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Zacks Small-Cap Research

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BioStem Technologies (PINK:BSEM)

BSEM: Digging Into Medicare Issue

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's stock has suffered the last few days, largely, it seems, due to two of its major products not being on the just released LCD coverage list. There's more to the story, and we reiterate our recently upgraded price target.

Current Price (11/14/24)	$17.41
Valuation	**$32.50**

SUMMARY DATA

52-Week High	**$24.98**
52-Week Low	**$2.77**
One-Year Return (%)	**500.35**
Beta	**-0.36**
Average Daily Volume (sh)	**87,176**
Shares Outstanding (mil)	**17**
Market Capitalization ($mil)	**$289**
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**

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)
2023	0.6 A	1.1 A	3.6 A	11.5 A	16.7 A
2024	41.9 A	74.5 A	82.6 A	86.7 E	285.7 E
2025	82.5 E	84.9 E	87.3 E	92.0 E	346.7 E
2026	90.0 E	90.9 E	91.4 E	91.8 E	364.1 E

Adjusted Earnings*

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023	-0.10 A	0.07 A	0.12 A	-0.18 A	-0.09 A
2024	0.34 A	0.35 A	0.35 A	0.37 E	1.41 E
2025	0.51 E	0.55 E	0.59 E	0.64 E	2.29 E
2026	0.52 E	0.57 E	0.61 E	0.69 E	2.39 E

*Earning adjusted for noncash compensation—beginning in 2023.

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Update

We don't often write about short-term movements in stocks we cover but the move in BioStem Technologies, Inc. (PINK: BSEM) has coincided with what seems to have been perceived as a fundamental change in the company and we want to make sure investors know the full story.

Without getting into the complicated history of Medicare, CMS (Center for Medicare and Medicaid Services), earlier this year, released the LCD (Local Coverage Determination) list of covered skin care products and that list became effective earlier this week. Amniowrap2 and Vendaje AC, two of BioStem's primary products, were on the not-covered list, apparently sending fear into investors that thought future revenue might be at risk. There are multiple reasons why we believe that is not the appropriate course of action and why we are neither reducing our price target or lowering our revenue estimates in coming quarters.

First, the "effective" LCD's don't actually become effective until February 2025. That means that 4Q2024 and most of 1Q2025 won't be impacted by this decision. History is also important to understand. This process started several years ago and once the LCD list was made effective, it was quickly rescinded due to a myriad of complaints and errors. This time, from our analysis, doesn't look much better. The list is supposed to use testing results and real-world evidence to determine the most effective treatments to include on the list. We aren't going to mention the names of the products, but we have discovered that there are products listed on the approved list that have negative testing results. And we don't want to cast doubt on the process, but CMS is not supposed to use price in determining what products can be covered by Medicare, but coincidentally the approved products happen to be the cheapest. Finally, on this issue, there is a new Administration coming into Washington that seems likely to change the way things are done. Putting these issues together lead us to believe there's a high likelihood that the LCD list will again be pulled.

Second, BioStem has already started to address getting on the list in the event that the just released LCD approved list sticks. In fact, there are comments in the LCD that note that "If peer reviewed published literature is available, it can be submitted through the LCD reconsideration process for consideration for coverage." This is what BioStem is planning to do. We've mentioned before that the company continues to test their products to provide clinical data of the effective of the company's products. We have looked at competing products and continue to believe, and the rapid increase in revenue indicates doctors agree, that BioStem's products are superior to competing treatments.

The last item we want to mention is that BioStem isn't the only company who believes that the LCD was "arbitrary and capricious" and has joined with other companies and will turn to the legal system to overturn the effectiveness of the LCD released earlier this week. Given what we've seen and written about above, we believe, if we get to the point of needing it, this LCD will be stopped through the legal system from actually being put into action.

Summary

We reiterate our belief in the direction of BSEM and urge investors to avoid succumbing to kneejerk responses and message board rumors. The vision and focus of BSEM is impressive and gives us confidence that BSEM will continue to have its products covered by Medicare and continue to grow its revenues.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Biostem Technologies, Inc. Income Statement and Balance Sheet								
		2023A	1Q2024A	2Q2024A	3Q2024A	4Q2024E	2025E	2026E
Revenue		16,685,405	41,904,213	74,491,996	82,556,740	86,684,577	346,738,308	364,075,223
Cost of good sold		1,261,750	2,224,704	3,747,896	4,238,658	4,334,229	17,336,915	18,203,761
	Gross profit	15,423,655	39,679,509	70,744,100	78,318,082	82,350,348	329,401,393	345,871,462
Operating Expenses:								
General and administration		10,066,410	4,399,262	2,786,106	3,299,381	3,464,350	13,857,400	14,550,270
Sales and marketing		11,959,655	30,547,721	59,003,833	65,187,066	68,446,419	273,785,677	287,474,961
Research and dev.		327,344	70,748	80,917	482,495	506,620	2,026,479	2,127,803
Depreciation and amort.		229,014	53,665	54,113	56,800	59,640	238,560	250,488
Total Operating Expenses		22,582,423	35,071,396	61,924,969	69,025,742	72,477,029	289,908,116	304,403,522
	Income/(Loss) from operations	(7,158,768)	4,608,113	8,819,131	9,292,340	9,873,319	39,493,276	41,467,940
Other Income/(Expenses):								
Interest income/(expense)		(700,326)	(163,942)	(142,722)	(138,478)	(145,402)	(581,608)	(610,688)
Other		(3,689)	(1,571)	(115)	(811)	(852)	(3,406)	(3,577)
	Total other inc./(exp.)	(704,015)	(165,513)	(142,837)	(139,289)	(146,253)	(585,014)	(614,264)
Net Inc./(Loss) from Operations Before Tax		(7,862,783)	4,442,600	8,676,294	9,153,051	9,727,066	38,908,262	40,853,676
Income Tax		-	-	(2,323,937)	(2,332,648)	(2,449,280)	(2,571,744)	(2,700,332)
Net loss attributable to noncon. Interest		-	-	-	-	-	-	-
Net Income/(Loss)		(7,862,783)	4,442,600	6,352,357	6,820,403	7,277,785	36,336,518	38,153,344
Net Income/(Loss) per share		$ (0.57)	$ 0.20	$ 0.30	$ 0.32	$ 0.34	$ 1.69	$ 1.75
Adustment for non-cash compensation		6,661,793	3,279,098	1,088,391	673,162	706,820	13,116,392	13,772,212
Adjusted Earnings Per Share		$ (0.09)	$ 0.34	$ 0.35	$ 0.35	$ 0.37	$ 2.29	$ 2.39
Diluted Common Shares Outstanding		13,707,077	22,383,275	21,350,511	21,129,197	21,340,489	21,553,894	21,769,433
Current Assets								
Cash		239,406	643,241	6,572,126	14,613,488	14,905,758	15,203,873	15,507,950
Accounts receivable		11,371,730	41,622,643	78,190,570	81,072,073	85,125,677	89,381,960	93,851,059
Inventory		658,678	882,763	1,370,749	2,073,248	2,176,910	2,285,756	2,400,044
Other		329,239	585,489	1,939,187	3,624,643	3,805,875	3,996,169	4,195,977
Total Current Assets		12,599,053	43,734,136	88,072,632	101,383,452	106,014,220	110,867,758	115,955,030
Property, Plant and Equip.		1,154,856	1,133,865	1,443,677	1,420,506	1,392,096	1,364,254	1,336,969
Right-of-use asset		11,443	9,636	318,334	295,101	265,591	239,032	215,129
Construction-in-process		202,700	215,081	43,423	166,257	182,883	201,171	221,288
Intangible and goodwill		592,239	581,372	580,514	935,148	888,391	843,971	801,773
Total other assets		1,961,238	1,939,954	2,385,948	2,817,012	2,728,960	2,648,428	2,575,158
	Total Assets	14,560,291	45,674,089	90,458,580	104,200,464	108,743,180	113,516,186	118,530,188
Current Liabilities								
Accounts payable		1,031,010	2,818,370	6,892,842	2,074,129	2,136,353	2,200,443	2,266,457
Interest payable		1,697,787	1,762,824	1,829,534	1,896,258	1,953,146	2,011,740	2,072,092
Notes payable--current		4,445,782	4,125,902	4,007,331	4,018,373	4,138,924	4,263,092	4,390,985
Convertible notes--current		-	-	-	-	-	-	-
Other current liabilities		8,085,608	30,099,897	61,479,594	73,022,155	74,482,598	75,972,250	77,491,695
Total current liabilities		15,260,187	38,806,993	74,209,301	81,010,915	82,711,021	84,447,526	86,221,229
Notes payable--long-term		265,635	216,263	142,436	150,000	142,500	135,375	128,606
Other long-term liabilities		18,144	8,822	235,598	208,338	187,504	168,754	151,878
Total long-term liabilities		283,779	225,085	378,034	358,338	330,004	304,129	280,485
	Total Liabilities	15,543,966	39,032,078	74,587,335	81,369,253	83,041,025	84,751,654	86,501,713
Stockholders' equity/(deficit)								
Capital stock/treasury stock, net		(27,134)	(26,992)	(26,928)	(27,006)	(27,276)	(27,549)	(27,824)
Additional paid in capital		44,047,375	47,851,046	50,717,858	52,118,512	54,125,013	56,246,369	58,410,151
Noncontrolling interest		0	0	0	0	0	0	0
Accumulated deficit		(45,003,916)	(41,182,043)	(34,819,685)	(29,260,294)	(28,395,582)	(27,454,288)	(26,353,852)
	Total Stockholders' Equity/(Deficit)	(983,675)	6,642,011	15,871,245	22,831,212	25,702,155	28,764,532	32,028,475
Total Liabilities and Stockholders' Equity		14,560,291	45,674,089	90,458,580	104,200,464	108,743,180	113,516,186	118,530,188

HISTORICAL STOCK PRICE



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