

Action Summary – 26 May 2021

Analyst Theodore R. O'Neill – 1Q21 revenues were better than expected – reiterate Buy and \$5 PT

- **USAQ 1Q21 revenues were better than expected.** It reported a loss of \$0.01 EPS on revenue of \$304K. We were looking for a loss of \$0.01 on revenue of \$300K. There is no consensus. The net income variance of \$24K was due to higher sales and better margins, offset by higher expenses due to expanding its sales and marketing efforts which are expected to continue.
- Revenues for 1Q21 grew 143% q/q due to growth in both Allergy Diagnostic Kits (61% of sales) and Immunotherapy Treatment sales (36% of sales)
- The Company generated gross profit margin of approximately 43.9%, in first quarter 2021 compared to gross profit margin of 40.2% in fourth quarter 2020. The increase was primarily attributable to the larger base of sales as well as customer and product mix.
- The company is gaining increased visibility of its products through participation in continuing medical education programs focused on core markets.
- We have increased the operating expenses to support rollout of its products and services and also slightly raised our gross profit margins. The result is a decline in earnings in 2021 to a loss of \$0.06 from a loss of \$0.02, but a rise in 2022 EPS by \$0.01 to \$0.10. These two changes are not sufficient to change our price target of \$5.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

5/25 Closing price: \$0.685	Market cap: \$4.7 million	2022 P/E: 7	2022 EV / Sales: 1
Shares outstanding: 6.8 million	Insider ownership: 52%	3-mo. avg. trading volume: 4,888	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in thousands)

Period	EPS	Revenue	Op Margin
1Q20A	\$(0.01)	\$0	NMF
2Q20A	\$(0.01)	\$0	NMF
3Q20A	\$(0.01)	\$0	NMF
4Q20A	<u>\$(0.01)</u>	<u>\$0</u>	<u>NMF</u>
FY20A	<u>\$(0.05)</u>	<u>\$0</u>	<u>NMF</u>
1Q21A	\$(0.01)	\$300	NMF
2Q21E	\$(0.01)	\$350	NMF
3Q21E	\$(0.02)	\$400	NMF
4Q21E	<u>\$(0.02)</u>	<u>\$500</u>	<u>NMF</u>
FY21E	<u>\$(0.06)</u>	<u>\$1,400</u>	<u>NMF</u>
1Q22E	\$(0.00)	\$800	11%
2Q22E	\$0.03	\$1,200	23%
3Q22E	\$0.03	\$1,250	24%
4Q22E	<u>\$0.04</u>	<u>\$1,300</u>	<u>25%</u>
FY22E	<u>\$0.10</u>	<u>\$4,550</u>	<u>22%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in thousands)

• 2020A	• \$94.3
• 2021E	• \$70.2
• 2022E	• \$207.8

Debt (in thousands)

• 2020A	• \$625
• 2021E	• \$625
• 2022E	• \$200

Adj. EBITDA (in thousands)

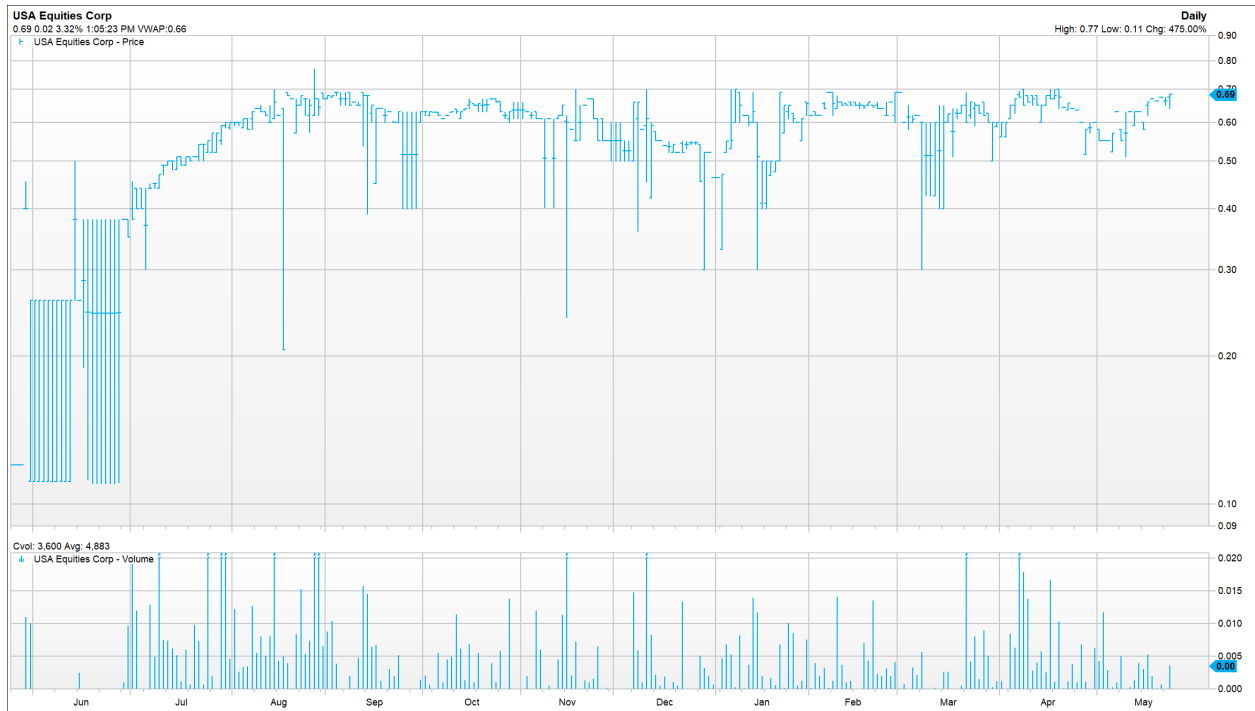
• 2020A	• (\$293)
• 2021E	• (\$373)
• 2022E	• \$732

Risks/Valuation

- Risks include: Highly competitive business; lack of earnings; changes in customer demand; commercialization of technology.
- Our \$5 target is derived using a discounted future earnings model

Company description: USA Equities Corp. (OTCQB: USAQ) is focused on providing value-based healthcare solutions, clinical informatics and algorithmic personalized medicine including digital therapeutics, behavior-based remote patient monitoring, chronic care and preventive medicine.

Figure 1 – USA Equities Corp. – One-year Trading snapshot



Source: FactSet

Valuation Methodology

We believe USAQ is undervalued and we support that belief with two valuation techniques, both of which generate the same valuation within ~\$1: 5.22 and \$4.17. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$5.00 is based on a discounted future earnings model (Figure 2). For the purposes of deriving an earnings-based price target, we assume the company incurs losses until 2Q22 and we take, what we think is a very conservative approach to earnings growth. The model sums up all earnings per share, discounted at 12% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$5.22 which we round down to \$5.00.

Figure 2 – USA Equities Corp. – Implied Price Target Calculation

Disc. Future Earnings		\$5.22
Year	EPS	Discounted EPS
2021	(\$0.06)	(\$0.06)
2022	\$0.10	\$0.09
2023	\$0.20	\$0.16
2024	\$0.30	\$0.21
2025	\$0.38	\$0.24
2026	\$0.45	\$0.26
2027	\$0.55	\$0.28
2028	\$0.65	\$0.29
2029	\$0.72	\$0.29
2030	\$0.79	\$0.28
Terminal Value:		\$3.18

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Here we are going to use a multiple of sales because the company is not yet profitable. The average sales multiple looking into next year is 6.23 (See Figure 5 for a table of Comparables). Based on our estimates for 2022, and using the average sales multiple, if USAQ reaches \$4.55MM of revenue, it would have a market cap of ~\$28.35MM or ~\$4.17 per share (Figure 3).

Figure 3 –USA Equities Corp. – Summary Discount to Peers

	Implied Share Price Calculation
Average Peers 2022 Sales Multiple	6.23
Our 2022 Revenue Estimate	\$4.55MM
Implied Market Cap	\$28.35MM
Estimated Share Count	6.8MM
Implied Share Price	\$4.17

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Guidance and Financial Forecasts

The company provides no guidance. Our financial forecast makes many assumptions in order to determine a valuation. We have tried to be as conservative as possible, but the nature of this particular business is that it can get very profitable very quickly. If the products are accepted and priced as the company hopes, we believe our model may turn out to be conservative in terms of earnings growth.

Quarterly Results

As shown in Figure 4 (below) Revenues for 1Q21 grew 143% q/q due to growth in both Allergy Diagnostic Kits (61% of sales) and Immunotherapy Treatment sales (36% of sales). The Company generated gross profit margin of approximately 43.9%, in first quarter 2021 compared to gross profit margin of 40.2% in fourth quarter 2020. The increase was primarily attributable to the larger base of sales as well as customer and product mix.

The \$24K unfavorable net income variance was due to higher sales and gross profit margin, offset by higher operating expenses.

Figure 4 USA Equities Corp – Variance Analysis (\$ in thousands except per share)

	2021	2021	Better/(worse) than forecast
	Q1E	Q1A	
Income Statement			
Total Revenue	\$300.0	\$304.3	\$4.3
Total cost of revenue	180.0	170.8	9.2
Total Gross Profit	120.0	133.6	13.6
Operating expenses:			
G&A	65.0	70.1	(5.1)
R&D	40.0	28.0	12.0
Marketing	50.0	111.7	(61.7)
Total Expenses	155.0	209.8	(54.8)
Earnings (loss) from Operations	(35.0)	(76.3)	(41.3)
Total Other income/(expense)	(27.7)	(10.4)	17.3
Earnings before taxes	(62.7)	(86.7)	(24.0)
Tax expense/(benefit)	0.0	0.0	0.0
Net income	(62.7)	(86.7)	(\$24.0)
EPS	\$ (0.01)	\$ (0.01)	(\$0.00)
Pro-forma EPS			
Diluted common shares	6,400	6,833	

Source: Company filings and Litchfield Hills Research LLC

Figure 5 – USA Equities Corp. – Comp Table

Ticker	Company Name	Price Close	Market Cap \$MM	EV \$MM	2022 Sales Multiple	2022 EV / Revenue	2022 PE	2022 EV / EBITDA
DXCM.O	Dexcom Inc	\$355.39	34,368	33,479	12.12	11.81	NMF	52.45
TDOC.K	Teladoc Health Inc	\$142.33	21,994	22,648	8.49	8.74		52.24
SWAV.O	Shockwave Medical Inc	\$174.30	6,098	5,937	18.90	18.40	NMF	
AKER.OL	Aker ASA	\$78.71	5,907	9,680			26.94	
QDEL.O	Quidel Corp	\$115.32	4,907	3,926	3.93	3.15	10.95	6.09
TCMD.O	Tactile Systems Technolc	\$53.84	1,058	1,000	3.94	3.73	62.00	26.24
SMLR.PK	Semler Scientific Inc	\$110.25	741	715	10.43	10.05	36.06	21.33
ZYXI.O	Zynex Inc	\$14.69	512	479	2.54	2.37	18.07	11.44
NMRD.O	Nemauro Medical Inc	\$13.00	298	288	NMF	NMF		
IIN.O	Intricon Corp	\$24.91	226	190	1.65	1.39	27.97	15.11
OPGN.O	OpGen Inc	\$2.02	77	58	2.81	2.10		
CEMI.O	Chembio Diagnostics Inc	\$3.07	62	66	1.63	1.74		
BMRA.O	Biomerica Inc	\$3.60	44	39	2.05	1.81	48.47	3.00
GWHP.PK	Global Wholehealth Partn	\$0.48	30	30				
ALRT.PK	ALR Technologies Inc	\$0.06	30	47				
NAOV.O	Nanovibronix Inc	\$0.82	20	13				
GTHP.PK	Guided Therapeutics Inc	\$0.71	9	16				
CTTC.PK	Calmare Therapeutics Inc	\$0.12	5	5				
DECN.PK	Decision Diagnostics Cor	\$0.03	4	7				
ESMC.PK	Escalon Medical Corp	\$0.26	2	2				
HDII.PK	Hypertension Diagnostics	\$0.01	2	2				
EQUR.PK	E-QURE Corp	\$0.03	1	1				
NEMD.PK	iNeedMD Holdings Inc	\$0.00	0	0				
	AVERAGE				6.23	5.94	32.92	23.49
USAQ.PK	USA Equities Corp	\$0.68	5	5	1.04	1.13	6.75	7.05
	USAQ Discount to peers				-83%	-81%	-79%	-70%

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 6 – USA Equities Corp. – Income Statement (\$000)

December ending year	2018	2019	2020A				2020A	2021E				2021E	2022E				2022E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$0	\$0	\$0	\$0	\$0	\$125	\$125	\$304	\$350	\$400	\$500	\$1,554	\$800	\$1,200	\$1,250	\$1,300	\$4,550
Cost of Goods	0	0	0	0	0	74	74	171	179	208	260	817	416	624	650	676	2,366
Gross Profit	0	0	0	0	0	50	50	134	172	192	240	737	384	576	600	624	2,184
G&A	27	54	23	15	37	56	132	70	75	75	100	320	100	100	100	100	400
R&D	0	100	28	20	20	30	98	28	40	40	50	158	60	60	60	60	240
Marketing	0	0	0	20	29	46	95	112	150	175	200	637	200	200	200	200	800
Total Operating Expenses	27	54	23	35	66	102	227	182	225	250	300	957	300	300	300	300	1,200
Operating Income	(27)	(54)	(23)	(35)	(66)	(52)	(177)	(48)	(54)	(58)	(60)	(220)	84	276	300	324	984
Operating income %	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	-15%	-12%	-14%	11%	23%	24%	25%	22%
Total Other Items	(11)	(12)	(28)	(7)	(7)	(11)	(52)	(10)	(7)	(6)	(6)	(29)	(28)	(7)	(6)	(6)	(46)
Pre-Tax Income	(39)	(66)	(51)	(42)	(73)	(63)	(229)	(59)	(60)	(64)	(66)	(249)	56	269	294	318	938
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (loss)	(\$39)	(\$167)	(\$78)	(\$62)	(\$93)	(\$94)	(\$327)	(\$87)	(\$100)	(\$104)	(\$116)	(\$407)	(\$4)	\$209	\$234	\$258	\$698
EPS, as reported	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.06)	(\$0.00)	\$0.03	\$0.03	\$0.04	\$0.10

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – USA Equities Corp. – Balance Sheet (\$000)

December ending year	FY2022E	FY2021E	FY2020A	FY2019
Balance sheet				
Current Assets				
Cash and S.T.I.	\$207.8	\$70.2	\$94.3	\$23.6
Accounts receivable	150.0	100.0	60.5	2.8
Inventories	300.0	100.0	99.7	0.0
Other assets	40.0	20.0	11.6	0.0
Total Current Assets	697.8	290.2	266.2	26.3
Net PP&E	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0
Total Assets	\$732.8	\$350.2	\$297.9	\$26.3
Current Liabilities				
Accounts payable	300.0	225.0	159.6	20.9
Advances or notes payable -related part	55.0	55.0	55.0	0.0
Other current liabilities	20.0	10.0	0.0	0.0
Total current liabilities	375.0	290.0	214.6	20.9
Accrued interest expense	115.0	115.0	115.6	93.5
Convertible note payable	200.0	600.0	576.0	341.7
Total Liabilities	690.0	1,005.0	906.2	456.1
Stockholders' Equity				
Preferred stock	0.1	0.1	0.1	0.1
Common stock	0.6	0.6	0.7	0.6
Additional paid-in-capital	1,500.0	1,500.0	1,139.6	990.9
Retained earnings	(1,457.9)	(2,155.5)	(1,748.7)	(1,421.3)
Cum. trans. adj. and treasury stock	0.0	0.0	0.0	0.0
Total stockholders' equity	42.8	(654.8)	(608.3)	(429.8)
Total Liabilities and equity	\$732.8	\$350.2	\$297.9	\$26.3

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – USA Equities Corp. – Cash Flow (\$'000)

	2022E	2021E	2020A	2019
Net Income	\$697.67	(\$406.82)	(\$327.39)	(\$166.52)
Accounts receivable	(50.00)	(39.48)	(57.77)	(1.00)
Inventories	(200.00)	(0.30)	(99.70)	0.00
Other assets	(20.00)	(8.40)	(11.60)	0.00
PP&E	0.00	0.00	0.00	0.00
Intangibles net of depr.	0.00	0.00	0.00	0.00
Long term assets	25.00	(28.30)	(31.70)	0.00
Accounts payable	75.00	65.38	138.68	20.40
Advances or notes payable -related party	0.00	0.00	55.00	(109.98)
Accrued interest expense	0.00	0.00	0.00	(95.57)
Other current liabilities	10.00	10.00	0.00	0.00
Accrued interest expense	0.00	(0.57)	22.07	93.50
Convertible note payable	(400.00)	24.00	234.32	12.51
Preferred stock	0.00	0.00	0.00	0.11
Common stock	0.00	(0.06)	0.08	0.22
Additional paid-in-capital	0.00	360.37	148.77	269.92
Accumulated other comp. loss	0.00	0.00	0.00	0.00
Other				
Total Cash Flow	\$137.67	(\$24.17)	\$70.75	\$23.59

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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