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Zacks Small-Cap Research

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BioStem Technologies (OTCQB:BSEM)

BSEM: Earning release reveals increasing revenues.

BSEM is changing the skin graft market by using the natural properties of perinatal tissue. Growth is accelerating as management makes smart and aggressive moves.

OUTLOOK

BioStem Technologies is a leading innovator focused on harnessing the natural properties of perinatal tissue in the development, manufacture, and commercialization of allografts for regenerative therapies.

The company released its 2Q2023 earnings and showed increased revenues and a continued move to bring operations in house—both of which we believe are positive signs for BSEM.

Current Price (08/31/23)	$1.80
Valuation	**$6.40**

SUMMARY DATA

52-Week High	**$4.00**
52-Week Low	**$1.21**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**2,527**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$24**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
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	**N/A**
Zacks Rank	**N/A**

Risk Level	**Medium**
Type of Stock	**Growth**
Industry	**Health Care**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	2.7 A	2.2 A	1.1 A	0.9 A	6.9 A
2023	0.6 A	1.1 A	1.4 E	1.8 E	4.9 E
2024	2.0 E	2.2 E	2.3 E	2.4 E	8.7 E
2025	2.3 E	2.3 E	2.4 E	2.5 E	9.5 E

Earnings

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	-0.09 A	0.02 A	-0.14 A	-0.41 A	-0.62 A
2023	-0.14 A	-0.20 A	-0.18 E	-0.17 E	-0.69 E
2024	-0.15 E	-0.12 E	-0.12 E	-0.10 E	-0.49 E
2025	-0.14 E	-0.13 E	-0.11 E	-0.10 E	-0.48 E

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Updates

BioStem Technologies, Inc. (OTCQB: BSEM) is a leading innovator focused on harnessing the natural properties of perinatal tissue in the development, manufacture, and commercialization of allografts for regenerative therapies. The company states its mission is “to discover, develop and produce the most effective regenerative medicine products in the world,” and we believe that the company is well on its way to achieving that goal—providing to investors what we believe is an opportunity to invest in a company that is both providing a vital service to the human population and providing economic value to shareholders when doing so.

Vendaje is BioStem’s primary product and comes in several different forms and sizes and is a human connective tissue matrix comprised of amniotic tissue. This amniotic tissue is processed using the company’s proprietary BioRetain process, which creates a dehydrated human amniotic membrane allograft. Placentally-derived human amniotic membrane (AM) is a source of pro-healing growth factors and anti-inflammatory cytokines and has successfully been used in regenerative medicine for over a century. Vendaje is the result of the modernization of this science. According to the company, early users of AM for wounds and post-surgical applications noted how the membrane seemed to disappear and integrate with the patient’s own tissue without a host reaction. This apparent immune neutrality is a result of mechanisms that suppress and modulate the immune system.

We have written before how the market for products BioStem has developed and is continuing to develop is extensive and this cutting-edge technology can prove to be a game-changer to many patients suffering from painful and slow recoveries. We continue to believe that this is the case and believe investors aren’t yet recognizing the potential for BSEM to impact patients and expand the company’s business in an exponential way as more doctors become familiar with the BSEM technology.

We are also surprised that investors aren’t recognizing the business efficiencies that the company has been engaged in expanding over the past year that we believe will start to show up in the next earnings announcement. In conversations with management, we became excited about the strategy outlined to increase sales and improve operations. The company is transitioning from indirect to direct sales, which we believe will provide for a more focused, motivated and consistent message, while the company is also investing in promoting its message by updating its branding and relaunching its website. Company management has also made the decision to invest in its sales and ordering platform and noted that they were “very optimistic about the business-to-business platform,” believing it to be a “game changer.” Operational processes that were outsourced are now being brought in house and documentation is moving to electronic.

Our beliefs that these moves will benefit BioStem and their shareholders were solidified with the recent release of the company’s 2Q earnings report:

- Revenues increased from just under $600,000 in 1Q2023 to over $1.05 million in 2Q2023, a substantial increase and a sign of what we believe is further impressive growth to come.

- Earnings came in at -$0.20 per share, a greater loss than the -$0.14 per share seen in 1Q2023. However, we attribute that increase in loss to the ramping up of the operational processes we discuss above, which we view as a long-term positive move.

- Cash on hand increased from less than $150,000 at the end of 1Q2023 to almost $325,000 at the end of 2Q2023, putting the company in a more solid financial position in our view.

- As a consequence of these results, we are bumping up our price target from $6.35 per share to $6.40 per share due largely to the increase in revenue growth.

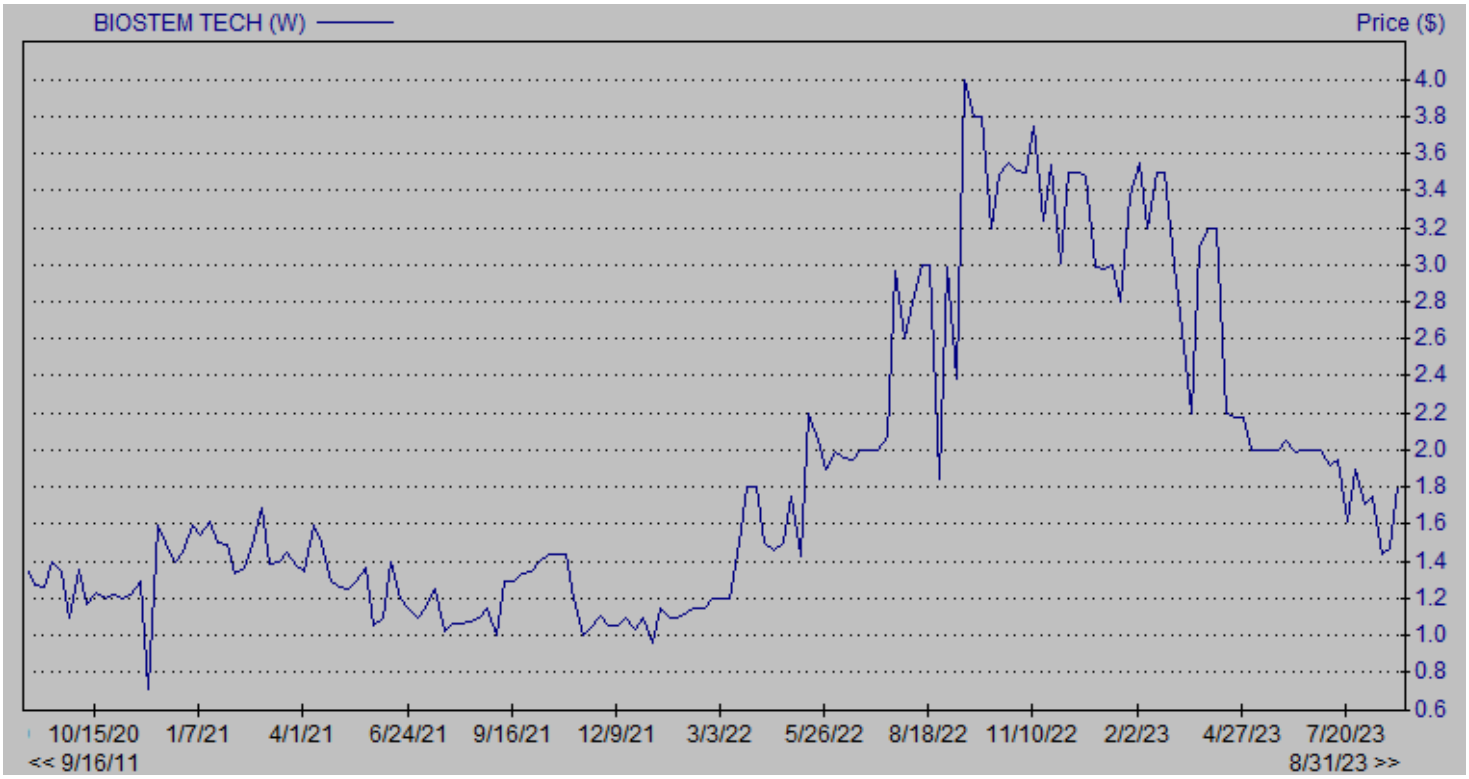
Summary

We reiterate our belief the BSEM is underpriced and represents a good opportunity at recent prices for investors to get in before what we believe will be a move higher in the not-too-distant future. The vision management has for the company's product and the focus they are using to deliver results are encouraging. With technology such as Vendaje we believe the specially trained sales people recently installed are much more effective in explaining the benefits available from using the company's product—and will enable sales to grow at a rapid rate going forward. As such, we suggest investors with a modestly higher risk tolerance take a look at BSEM.

INCOME STATEMENT AND BALANCE SHEET

Biostem Technologies, Inc. Income Statement and Balance Sheet							
	2022A	1Q2023A	2Q2023A	3Q2023E	4Q2023E	2024E	2025E
Revenue	6,875,202	576,103	1,068,400	1,388,920	1,805,596	8,666,861	9,533,547
Cost of good sold	881,754	101,149	204,344	250,006	325,007	1,560,035	1,716,038
Gross profit	5,993,448	474,954	864,056	1,138,914	1,480,589	7,106,826	7,817,508
Operating Expenses:							
Compensation expense	8,530,960	1,513,853	2,370,905	2,418,323	2,466,690	8,880,082	9,324,087
General and administration/Prof. fees	1,900,618	489,142	907,870	998,657	1,098,523	4,394,091	4,833,500
Depreciation and amort.	243,418	58,345	60,018	57,017	54,166	216,665	205,832
Total Operating Expenses	10,674,996	2,061,340	3,338,793	3,473,997	3,619,379	13,490,838	14,363,418
Income/(Loss) from operations	(4,681,548)	(1,586,386)	(2,474,737)	(2,335,083)	(2,138,790)	(6,384,012)	(6,545,910)
Other Income/(Expenses):							
Interest income/(expense)	(468,153)	(120,434)	(130,319)	(123,803)	(117,613)	(114,412)	(108,692)
Other	(1,964,008)	3,499	1,402	1,444	1,487	1,517	1,547
Total other inc./(exp.)	(2,432,161)	(116,935)	(128,917)	(122,359)	(116,126)	(112,895)	(107,144)
Net Inc./(Loss) from Operations Before Tax	(7,113,709)	(1,703,321)	(2,603,654)	(2,457,442)	(2,254,915)	(6,496,908)	(6,653,054)
Net loss attributable to noncon. Interest	(38,847)	-	-	-	-	-	-
Net Income/(Loss)	(7,113,709)	(1,703,321)	(2,603,654)	(2,457,442)	(2,254,915)	(6,496,908)	(6,653,054)
Net Income/(Loss) per share	$ (0.62)	$ (0.14)	$ (0.20)	$ (0.18)	$ (0.17)	$ (0.49)	$ (0.48)
Diluted Common Shares Outstanding	11,405,227	12,564,950	13,259,109	13,391,700	13,525,617	13,193,198	13,852,857
Current Assets							
Cash	772,136	148,657	323,714	307,528	292,152	141,224	134,163
Accounts receivable	37,207	90,796	165,338	170,298	175,407	93,520	96,325
Inventory	395,229	425,995	498,280	473,366	449,698	404,695	384,460
Other	281,931	348,080	286,885	284,016	281,176	344,599	341,153
Total Current Assets	1,486,503	1,013,528	1,274,217	1,235,209	1,198,433	984,038	956,102
Property, Plant and Equip.	1,352,894	1,384,183	1,361,915	1,334,677	1,307,983	1,356,499	1,329,369
Right-of-use asset	19,832	17,444	15,444	15,598	15,754	17,618	17,795
Intangible and goodwill	607,204	685,090	653,960	634,341	615,311	664,537	644,601
Total other assets	1,979,930	2,086,717	2,031,319	1,984,616	1,939,049	2,038,655	1,991,765
Total Assets	3,466,433	3,100,245	3,305,536	3,219,825	3,137,481	3,022,694	2,947,867
Current Liabilities							
Accounts payable	570,116	784,982	735,349	750,056	765,057	800,682	816,695
Interest payable	1,478,421	1,551,846	1,625,385	1,592,877	1,561,020	1,520,809	1,490,393
Notes payable--current	3,018,679	3,199,038	3,611,091	3,430,536	3,259,010	3,039,086	2,887,132
Convertible notes--current	723,350	473,350	473,350	449,683	427,198	449,683	427,198
Other current liabilities	537,541	583,676	660,525	673,736	687,210	595,350	607,257
Total current liabilities	6,328,107	6,592,892	7,105,700	6,896,888	6,699,495	6,405,609	6,228,675
Notes payable--long-term	1,026,462	1,026,462	1,410,927	1,340,381	1,273,362	975,139	926,382
Other long-term liabilities	61,817	46,026	36,621	36,987	37,357	46,486	46,951
Total long-term liabilities	1,088,279	1,072,488	1,447,548	1,377,368	1,310,719	1,021,625	973,333
Total Liabilities	7,416,386	7,665,380	8,553,248	8,274,256	8,010,214	7,427,234	7,202,008
Stockholders' equity/(deficit)							
Capital stock/treasury stock, net	(31,185)	(30,245)	(29,878)	(30,177)	(30,479)	(30,783)	(31,091)
Additional paid in capital	32,997,834	34,191,478	38,041,367	38,421,781	38,805,998	34,533,393	34,878,727
Noncontrolling interest	126,444	0	0	0	0	0	0
Accumulated deficit	(37,023,046)	(38,726,368)	(43,259,201)	(43,446,034)	(43,648,253)	(38,907,150)	(39,101,777)
Total Stockholders' Equity/(Deficit)	(3,929,953)	(4,565,135)	(5,247,712)	(5,054,430)	(4,872,733)	(4,404,540)	(4,254,141)
Total Liabilities and Stockholders' Equity	3,486,433	3,100,245	3,305,536	3,219,825	3,137,481	3,022,694	2,947,867

HISTORICAL STOCK PRICE



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