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Chembio Diagnostics Inc. (CEMI- NASDAQ)

CEMI: **Paul Allen Febrile Grant, Vote of Confidence in DPP**

OUTLOOK

CLIA Waiver granted for DPP HIV assay. CEMI signed distribution agreements and also bldg direct sales force to sell direct in the U.S. Int'l lateral flow sales remain variable which negatively impacted 2014 revenue. DPP international sales have been very strong with FIOCRUZ still very active and HIV/Syph launch in Mexico the drivers in 2014. DPP HIV/Syph in Brazil could be major catalyst. Next up could be the U.S. mrkt. – clinical trials for which slated to commence 2H 2015.

Pipeline progress continues - recent partnerships announced to develop Ebola, Dengue Fever, Febrile illness, TBI, malaria and cancer test on DPP platform. CEMI also focused on complementary revenue opportunities including add'l R&D contracts/grants, expansion of international commercialization footprint, and potentially in-licensing products.

We are maintaining our Buy rating.

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	06/14/2010
Current Price (10/07/15)	$4.44
Target Price	**$7.00**

SUMMARY DATA

52-Week High	**$5.25**
52-Week Low	**$3.33**
One-Year Return (%)	**13.51**
Beta	**0.59**
Average Daily Volume (sh)	**19,930**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$41**
Short Interest Ratio (days)	**1.02**
Institutional Ownership (%)	**19**
Insider Ownership (%)	**6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**14.8**
Earnings Per Share (%)	**-40.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**22.3**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(millions)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$5.81 A	$7.42 A	$7.31 A	$7.10 A	$27.65 A
2015	$6.23 A	$6.72 A	$6.74 E	$7.19 E	$26.88 E
2016					$30.14 E
2017					$35.78 E

Adjusted Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.04 A	-$0.02 A	-$0.03 A	-$0.07 A	-$0.16 A
2015	-$0.09 A	-$0.09 A	-$0.10 E	-$0.04 E	-$0.34 E
2016					-$0.07 E
2017					$0.17 E

Zacks Projected EPS Growth Rate - Next 4 Years % **NA**

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WHAT'S NEW

Updating Model for Mutliplex Febrille Illness Grant..

This morning Chembio announced that they were awarded a $2.1M, 12-month grant from the Paul G. Allen Ebola Program to develop a multiplex test on the DPP platform for detection of multiple febrile illnesses including Malaria, Dengue, Ebola, Lassa, Marburg and Chikungunya. The program is managed by Allen's company, Vulcan Inc. The grant to Chembio is part of $11M in new grants that Vulcan announced today (10/5) which (per Vulcan's PR) "are intended to disrupt the cycle of epidemics and shorten the time in which the world responds to health crises" and "are part of Mr. Allen's efforts to help ensure that tools are in place to prevent future outbreaks from escalating into epidemics."

We have updated our model for the grant, although the changes are not overly meaningful given that we had (and continue to) allocate estimated revenue for potential future R&D contracts and grants. More importantly, we view this as a significant vote of confident in the DPP technology given that the Paul G. Allen Ebola Program is on the forefront of infectious research with Mr. Allen pledging $100M to address the Ebola outbreak in West Africa. As we have discussed in our coverage of CEMI, expanding beyond just their main legacy areas such as HIV has been a major focus for the company for future growth and Malaria, Febrile Illness and Ebola are diseases where the company sees significant opportunity. This grant could have the potential to accelerate development in various such programs.

FINANCIAL STATEMENTS

INCOME STATEMENT

Chembio Diagnostics, Inc.

	2014 A	Q1A	Q2A	Q3E	Q4E	2015 E	2016 E	2017 E	2018 E
Product sales	**$25,950**	**$5,615**	**$6,322**	**$6,149**	**$6,063**	**$24,148**	**$27,471**	**$33,513**	**$36,233**
% of total revenue	*93.9%*	*90.1%*	*94.1%*	*91.2%*	*84.3%*	*89.8%*	*91.1%*	*93.7%*	*93.7%*
YOY Growth	*-5.7%*	*14.5%*	*-12.8%*	*-15.2%*	*-7.4%*	*-6.9%*	*13.8%*	*22.0%*	*8.1%*
License & royalty income	**$24**	**$7**	**$8**	**$139**	**$316**	**$470**	**$697**	**$899**	**$1,037**
% of total revenue	*0.1%*	*0.1%*	*0.1%*	*2.1%*	*4.4%*	*1.7%*	*2.3%*	*2.5%*	*2.7%*
R&D contracts, grants, milestones	**$1,672**	**$609**	**$387**	**$452**	**$813**	**$2,261**	**$1,975**	**$1,365**	**$1,400**
% of total revenue	*6.0%*	*9.8%*	*5.8%*	*6.7%*	*11.3%*	*8.4%*	*6.6%*	*3.8%*	*3.6%*
Total Revenues	$27,645.3	$6,231.1	$6,716.2	$6,740.0	$7,192.0	$26,879.3	$30,142.5	$35,776.4	$38,669.5
YOY Growth	*-6.4%*	*7.2%*	*-9.5%*	*-7.9%*	*1.4%*	*-2.8%*	*12.1%*	*18.7%*	*8.1%*
Cost of Revenues	$16,831	$3,545	$3,697	$3,782	$3,668	$14,691	$15,878	$19,035	$20,435
Gross Income	$10,814	$2,687	$3,019	$2,958	$3,524	$12,188	$14,264	$16,741	$18,234
Gross Margin	*39.1%*	*43.1%*	*45.0%*	*43.9%*	*49.0%*	*45.3%*	*47.3%*	*46.8%*	*47.2%*
Product Margin	*35.1%*	*36.9%*	*41.5%*	*38.5%*	*39.5%*	*40.8%*	*42.2%*	*43.2%*	*43.6%*
Research & Development	$4,833	$1,585	$1,757	$1,812	$1,904	$7,058	$6,568	$5,352	$4,719
% R&D	*17.5%*	*25.4%*	*26.2%*	*26.9%*	*26.5%*	*26.3%*	*21.8%*	*15.0%*	*12.2%*
Selling General & Admin	$7,532	$1,978	$2,160	$2,116	$2,057	$8,311	$8,470	$9,624	$10,209
% SG&A	*27.2%*	*31.7%*	*32.2%*	*31.4%*	*28.6%*	*30.9%*	*28.1%*	*26.9%*	*26.4%*
Operating Income	($1,550)	($875)	($898)	($970)	($437)	($3,180)	($774)	$1,765	$3,307
Operating Margin	*-5.6%*	*-14.1%*	*-13.4%*	*-14.4%*	*-6.1%*	*-11.8%*	*-2.6%*	*4.9%*	*8.6%*
Other income (expense)	($6)	$0	$0	$0	$0	$0	$0	$0	$0
Interest income, net	$6	$1	$0	$1	$1	$3	$18	$66	$81
Pre-Tax Income	($1,550)	($874)	($898)	($969)	($436)	($3,177)	($756)	$1,831	$3,388
Taxes	($413)	($228)	($234)	($339)	($153)	($953)	($283)	$687	$1,270
Tax Rate	*26.6%*	*26.0%*	*26.0%*	*35.0%*	*35.0%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*
Net Income	($1,137)	($647)	($664)	($630)	($283)	($2,224)	($472)	$1,145	$2,117
YOY Growth	*-314.1%*	*187.8%*	*354.9%*	*132.7%*	*-42.8%*	*95.6%*	*-78.8%*	*-342.3%*	*85.0%*
Net Margin	*-4.1%*	*-10.4%*	*-9.9%*	*-9.3%*	*-3.9%*	*-8.3%*	*-1.6%*	*3.2%*	*5.5%*
GAAP EPS	($0.12)	($0.07)	($0.07)	($0.06)	($0.03)	($0.23)	($0.05)	$0.11	$0.20
Adjusted EPS	($0.16)	($0.09)	($0.09)	($0.10)	($0.04)	($0.32)	($0.07)	$0.17	$0.30
YOY Growth	*-302.1%*	*136.4%*	*286.9%*	*252.3%*	*-36.8%*	*92.3%*	*-79.3%*	*-327.1%*	*81.9%*
Weighted Avg. Shares O/S	9,529	9,625	9,628	9,728	9,788	9,692	9,955	10,620	10,800

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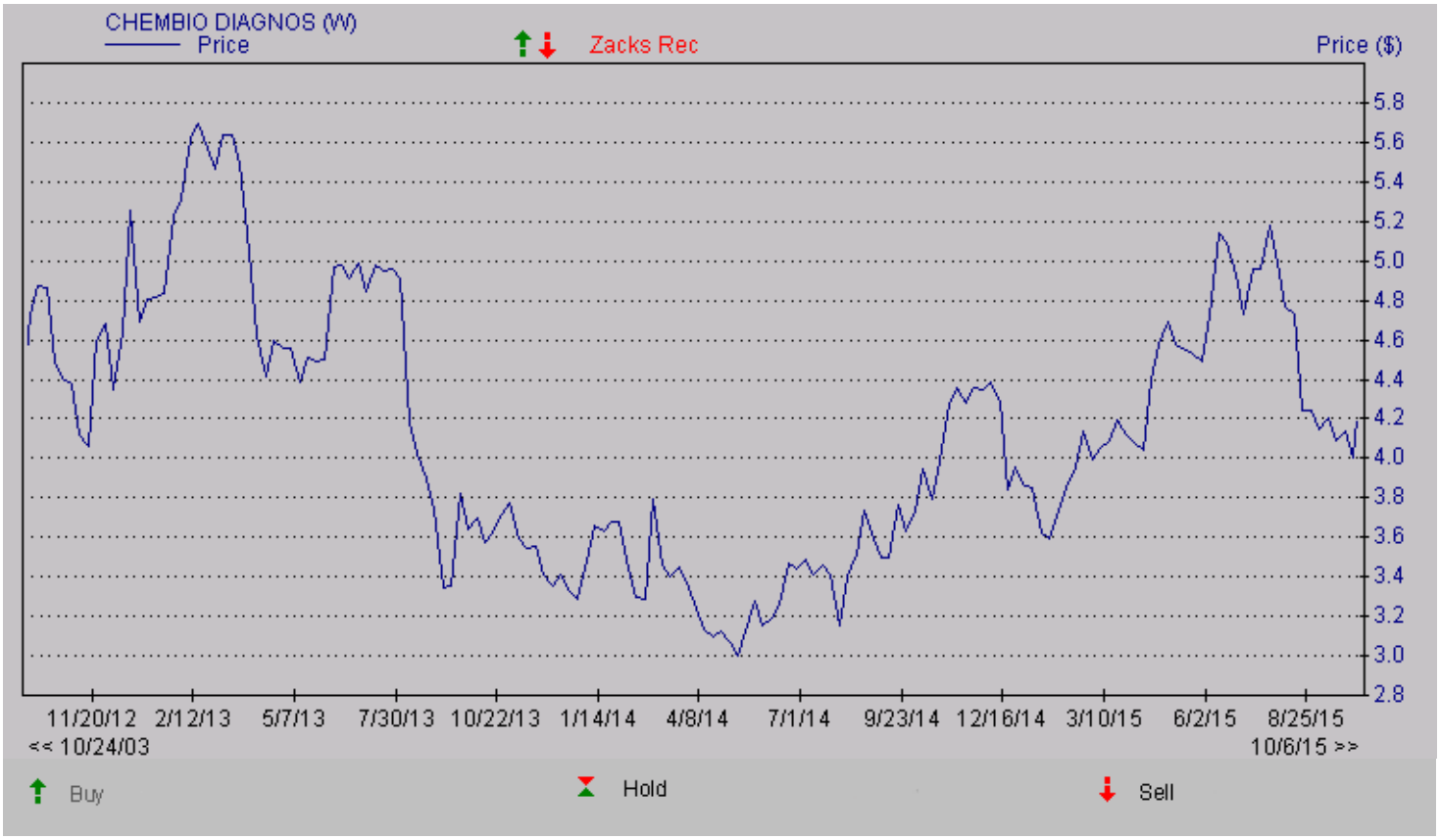
HISTORICAL ZACKS RECOMMENDATIONS



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