Zacks Small-Cap Research
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MiMedx Group, Inc. (MDXG: NASDAQ)

MDXG: Xenografts and Synthetics Options for Expansion

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 (10/30/2023)	$6.32
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 eliminated major development programs and closed the regenerative medicine R&D segment. The change is expected to support stronger operating margins and improve use of capital. We expect MiMedx to turn to acquisitions as a source of new revenues and markets.

We forecast continued growth in commercialized products and success in the development pipeline that will drive topline increases. 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	**$8.60**
52-Week Low	**$2.43**
One-Year Return (%)	**114**
Beta	**1.6**
Average Daily Volume (sh)	**633,456**
Shares Outstanding (mil)	**146**
Market Capitalization ($mil)	**923**
Short Interest Ratio (days)	**7.2**
Institutional Ownership (%)	**67.0**
Insider Ownership (%)	**4.9**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-2.3**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2023 Estimate	**57.5**
P/E using 2024 Estimate	**18.1**
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	$81.7 A	$85.2 E	$319.8 E
2024					$358.2 E
2025					$419.1 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	$0.07 A	$0.08 E	$0.11 E
2024					$0.35 E
2025					$0.62 E

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

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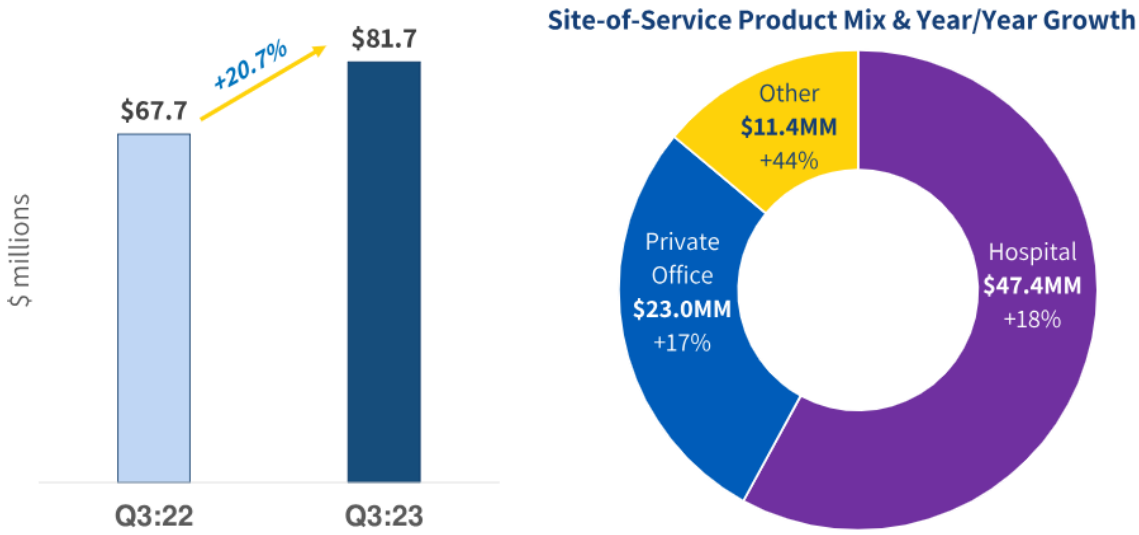
WHAT'S NEW

Third Quarter 2023 Summary

MiMedx Group, Inc. (NASDAQ: MDXG) reported third quarter 2023 revenues of $81.7 million, representing a 21% year over year growth rate, surpassing our $76.4 million estimate. Net income was $8.5 million, benefitting from lower expenses on every line. Management firmed up revenue growth guidance for the year to the high teens percent range, which is below the average rate for the first nine months. This conservative stance recognizes the difficult comparison that the company faces in 4Q:23 lapping two new product launches contributing to revenues in 4Q:22. As the company shifts away from its R&D heavy development programs, cash flow is expected to increase. Adjusted EBITDA reached 22% in 3Q:23 and this margin continues to be forecasted above 20% in the fourth quarter. Based on the better-than-expected revenue trends to date, we increase our fourth quarter estimate slightly to reflect the year to date momentum and contribution from the new product launch.

Exhibit I – Third Quarter 2023 Net Sales[1]



During the earnings call, MiMedx' leadership outlined future growth opportunities in a number of areas. Expansion of the company's skin substitute portfolio beyond amniotic tissue into xenografts or synthetics in one area of interest. The company continues to hint at the potential for an acquisition that might satisfy this objective. CEO Capper indicated that his preference for cash use is to orient its use towards accretive opportunities that complement the company's existing portfolio.

Since our previous update summarizing second quarter results, MiMedx has launched Epieffect which is intended for advanced wound care (AWC) applications. It has also contributed its Epifix product to MediWounds' clinical trial for wound debridement, which could provide further validation from the FDA. The company has also participated in several investor conferences to review performance and the investor presentation.

Financial Results

Third 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 after market close on October 30, 2023.

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

- Reported revenues were $81.7 million, up 21% from $67.7 million overcoming one fewer shipping day compared to the prior period. Revenue increased due to strong results in all care settings with Hospital increasing 18%, Private Office up 17% and Other expanding 44%. Sales increases were attributable to the addition of new customers and increases in sales volume;

[1] MiMedx 3Q:23 Earnings Call Corporate Presentation.

- Gross margin fell by 10 basis points to 81.9% from 82.0% which was negatively impacted by contract sales to a third party which are not expected to recur;
- SG&A was $52.3 million, down 1.7% from $53.5 million reflecting decreases in professional service costs and personnel costs. Lower professional services expense resulted from a decline in fees paid to third party advisers while a decrease in personnel costs reflects the results of continued cost reduction efforts. Personnel cost declines were recognized, reflecting cost reduction efforts which began in 3Q:22. Aforementioned decreases were offset by increases in commissions due to higher sales volumes;
- R&D expenses were $3.2 million, decreasing 47% from $6.0 million. The decline was attributed to the closure of the Regenerative Medicine segment;
- Restructuring expense of $0.2 million reflects additional wind down expenses related to the dissolution of the Regenerative Medicine business unit related to clinical trial regulatory obligations;
- Investigation, restatement and related expenses reflected a minor reversal of ($38,000) vs $3.0 million. Following the end of a legal proceeding, expenses under MiMedx' last indemnification agreement with its former chief financial officer ended;
- Interest expense was ($1.7) million versus ($1.3) million due to higher interest rates;
- Net income was $8.5 million versus a loss of ($8.4) million, or $0.07 per share versus ($0.06) per share.[2]

As of September 30, 2023, cash stood at $81.2 million, compared to $66.0 million at year end 2022 on free cash flow of $14.8 million for the first nine months of the year. Debt was carried on the balance sheet at $49.0 million. Adjusted EBITDA for 3Q:23, as calculated by MiMedx, adds back costs incurred related to investigations, restatement, restructuring and share based compensation. It was $17.6 million which compares to prior year adjusted EBITDA loss of ($724,000). EBITDA calculated by the company and Zacks was $11.6 million and ($6.1) million for the 3Q:23 and 3Q:22 periods respectively. Following the end of the quarter MiMedx repurchased 5,000 shares of the Series B Preferred Stock for $9.5 million, avoiding the payment of the upcoming dividend related to these shares. Approximately 30,000 underlying equity shares remain outstanding as part of the Series B. These instruments convert automatically at any time after July 2, 2023, provided that the equity share price is $7.70 or higher for 20 of 30 consecutive trading days and on the conversion date.

EPIEFFECT

A September 26th press release announced the launch of EPIEFFECT a lyophilized human placental-based allograft consisting of amnion and chorion membranes, that retains the intermediate layer known as the extraembryonic mesoderm. Epieffect is intended for use as a barrier, to provide a protective environment in acute and chronic wounds; the tissue provides a biocompatible human extracellular matrix (ECM) and contains more than 300 regulatory proteins. Epieffect is available in a variety of size options ranging from 6 cm^2 to 49 cm^2. The product is listed on the Medicare Part B Average Sales Price File.

Epieffect is intended for use with acute and chronic hard to heal wounds including diabetic foot ulcers and venous leg ulcers. The product has a thick, tri-layer configuration that allows for secure suturing. It is also appropriate for deep or tunneling wounds. We expect first revenues from this product will be recognized in 4Q:23.

Exhibit II – EPIEFFECT and the Wound Product Portfolio[3]



[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] Source: MiMedx September 2023 Corporate Presentation.

MediWound

In an August 15th press release, MediWound Ltd. (MDWD) announced that will use MiMedx' Epifix as part of its Phase III clinical study to obtain approval for the EscharEx agent, which is used to debride wounds. EscharEx is a concentrate of proteolytic enzymes enriched in bromelain and is a topical biologic drug applied daily that enzymatically removes nonviable wound tissue, or eschar, in patients with chronic wounds without harming viable tissue. MiMedx' product was selected to be used in the wound healing phase of the study in venous leg ulcers (VLU). Epifix was selected due to its consistency and the availability of extensive performance data.

Conference Participation

In September, MiMedx participated in several investment conferences. One on one meetings with attending investors were offered. Below we summarize the three events with links to the presentation if available.

- HC Wainwright 25th Annual Global Investment Conference
  - September 12, 2023
- Northland Capital Markets Institutional Investor Conference
  - September 19, 2023
- Cantor Fitzgerald Global Healthcare Conference
  - September 27, 2023

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 elected to not take action and will continue with existing practices.

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

During the first quarter, 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 during the third quarter 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.

Summary

MiMedx again surprised to the upside with its revenue and cash generation in the third quarter. Revenue guidance was narrowed to the top end of the previous range and EBITDA margins are poised to exceed 20% in the last quarter of the year. A new product and strong sales momentum over the first nine months suggest 4Q:23 implied guidance may be conservative despite the difficult comparison. We increase our revenue estimates which provides flow through for a raise in earning estimates. MiMedx removes some of the Series B converts with a small repurchase and hints at future acquisitions in xenografts and synthetics, which could potentially double the addressable market for the company. We maintain our valuation of $11.25 per share.

[4] See page 312 in document for section on Payment for Skin Substitutes for details.

PROJECTED FINANCIALS

MiMedx Group, Inc. - Income Statement[5]

MiMedx Group, Inc.	2022 A	Q1 A	Q2 A	Q3 A	Q4 E	2023 E	2024 E	2025 E
Total Revenues ($US '000)	**$267,841**	**$71,676**	**$81,257**	**$81,712**	**$85,159**	**$319,804**	**$358,181**	**$419,072**
YOY Growth	4%	22%	21%	21%	15%	19%	12%	17%
Cost of Goods Sold	$48,316	$12,419	$13,583	$14,790	$13,626	$54,418	$57,309	$67,051
Product Gross Margin	82.0%	82.7%	83.3%	81.9%	84.0%	84.0%	84.0%	84.0%
Selling, general & administrative	$208,789	$52,279	$51,925	$52,571	$56,957	$213,732	$216,404	$219,109
Investigation, restatement etc.	$12,177	$3,673	$1,017	($38)	$0	$4,652	$0	$0
Research & development	$22,829	$6,496	$8,497	$3,175	$1,500	$19,668	$6,000	$6,000
Amortization of intangible assets	$701	$190	$191	$190	$172	$743	$688	$600
Other	$0	$0	$3,256	$208	$0	$3,464	$3,603	$0
Income from operations	($24,971)	($3,381)	$2,788	$10,816	$12,905	$23,128	$74,178	$126,911
Operating Margin	-9%	-5%	3%	13%	15%	7%	21%	30%
Interest income, net	($5,016)	($1,553)	($1,630)	($1,680)	($1,651)	($6,514)	($5,000)	($3,500)
Other income, net	($4)	$2	($32)	($11)	($2)	($43)	$0	$0
Pre-Tax Income	($29,991)	($4,932)	$1,126	$9,125	$11,251	$16,570	$69,178	$123,411
Provision for Income Tax	($206)	($51)	$74	($591)	$0	($568)	($15,911)	($28,385)
Tax Rate	0.7%	0.0%	0.0%	0.0%	0.0%	-3.4%	23.0%	23.0%
Net Income	**($30,197)**	**($4,983)**	**$1,200**	**$8,534**	**$11,251**	**$16,002**	**$53,267**	**$95,027**
Net Margin	-11%	-7%	1%	10%	13%	5%	15%	23%
Reported EPS	**($0.21)**	**($0.03)**	**$0.01**	**$0.07**	**$0.08**	**$0.11**	**$0.35**	**$0.62**
YOY Growth	127%						205%	78%
Basic Shares Outstanding	112,909	114,399	115,866	116,298	148,000	123,641	152,000	152,500
Fully Diluted Shares	142,469	143,959	145,864	119,328	148,000	139,288	152,000	152,500

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

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

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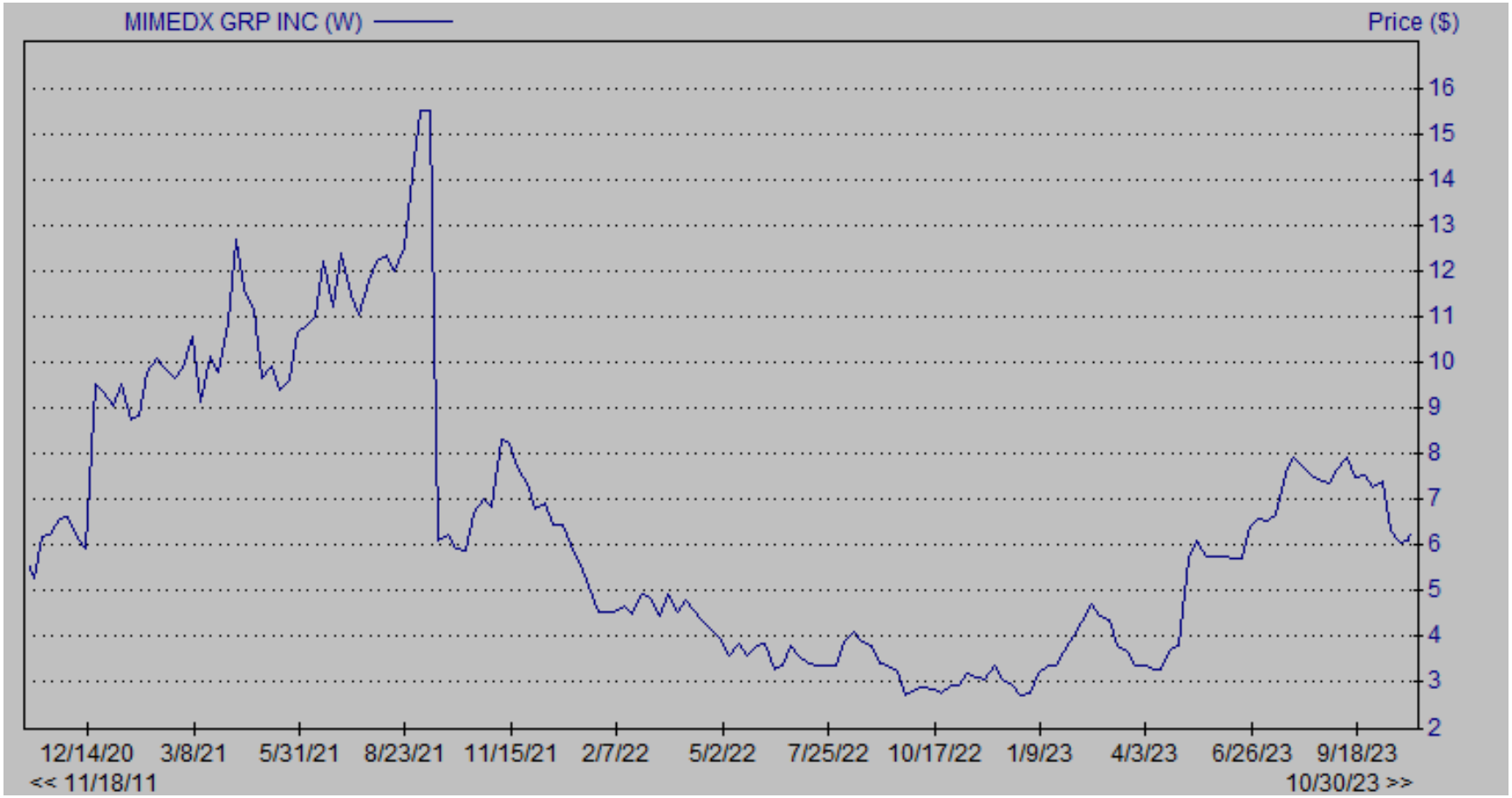
HISTORICAL STOCK PRICE

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



[6] Source: Zacks Research System

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