regulatory environment has become more difficult and uncertain. In our universe of companies, we have seen first hand delays in target action dates and inspections, extended discussion times with the FDA, and an agency distracted with a global pandemic which has affected the likelihood of approval compared with what it was three or four years ago. MiMedx further identified commercialization hurdles and the significant capital needs of the two trials needed for KOA as reasons for not further pursuing the micronized dehydrated human amnion/chorion membrane product.

Valuation

While not explicitly modeled separately, we estimated value from the knee osteoarthritis (KOA) program through higher long term revenue growth. The KOA program's value was reflected in the MiMedx model through investment cash flows recognized in research and development expenditures and increased revenue growth rates in 2025 and beyond. The valuation we assigned was also affected by a higher long term growth estimate. We adjust our revenue estimates and margins over the next few years with approximately 200 basis points of higher revenue growth in 2023 and substantially improved margins reflecting the reduction in an annualized $25 million in R&D spending. The result of these changes drives higher earnings over the period of our forecasts, supporting an increase in our target price.

The changes to our model generate a valuation of $10.50 per share. We assume a 20x multiple of 2026 earnings per share of $0.92 blended with a 15x 2026 EBITDA of $190 million spread over 153 million shares. This result is discounted to present using a 20% discount rate to generate our target.

Summary

MiMedx announced a restructuring and a suspension of its KOA program based on a number of factors that have changed over the last few years. Based on a review, the program was no longer the best use of the company's capital which has shifted to a focus on higher margins and more growth in the wound and surgical business. Concurrent with the announcement, MiMedx raised its revenue guidance for the year and called for 20% EBITDA margins in the second half absent the burden from the regenerative medicine business unit. We adjust our model to reflect the changes and reduce 12-month forward looking expenses by $25 million and increase rest of year revenues by about 200 basis points. MiMedx did not provide specific detail, but does anticipate future growth from continued international expansion and potentially M&A activity. While we reduce our topline growth rate in 2025 and beyond, the net result of our adjustments to the valuation model is an increase in our target price which reflects greater profitability over the next several years. We adjust our valuation to $10.50 per share.

PROJECTED FINANCIALS

MiMedx Group, Inc. - Income Statement[1]

MiMedx Group, Inc.	2022 A	Q1 A	Q2 E	Q3 E	Q4 E	2023 E	2024 E	2025 E
Total Revenues ($US '000)	**$267,841**	**$71,676**	**$74,171**	**$75,758**	**$83,735**	**$305,340**	**$341,981**	**$400,118**
YOY Growth	4%	22%	11%	12%	13%	14%	12%	17%
Cost of Goods Sold	$48,316	$12,419	$11,867	$12,121	$13,398	$49,805	$54,717	$64,019
Product Gross Margin	82.0%	82.7%	84.0%	84.0%	84.0%	84.0%	84.0%	84.0%
Selling, general & administrative	$208,789	$52,279	$52,658	$53,293	$58,557	$216,787	$219,497	$222,241
Investigation, restatement etc.	$12,177	$3,673	$1,500	$1,500	$0	$6,673	$0	$0
Research & development	$22,829	$6,496	$5,868	$1,500	$1,500	$15,364	$6,000	$6,000
Amortization of intangible assets	$701	$190	$172	$172	$172	$706	$688	$600
Impairment of intangible assets	$0	$0	$0	$0	$0	$0	$0	$0
Income from operations	($24,971)	($3,381)	$2,105	$7,172	$10,108	$16,004	$61,079	$107,858
Operating Margin	-9%	-5%	3%	9%	12%	5%	18%	27%
Interest income, net	($5,016)	($1,553)	($1,170)	($1,270)	($1,451)	($5,016)	($5,000)	($3,500)
Other income, net	($4)	$2	($0)	($0)	($2)	($4)	$0	$0
Pre-Tax Income	($29,991)	($4,932)	$935	$5,901	$8,655	$10,984	$56,079	$104,358
Provision for Income Tax	($206)	($51)	$0	$0	$0	($51)	($12,898)	($24,002)
Tax Rate	0.7%	0.0%	0.0%	0.0%	0.0%	-0.5%	23.0%	23.0%
Net Income	**($30,197)**	**($4,983)**	**$935**	**$5,901**	**$8,655**	**$10,933**	**$43,181**	**$80,355**
Net Margin	-11%	-7%	1%	8%	10%	4%	13%	20%
Reported EPS	**($0.21)**	**($0.03)**	**$0.01**	**$0.04**	**$0.06**	**$0.07**	**$0.28**	**$0.53**
YOY Growth	127%	# DIV/0!	# DIV/0!	# DIV/0!	# DIV/0!	-135%	283%	85%
Basic Shares Outstanding	112,909	114,399	115,250	150,000	150,000	132,412	152,000	152,500
Fully Diluted Shares	142,469	143,959	145,247	150,000	150,000	147,302	152,000	152,500

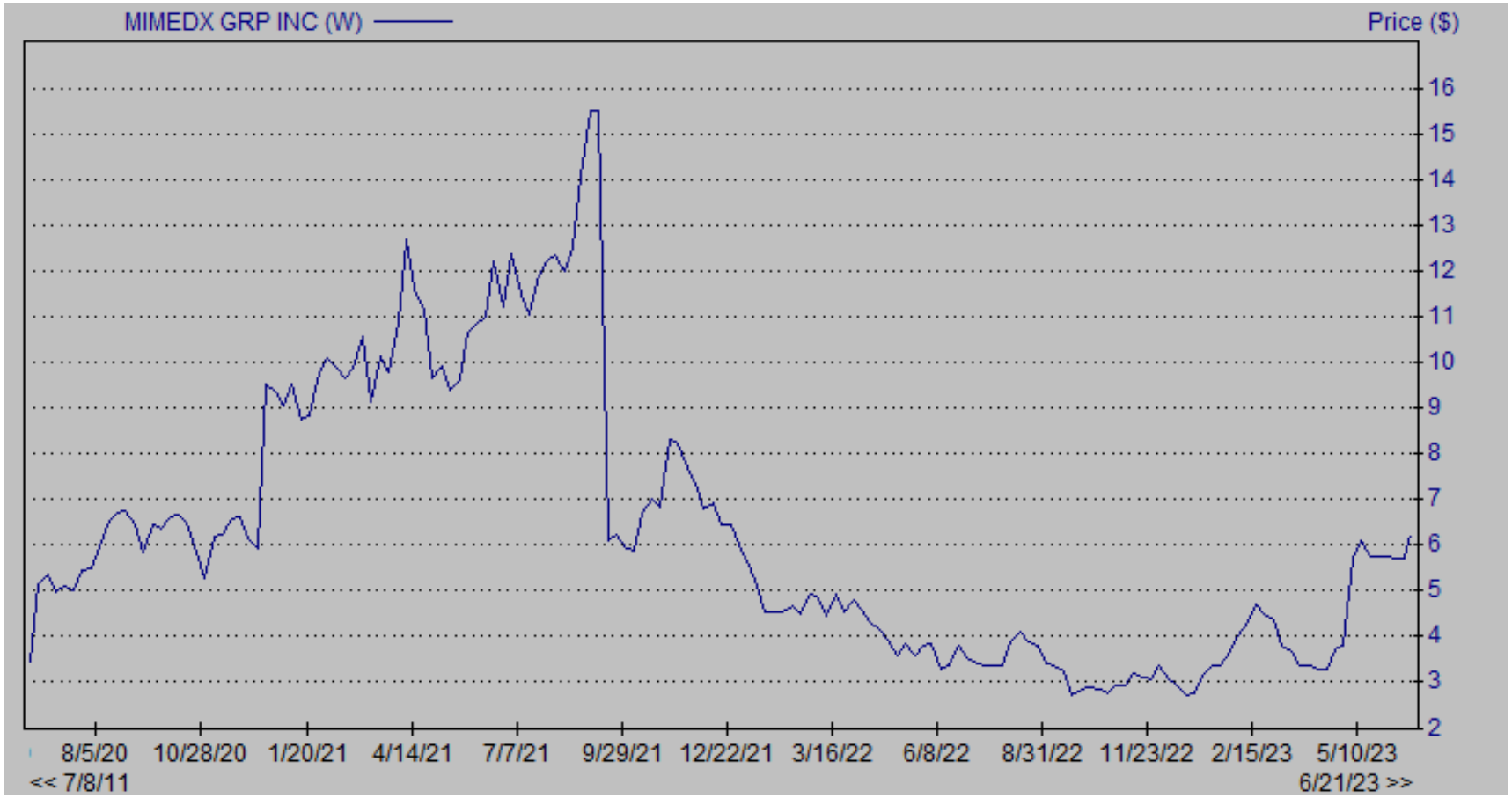
Source: Company Filing // Zacks Investment Research, Inc. Estimates

[1] Financial statement information presents data as originally reported.

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HISTORICAL STOCK PRICE

MiMedx Group, Inc. – Share Price Chart[2]



[2] Source: Zacks Research System

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