Zacks Small-Cap Research
Sponsored – Impartial – Comprehensive

August 2, 2023
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: Beat and a Raise

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 (8/1/2023)	$7.93
Valuation	**$11.25**

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	**$8.20**
52-Week Low	**$2.43**
One-Year Return (%)	**132.6**
Beta	**1.6**
Average Daily Volume (sh)	**909,456**
Shares Outstanding (mil)	**146**
Market Capitalization ($mil)	**1,158**
Short Interest Ratio (days)	**3.4**
Institutional Ownership (%)	**67.0**
Insider Ownership (%)	**4.9**
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	$81.3 A	$76.4 E	$84.4 E	$313.7 E
2024					$351.0 E
2025					$411.1 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 A	$0.05 E	$0.07 E	$0.09 E
2024					$0.32 E
2025					$0.59 E

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

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Second Quarter 2023 Results

MiMedx Group, Inc. (NASDAQ: MDXG) reported second quarter 2023 revenues of $81.3 million, representing a 21% year over year growth rate, surpassing our $74.2 million estimate. Net income was $1.2 million, negatively impacted by continued Investigation and Restatement costs and Restructuring costs. Absent these line items, net income was $5.5 million. SG&A was below our estimates while R&D was above. However, the latter is expected to decline substantially in the second half as the knee osteoarthritis program ends. Management increased revenue growth guidance for the year by a few percentage points to be in the mid to high teens percent range. As the company shifts away from their R&D heavy development programs, cash flow is expected to increase. Adjusted EBITDA margin is forecasted to be above 20% in the second half and cash is predicted to reach $90 million.

Exhibit I – 2023 Guidance[1]



Second quarter results were reported in a press release, filing of Form 10-Q and a conference call with management which provided an opportunity for analyst Q&A.

Other news since the first quarter update in early May includes the realignment away from Regenerative Medicine, the appointment of CFO Doug Rice and a favorable ruling in the 2019 securities class action case.

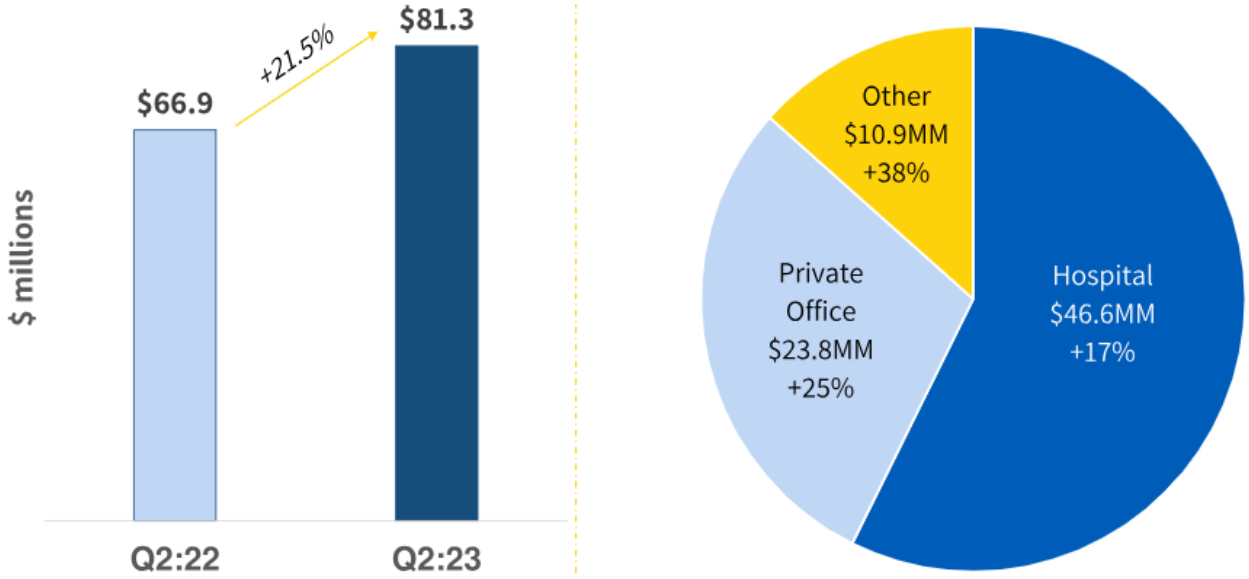
For the quarter ending June 30, 2023, compared to the one ending June 30, 2022:

- Reported revenues were $81.3 million, up 21% from $66.9 million. Revenue increased due to strong results in all care settings with Hospital increasing 17%, Private Office up 25% and Other expanding 38%, with the last category benefitting from EPIFIX sales in Japan. Compared to 2Q:22, MiMedx had one fewer shipping day, otherwise tempering the increase;
- Gross margin rose by 100 basis points to 83.3% from 82.3% which was driven by success with yield improvement projects and favorable changes in sales mix from sales in higher margin care settings;
- SG&A was $51.9 million, down 7% from $55.8 million reflecting decreases in professional service costs, personnel costs and bad debt expense. The decrease in professional service expenses reflects the absence of $2.1 million in consulting and advisory expenses incurred in 2022 related to proxy fight launched by a shareholder. Personnel cost declines were recognized, reflecting cost reduction efforts which began in 3Q:22. Decreases in bad debt expense were offset by increases in commissions due to higher sales volumes;
- R&D expenses were $8.5 million, increasing 54% from $5.5 million. The increase was related to the closure of the Regenerative Medicine segment which cost $2.1 million in severance. Additionally, prior to the shutdown, there was an increase in activity related to the knee osteoarthritis trial;
- Restructuring expense of $3.3 million included charges related to shuttering the Regenerative Medicine business unit, including write-downs of prepaid clinical trial assets of $2.1 million, charges for the wind-down of the clinical trial program and impairment of goodwill. No restructuring charges appeared in the prior year period;
- Investigation, restatement and related expenses were $1.0 million, down from $3.2 million;
- Interest expense was ($1.6) million versus ($1.2) million due to higher interest rates;
- Net income was $1.2 million versus a ($10.9) million loss, or $0.01 per share versus ($0.10) per share.[2]

[1] MiMedx 2Q:23 Earnings Call Corporate Presentation.

As of June 30, 2023, cash stood at $68.7 million, compared to $66.0 million at year end 2022 on free cash flow of $2.7 million for the first six months of the year. Debt was carried on the balance sheet at $48.8 million. Adjusted EBITDA for 2Q:23, as calculated by MiMedx, adds back costs incurred related to investigations, restatement and share based compensation. It was $14.1 million which compares to prior year EBITDA loss of ($959,000). EBITDA calculated by the company and Zacks was ~$3.6 million and ($8.6) million for the 2Q:23 and 2Q:22 periods respectively.

Exhibit II – 2Q:23 Revenue Growth and Breakdown by Site of Service[3]



Medicare and Medicaid CY:24 Payment Updates

In an unpublished calendar year 2024 payment policy proposed rule, the Center for Medicare and Medicaid Studies (CMS) outlined its objectives for skin substitute reimbursement.[4] The document was filed in mid-July and is scheduled for publication on August 7th. CMS decided to take a phased approach to examine the reimbursement rules to include skin substitutes as supplies under the physician fee schedule (PFS). Coding and payment for skin substitutes is expected to be addressed in future rulemaking. CMS will not take any action at this time and will continue with existing practices.

In a related area, CEO Capper noted on the call that strength in the private office setting has been in part driven by the Office of Inspector General (OIG) requirement that companies register their products on the CMS price list and adhere to the Average Sales Price (ASP) reimbursement methodology. This shift could continue to provide sales support in coming quarters for MiMedx.

See our first quarter 2023 report for more detail on the background of the CMS proposal under the section heading "CMS Proposal for Skin Substitutes."

Doug Rice Appointed as Chief Financial Officer

Earlier this year, on March 23rd, MiMedx announced that CFO Pete Carlson had decided to leave the company to pursue other opportunities. An executive search was launched to identify a new CFO which was successful in adding Doug Rice to the executive suite at the company. Mr. Rice took the baton from Mr. Carlson on July 5th as announced in a press release. Mr. Rice brings experience as CFO of Orthofix Medical, which was acquired earlier this year by SeaSpine. Prior to his nine years at Orthofix, he was Chief Financial Officer of Vision Source and Treasurer of McAfee. His academic background includes a business degree and MBA from Southern Methodist University.

[2] Note that shares outstanding is calculated using shares provided on income statement whereas shares outstanding on page 1 of this report include Series B convertible preferred stock as converted. Series B convertible preferred stock is mandatorily convertible into shares.
[3] MiMedx 2Q:23 Earnings Call Corporate Presentation.
[4] See page 312 in document for section on Payment for Skin Substitutes for details.

MiMedx Announces Strategic Realignment

MiMedx 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 to shut down and save $25 million in costs for this year as if it had taken place on January 1, 2023. The change is expected to improve operating margins and free cash flow. In conjunction with the report, MiMedx 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 an option and that the company has an active corporate development team which could recommend M&A activity.

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 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.

Early results from the strategic shift have already shown improvements in cash flow with $7.4 million generated in 2Q:23, despite reorganization costs. With many medical product companies at inexpensive valuations commercializing products, a new CFO with deep connections in the medical products space, additional capacity to acquire and a well-developed sales force, future growth may very well be driven through M&A activity.

Valuation

Better than expected revenues, an increase in guidance and well controlled expenses have increased our future period estimates of revenues, EBITDA and earnings. Maintaining our multiple of EBITDA and earnings valuation approach, the result of our updates to the model produces an increased target price. Based on 2026 EBITDA of $200 million and EPS of $0.96 per share, with the average of the two methodologies discounted to present, our target price moves up to $11.25 per share.

Summary

MiMedx surprised to the upside with its revenue and cash generation for the second quarter of 2023. Guidance was raised for revenues and costs appear to be under control. On the heels of the recently announced restructuring and a suspension of its KOA program, MiMedx produced impressive cash flow and guided towards higher revenues and margins for the remainder of 2023. $90 million in cash is expected to be on the books by year end — a $20 million increase. We adjust our model to reflect the changes, which produces higher EBITDA and EPS, and an increase in our target price. We adjust our valuation to $11.25 per share.

PROJECTED FINANCIALS

MiMedx Group, Inc. - Income Statement[5]

MiMedx Group, Inc.	2022 A	Q1 A	Q2 A	Q3 E	Q4 E	2023 E	2024 E	2025 E
Total Revenues ($US '000)	**$267,841**	**$71,676**	**$81,257**	**$76,365**	**$84,425**	**$313,723**	**$351,370**	**$411,103**
YOY Growth	4%	22%	21%	13%	14%	17%	12%	17%
Cost of Goods Sold	$48,316	$12,419	$13,583	$12,218	$13,508	$51,728	$56,219	$65,776
Product Gross Margin	82.0%	82.7%	83.3%	84.0%	84.0%	84.0%	84.0%	84.0%
Selling, general & administrative	$208,789	$52,279	$51,925	$52,293	$56,957	$213,454	$216,122	$218,824
Investigation, restatement etc.	$12,177	$3,673	$1,017	$1,500	$0	$6,190	$0	$0
Research & development	$22,829	$6,496	$8,497	$1,500	$1,500	$17,993	$6,000	$6,000
Amortization of intangible assets	$701	$190	$191	$172	$172	$725	$688	$600
Other	$0	$0	$3,256	$0	$0	$3,256	$3,386	$0
Income from operations	($24,971)	($3,381)	$2,788	$8,682	$12,288	$20,377	$68,954	$120,503
Operating Margin	-9%	-5%	3%	11%	15%	6%	20%	29%
Interest income, net	($5,016)	($1,553)	($1,630)	($1,620)	($1,651)	($6,454)	($5,000)	($3,500)
Other income, net	($4)	$2	($32)	($0)	($2)	($33)	$0	$0
Pre-Tax Income	($29,991)	($4,932)	$1,126	$7,061	$10,635	$13,890	$63,954	$117,003
Provision for Income Tax	($206)	($51)	$74	$0	$0	$23	($14,709)	($26,911)
Tax Rate	0.7%	0.0%	0.0%	0.0%	0.0%	0.2%	23.0%	23.0%
Net Income	**($30,197)**	**($4,983)**	**$1,200**	**$7,061**	**$10,635**	**$13,913**	**$49,245**	**$90,092**
Net Margin	-11%	-7%	1%	9%	13%	4%	14%	22%
Reported EPS	**($0.21)**	**($0.03)**	**$0.01**	**$0.05**	**$0.07**	**$0.09**	**$0.32**	**$0.59**
YOY Growth	127%						243%	82%
Basic Shares Outstanding	112,909	114,399	115,866	150,000	150,000	132,566	152,000	152,500
Fully Diluted Shares	142,469	143,959	145,864	150,000	150,000	147,456	152,000	152,500

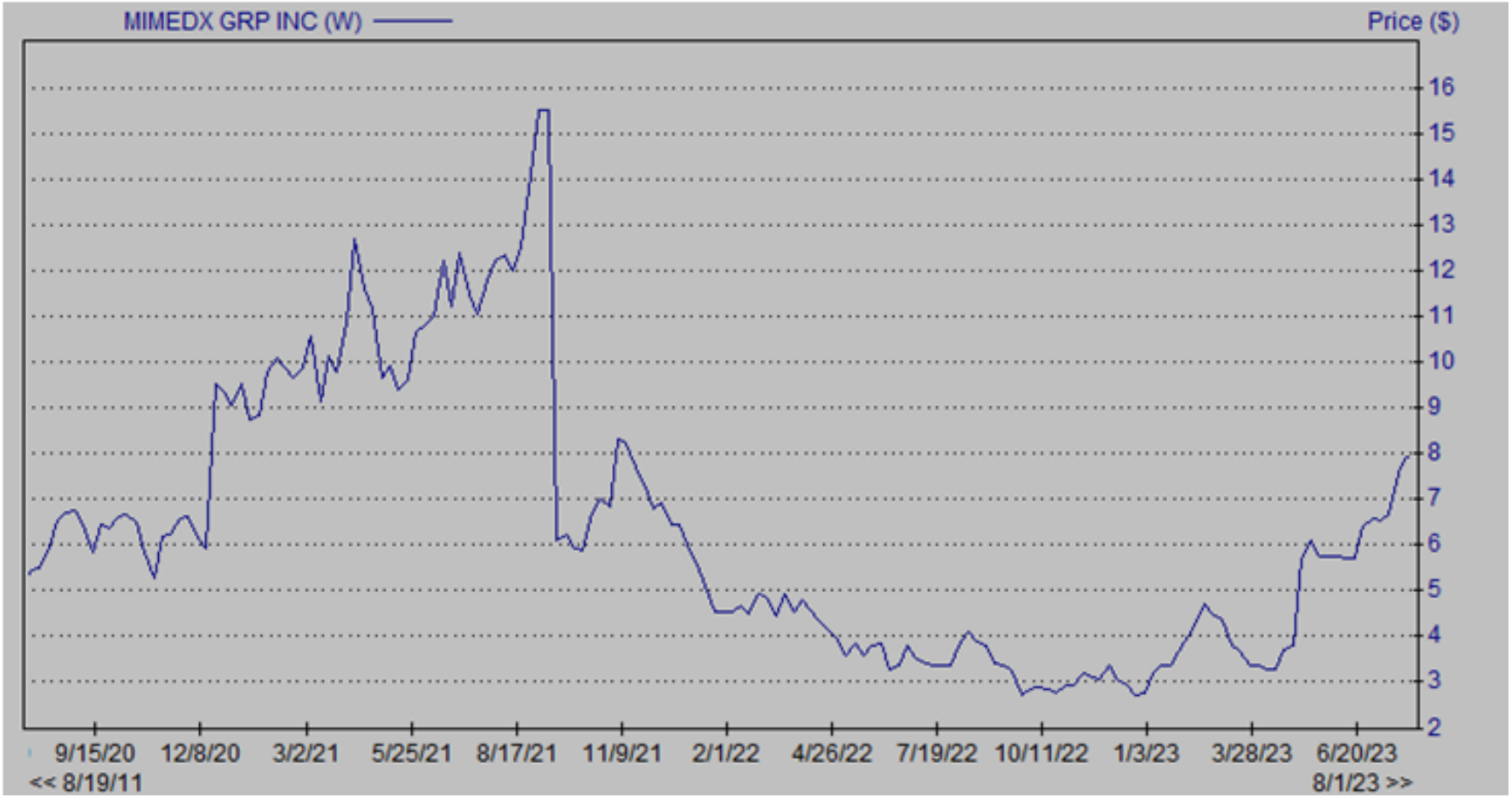
Source: Company Filing // Zacks Investment Research, Inc. Estimates

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

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE

MiMedx Group, Inc. – Share Price Chart[6]



[6] 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, from an investment manager 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. This research report was prepared under the aforementioned engagement.

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 2023, Zacks Investment Research. All Rights Reserved.