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Zacks Small-Cap Research

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Chembio Diagnostics Inc. (CEMI- NASDAQ)

CEMI: Upward Revisions On $5.3MM PO

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/14/2010
Current Price (06/13/13)	$4.91
Target Price	**$9.00**

OUTLOOK

Lateral flow sales should buoy revenue. Alere taking market share in the U.S. and recent recommendations on HIV testing should aid U.S. sales. Int'l lateral flow sales have been very strong but can be variable q-to-q. CEMI is focused on growing this business - fruits of which are already being seen - with more expected as "new opportunities" appear to be on the horizon (including the $5.3MM PO announced in late May). DPP sales ex-Brazil could also accelerate. These should help offset a bigger and earlier than anticipated decline in FIOCRUZ sales in 2013.

Pipeline progress continues and was highlighted by FDA approval of DPP HIV test in December. U.S. launch could happen in early-2014 which will be a very meaningful milestone. Syphilis test and HIV/syphilis combo test are also in the pipeline, as is a potentially pursuit of OTC approval of the company's (blood sample) lateral flow test.

Cash position and the balance sheet remain very healthy and were further beefed up by $6MM stock sale.

We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$5.00**
52-Week Low	**$3.61**
One-Year Return (%)	**3.09**
Beta	**0.01**
Average Daily Volume (sh)	**4,127**
Shares Outstanding (mil)	**9**
Market Capitalization ($mil)	**$46**
Short Interest Ratio (days)	**2.30**
Institutional Ownership (%)	**17**
Insider Ownership (%)	**17**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**22.8**
Earnings Per Share (%)	**-4.8**
Dividend (%)	**N/A**
P/E using TTM EPS	**28.9**
P/E using 2013 Estimate	**27.3**
P/E using 2014 Estimate	**15.8**
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)
2012	$6.65 A	$6.08 A	$5.01 A	$7.87 A	$25.61 A
2013	$6.68 A	$6.41 E	$9.67 E	$6.63 E	$29.39 E
2014					$35.03 E
2015					$32.67 E

Adjusted Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	$0.08 A	$0.06 A	-$0.06 A	$0.08 A	$0.17 A
2013	$0.05 E	$0.03 E	$0.07 E	$0.04 E	$0.18 E
2014					$0.31 E
2015					$0.36 E

Zacks Projected EPS Growth Rate - Next 4 Years % **22**

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WHAT'S NEW

Upward Revenue / EPS Revisions As A Result of $5.3 Million Purchase Order

CEMI's May 30th announcement that it received a $5.3 million purchase order from an international procurement agency has prompted us to make some upward revisions to our modeled international lateral flow sales. CEMI expects the order to ship in Q3. The 8-K also notes that the order relates to a large program this country is undertaking for the prevention of HIV transmission from mother to child - which management mentioned on the Q1 call that they had expected activity from. We think there's potential that CEMI may continue to see demand from similar programs going forward.

While we had previously modeled an expectation of new orders to help buoy international revenue (see our May 10th update titled, *New Opportunities Could Offset Anticipated Slowdown From FIOCRUZ)*, this $5.3 million bulk order has exceeded our prior expectation.

With this announcement we have moved our international lateral flow revenue estimates in 2013 from $8.4 million to $11.3 million and our total revenue from $26.5 million to $29.4 million. Our adjusted EPS estimate for 2013 moved from $0.15 to $0.18. We have also made some slight upward revisions to our out years (2014 - 2016), using the assumption that this order may be indicative of increasing activity from international procurement programs (which management made clear that they are very actively pursuing with greater vigor).

RECOMMENDATION / VALUATION

We are maintaining our Outperform rating. With the upward revisions to our model, our price target has moved from $8.50/share to $9.00/share which is based on 3.5x our estimated 2013 revenue estimate.

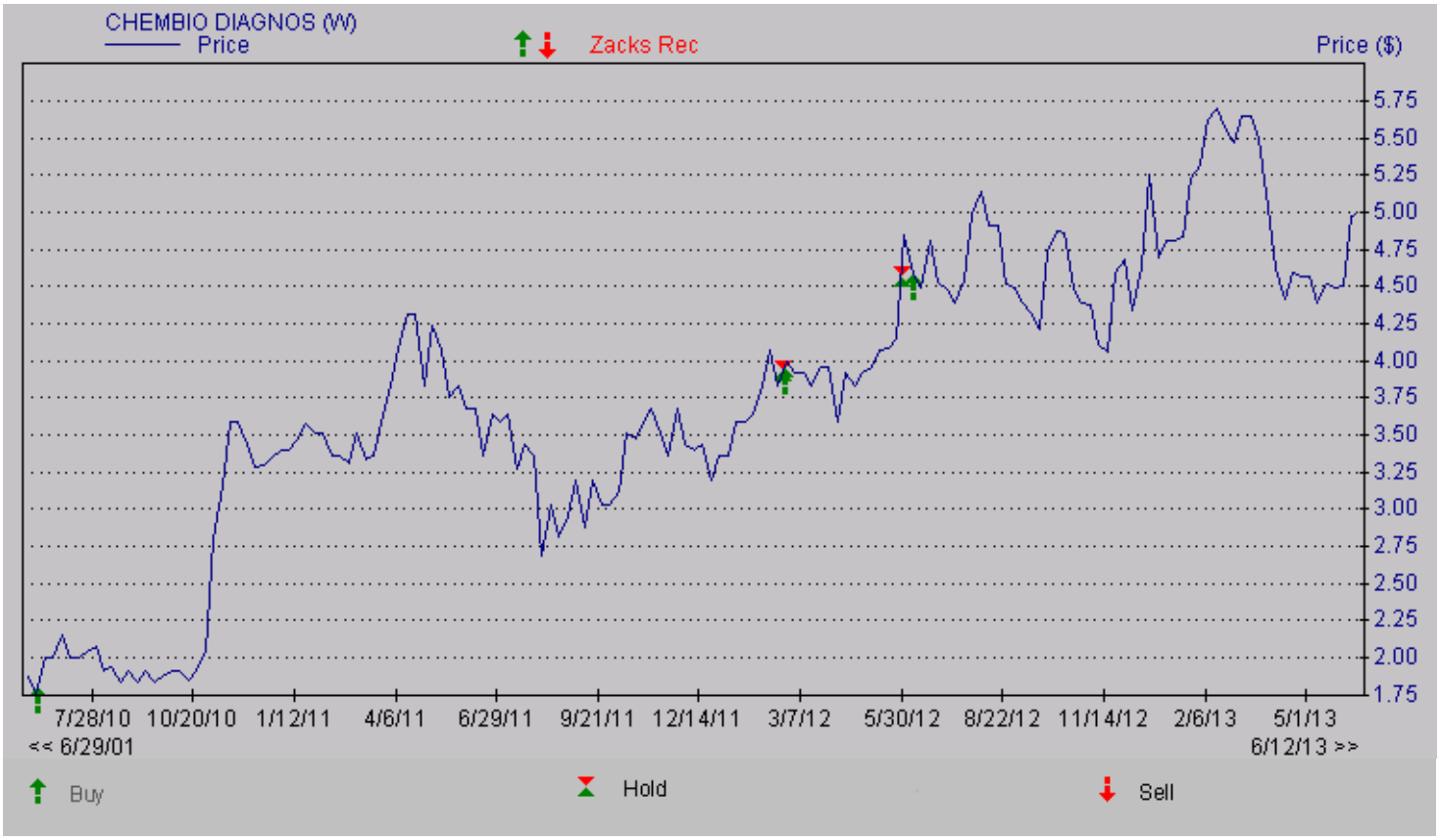
INCOME STATEMENT

Chembio Diagnostics, Inc.

	2012 A	Q1A	Q2E	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Product sales	**$24,327**	**$6,313**	**$6,017**	**$9,303**	**$6,241**	**$27,874**	**$33,758**	**$30,822**	**$36,919**
% of total revenue	*95.0%*	*94.5%*	*93.9%*	*96.3%*	*94.1%*	*94.9%*	*96.4%*	*94.3%*	*95.5%*
YOY Growth	*39.6%*	*-0.8%*	*3.5%*	*96.1%*	*-15.8%*	*14.6%*	*21.1%*	*-8.7%*	*19.8%*
License & royalty income	**$0**	**$0**	**$8**	**$12**	**$16**	**$36**	**$75**	**$425**	**$425**
% of total revenue	*0.0%*	*0.0%*	*0.1%*	*0.1%*	*0.2%*	*0.1%*	*0.2%*	*1.3%*	*1.1%*
R&D contracts, grants, milestones	**$1,283**	**$365**	**$386**	**$350**	**$375**	**$1,476**	**$1,200**	**$1,425**	**$1,300**
% of total revenue	*5.0%*	*5.5%*	*6.0%*	*3.6%*	*5.7%*	*5.0%*	*3.4%*	*4.4%*	*3.4%*
Total Revenues	$25,610.5	$6,678.2	$6,411.0	$9,665.0	$6,632.0	$29,386.0	$35,032.8	$32,671.6	$38,643.8
YOY Growth	*32.1%*	*0.4%*	*5.4%*	*93.0%*	*-15.7%*	*14.7%*	*19.2%*	*-6.7%*	*18.3%*
Cost of Revenues	$14,820	$3,984	$3,761	$5,917	$3,919	$17,581	$19,917	$17,260	$20,121
Gross Income	$10,790	$2,694	$2,650	$3,748	$2,713	$11,805	$15,116	$15,412	$18,523
Gross Margin	*42.1%*	*40.3%*	*41.3%*	*38.8%*	*40.9%*	*40.2%*	*43.1%*	*47.2%*	*47.9%*
Product Margin	*39.1%*	*36.9%*	*37.5%*	*36.4%*	*37.2%*	*36.9%*	*41.0%*	*44.0%*	*45.5%*
Research & Development	$4,487	$1,045	$1,135	$1,095	$1,102	$4,377	$4,721	$4,620	$4,855
% R&D	*17.5%*	*15.7%*	*17.7%*	*11.3%*	*16.6%*	*14.9%*	*13.5%*	*14.1%*	*12.6%*
Selling General & Admin	$4,852	$1,162	$1,212	$1,865	$1,114	$5,353	$6,691	$6,502	$7,497
% SG&A	*18.9%*	*17.4%*	*18.9%*	*19.3%*	*16.8%*	*18.2%*	*19.1%*	*19.9%*	*19.4%*
Operating Income	$1,452	$487	$304	$788	$496	$2,075	$3,703	$4,290	$6,171
Operating Margin	*5.7%*	*7.3%*	*4.7%*	*8.2%*	*7.5%*	*7.1%*	*10.6%*	*13.1%*	*16.0%*
Other income (expense)	$1	$0	$0	$0	$0	$0	$0	$0	$0
Interest income, net	($2)	$1	$2	$3	$0	$6	$50	$95	$125
Pre-Tax Income	$1,451	$488	$306	$791	$496	$2,081	$3,753	$4,385	$6,296
Taxes	$509	$170	$121	$314	$197	$803	$1,490	$1,741	$2,500
Tax Rate	*35.1%*	*35.0%*	*39.7%*	*39.7%*	*39.7%*	*38.6%*	*39.7%*	*39.7%*	*39.7%*
Net Income	$942	$317	$184	$477	$299	$1,278	$2,263	$2,644	$3,797
YOY Growth	*-84.8%*	*-26.9%*	*-40.3%*	*-263.1%*	*-39.1%*	*35.7%*	*77.1%*	*16.8%*	*43.6%*
Net Margin	*3.7%*	*4.7%*	*2.9%*	*4.9%*	*4.5%*	*4.3%*	*6.5%*	*8.1%*	*9.8%*
GAAP EPS	$0.11	$0.04	$0.02	$0.04	$0.03	$0.12	$0.19	$0.23	$0.33
Adjusted EPS	$0.17	$0.05	$0.03	$0.07	$0.04	$0.18	$0.31	$0.36	$0.38
YOY Growth	*-84.9%*	*-33.4%*	*-56.2%*	*-212.1%*	*-49.2%*	*9.4%*	*66.0%*	*16.8%*	*43.6%*
Weighted Avg. Shares O/S	8,419	8,699	11,625	11,625	11,625	10,894	11,625	11,625	11,625

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HISTORICAL ZACKS RECOMMENDATIONS



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