

Action Summary – 3 June 2021

Analyst Theodore R. O'Neill – Update for 1Q21 results – Reiterate Buy and \$5 PT

- **POAI reported 1Q21 revenue and an EPS loss of \$280K and \$0.11, respectively.** We were looking for revenue of \$350K and an EPS loss of \$0.08. There is no consensus. The \$0.02 variance to our estimates was primarily due to higher G&A expense.
- **Improved balance sheet.** The company substantially improved its balance sheet in the quarter by raising equity and paying down debt. At the end of the quarter, it had over \$27MM in cash and no debt. We believe this could provide enough cash to support operations well into 2022.
- **Executing on plan.** It signed a contract with a large pharmaceutical company to use subsidiary, Soluble Biotech proprietary protein formulation. It initiated an in-house drug repurposing project focused on ovarian cancer and post the close of the quarter it announced a partnership with Cellevate AB. This partnership will target ovarian cancer and allow the partnership to grow ovarian cancer tissues in a 3-D matrix. The company is freeing up resources from its commercial Skyline Medical business to focus on its precision medicine business, which we believe is a positive.
- We are lowering our 2021 and 2022 EPS estimates to a loss of \$0.30 and \$0.11, respectively
- **State-of-the-art patient-centric drug development systems.** The company operates four subsidiaries, the first three of which, Helomics®, TumorGenesis® and; Soluble Biotech are actively advancing patient-centric drug development using both artificial intelligence and advanced algorithms.
- **Shares are priced below our calculation of the discounted value of all future earnings, and at a small discount to peers.**

Revenue and Cash Estimates in (\$000) EPS in \$			
	Revenue	EPS	Cash and cash equivalents
2020A	\$1,308	(1.48)	\$819
1Q21A	\$350	(0.09)	
2Q21E	\$400	(0.08)	
3Q21E	\$600	(0.07)	
4Q21E	\$800	(0.07)	
2021E	\$2,150	(0.30)	\$6,154
1Q22E	\$1,000	(0.06)	
2Q22E	\$2,000	(0.05)	
3Q22E	\$4,000	(0.01)	
4Q22E	\$5,000	0.00	
2022E	\$12,000	(0.11)	\$6,354

Source: Litchfield Hills Research LLC

Current Capitalization	
Price (As of 01 Jun '21)	\$1.25
Basic Shares	49.82
Common Stock	49.82
Market Cap	\$62,273
Diluted Shares	0.08
Fully Diluted Shares Outstanding	49.90
Fully Diluted Market Cap	\$62,373
+ Total Debt	
- In-the-Money Convertible Debt	-
- Cash & Equivalents	\$27,299
- Long Term Marketable Securities	-
+ Total Preferred	0.79
- In-the-Money Convertible Preferred	0.79
Enterprise Value	\$35,074

Values in thousands of USD | Bal Sheet data as of Mar '21

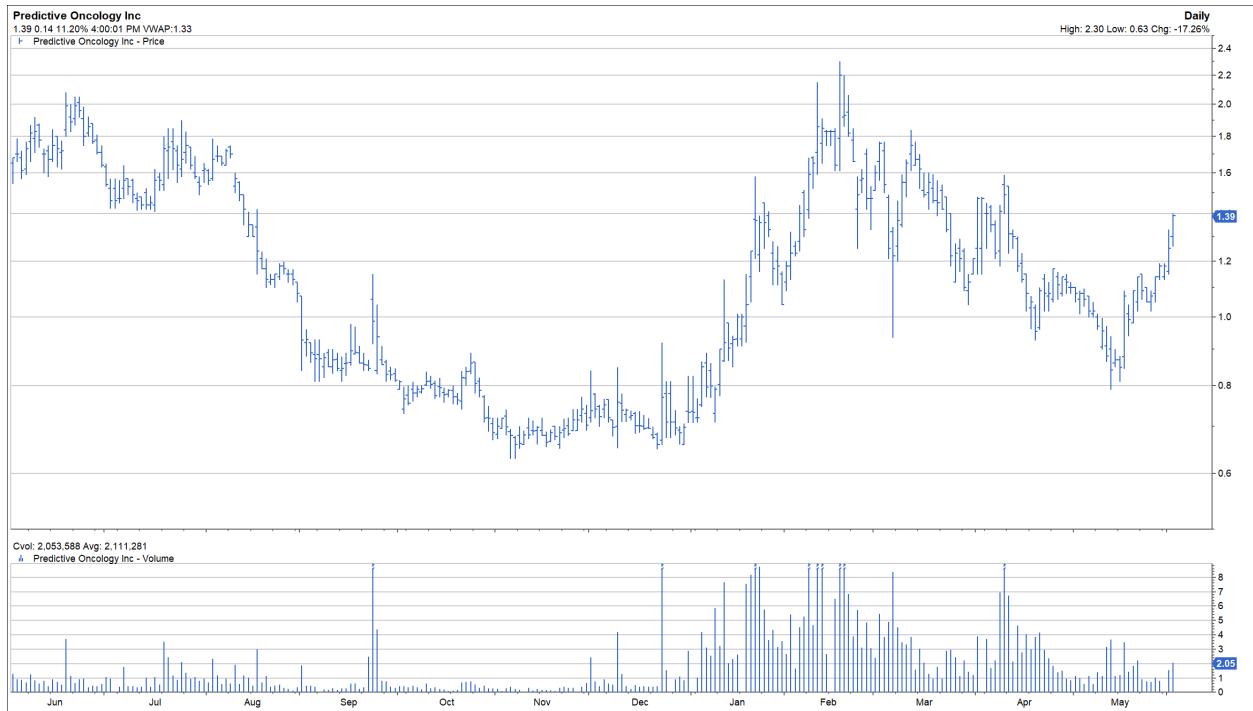
Source: FactSet ECS, FactSet DCS

Risks/Valuation

- Risks include: Highly regulated and competitive business, volatility of operating results.
- Our \$5.00 target is derived using a discounted future earnings model.

Company description: Predictive Oncology (NASDAQ: POAI), is a knowledge-driven company focused on applying artificial intelligence (“AI”) to personalized medicine and drug discovery. Headquartered in Minnesota.

Figure 1 – Predictive Oncology Inc. -One-Year Trading snapshot



Source: Refinitiv Eikon

Valuation Methodology

We believe POAI is undervalued and we support that belief with two complimentary valuation techniques. For the purposes of determining our price target we use a discounted future earnings model which we then compare to revenue metrics of peers.

- 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 earnings model. Our assumptions are that the company reaches breakeven in 4Q22. Our valuation model is shown in Figure 2 below. The model sums up all earnings per share, discounted at 10% to arrive at a per share value and terminal value growth is assumed to be GDP. 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 \$5.21 which we round down to \$5.00. Although this target is substantially above where the stock is currently, it has traded at and above that level in the last two years.

Figure 2 – Predictive Oncology Inc. – Price Target Calculation

Target Price: \$5.21		
Year	EPS	Discounted EPS
2021	(0.35)	(0.35)
2022	(0.14)	(0.12)
2023	0.10	0.08
2024	0.20	0.15
2025	0.25	0.17
2026	0.30	0.19
2027	0.42	0.24
2028	0.63	0.32
2029	0.65	0.30
2030	0.66	0.28
Terminal Value:		3.95

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare POAI to a simple average of its peers (Figure 3), the shares sell at a discount to 2022 EV / Revenue. This supports our analysis that the shares are undervalued. At our target price of \$5.00, the multiple of sales would be at the high end of the range. Details on each of the peers can be found in Figure 4 near the back of the report. The companies we used in Figure 4 are in similar lines of business although none of them are a perfect match.

Figure 3 – Predictive Oncology Inc. – Discount to Peers

	2022 EV / Revenue
Average	3.79
POAI	2.91
Discount to peers	23%

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Guidance and Financial Forecasts

Company provides no guidance. The company operates four subsidiaries, and while one, Skyline Medical generates over \$1MM in revenue per year, collectively the subsidiaries are losing money. In this situation, it is very difficult to predict the exact timing for the company to collectively reach profitability or which combination of its four subsidiaries

will provide that catalyst. As a practical matter, this means that our financial forecast may change significantly from what we show in this report. On the positive side, the company does have a steady stream of revenue and after a recent capital raise, it appears to have enough cash on hand to support both continued plan execution and working capital for the next 24 months. Our working assumption for the purpose of setting a price target, based on a discounted future earnings stream, is that it reaches breakeven in 4Q22.

From time-to-time the company has amended the terms of its warrants and this is accounted for in part as a deemed dividend. While we show this in the income statement, it has no impact on cash flow.

Company Overview

Patient-centric Drug Development

If you have ever had a medical condition that had to be treated with medication that had complex dosing requirements or complex directions for taking the medication, or side effects that made you stop, the drug industry is now paying attention.

Development of drugs to treat diseases was never tailored to any one individual because the tools to do that weren't available, so development was generally not optimized for individual patient outcomes in terms of Active Pharmaceutical Ingredients (API), side effects, getting the most out of the least amount of API (bioavailability) and medication regimen complexity and adherence.

However, that is changing, especially as tools and technology to tailor drugs emerge, and the regulatory bodies, like the FDA are focused on patient's experiences, perspectives and needs.

According to the FDA, patient-focused drug development (PFDD) is a systematic approach to help ensure that patients' experiences, perspectives, needs, and priorities are captured and meaningfully incorporated into drug development and evaluation. As experts in what it is like to live with their condition, patients are uniquely positioned to inform the understanding of the therapeutic context for drug development and evaluation.

The primary goal of patient-focused drug development is to better incorporate the patient's voice in drug development and evaluation.

Predictive Oncology has four subsidiaries, the first three of which, 1) Helomics®; 2) TumorGenesis® and; 3) Soluble Biotech are actively advancing this patient-centric drug development. The fourth subsidiary, 4) Skyline Medical®, markets and sells a unique, FDA approved commercial product for disposing of potentially infectious medical waste fluid.'

For additional information, please see our February 1, 2021 initiation of coverage report.

Figure 4 – Predictive Oncology Inc. – Comp Table

Ticker	Company Name	Price Close	Market Cap \$MM	EV \$MM	2022 EV / Revenue
ROG.S	Roche Holding AG	\$348.57	304,759	312,017	4.51
PFE	Pfizer Inc	\$38.50	215,511	241,788	3.82
MRK	Merck & Co Inc	\$75.18	190,360	214,726	3.90
AZN.L	AstraZeneca PLC	\$112.56	147,302	159,685	4.24
SNY.O	Sanofi SA	\$52.47	131,645	143,241	3.03
SYK.N	Stryker Corp	\$255.79	96,368	107,130	5.83
GSK.L	GlaxoSmithKline PLC	\$18.92	95,362	134,330	2.71
BAYGn.DE	Bayer AG	\$62.85	62,429	103,626	1.98
4502.T	Takeda Pharmaceutical Co Ltd	\$33.41	51,898	85,125	2.80
ZBH.N	Zimmer Biomet Holdings Inc	\$166.22	34,654	41,773	4.90
MYGN.O	Myriad Genetics Inc	\$28.00	2,157	2,135	3.08
CODX.O	Co-Diagnostics Inc	\$8.10	232	172	2.50
ANPC.O	AnPac Bio-Medical Science Co Ltd	\$4.28	54	56	6.30
DXR	Daxor Corp	\$9.98	39	39	3.46
QBIO.PK	Q BioMed Inc	\$0.95	25	31	<u>NMF</u>
	AVERAGE				<u>3.79</u>
POAI.O	Predictive Oncology Inc	\$1.25	62	35	2.91
	POAI Discount to Peers				-23%
We placed NMF where the metrics were more than 4x the standard deviation					

Source: Litchfield Hills Research LLC and Refinitiv Eikon (formerly Thomson Reuters Eikon)

Figure 5 – Predictive Oncology Inc. – Income Statement (\$ in thousands)

December ending year	2018 Year	2019 Year	2020A Year	2021E				2021E Year	2022E				2022E Year
				Q1A	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$1,412	\$1,412	\$1,252	\$280	\$400	\$600	\$800	\$2,080	\$1,000	\$2,000	\$4,000	\$5,000	\$12,000
<i>Y/Y growth</i>			-11%	-5%	119%	25%	172%	66%	257%	400%	567%	525%	477%
Cost of Goods	416	532	447	98	160	240	320	818	400	800	1,600	2,000	4,800
Gross Profit	996	880	805	183	240	360	480	1,263	600	1,200	2,400	3,000	7,200
G&A	6,996	9,781	10,352	3,271	2,800	2,800	2,800	11,671	2,500	2,500	2,500	2,500	10,000
Operations expense	1,861	2,960	2,352	575	550	550	550	2,225	550	550	550	550	2,200
Sales and Marketing	0	1,913	585	115	75	50	50	290	30	30	30	30	120
Total Operating Expenses	8,857	14,654	13,289	3,960	3,425	3,400	3,400	14,185	3,080	3,080	3,080	3,080	12,320
Operating Income	(7,861)	(13,774)	(12,484)	(3,778)	(3,185)	(3,040)	(2,920)	(12,923)	(2,480)	(1,880)	(680)	(80)	(5,120)
Total Other Items	(2,225)	(5,616)	(13,401)	(111)	0	0	0	(111)	0	0	0	0	0
Pre-Tax Income	(10,086)	(19,391)	(25,884)	(3,889)	(3,185)	(3,040)	(2,920)	(13,034)	(2,480)	(1,880)	(680)	(80)	(5,120)
Taxes (benefit)	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
Net Income (loss)	(\$10,086)	(\$19,391)	(\$25,884)	(\$3,889)	(\$3,185)	(\$3,040)	(\$2,920)	(\$13,034)	(\$2,480)	(\$1,880)	(\$680)	(\$80)	(\$5,120)
Diluted EPS	(7.87)	(6.76)	(2.17)	(0.11)	(0.09)	(0.08)	(0.08)	(0.36)	(0.07)	(0.05)	(0.02)	(0.00)	(0.14)
EPS incl. Deemed Div. if any		(6.86)	(2.21)										
Diluted Shares Outstanding	1,282	2,870	11,950	36,513	36,600	36,600	36,700	36,603	36,700	36,700	36,700	36,700	36,700

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Predictive Oncology Inc. – Balance Sheet (\$ in thousands)

December ending year	FY2022E	FY2021E	FY2020A	FY2019
Balance sheet				
Current Assets				
Cash and S.T.I.	\$22,421.45	\$24,021.45	\$3,176.17	\$2,063.73
Accounts receivable	1,000.00	600.00	256.88	297.06
Inventories	400.00	300.00	289.54	190.16
Other assets	300.00	250.00	289.49	160.22
Total Current Assets	24,121.45	25,171.45	4,012.07	2,711.16
Net PP&E	0.00	0.00	0.00	0.00
Other non-current assets	1,750.00	1,500.00	1,511.61	729.75
Total Assets	\$35,671.45	\$36,871.45	\$15,558.27	\$24,288.41
Current Liabilities				
Accounts payable and accrued exp.	\$5,000.00	\$3,000.00	\$3,960.12	\$5,527.27
Short-term notes payable	200.00	100.00	4,484.95	4,836.18
Other current liabilities	2,000.00	1,000.00	891.85	510.47
Total current liabilities	7,200.00	4,100.00	9,336.92	10,873.93
Conv. and Long Term Debt	0.00	0.00	0.00	0.00
Other non-current	1,600.00	900.00	1,080.83	270.26
Total Liabilities	8,800.00	5,000.00	10,417.76	11,144.19
Stockholders' Equity				
Preferred stock	0.79	0.79	0.79	35.80
Common stock	500.00	500.00	198.05	40.57
Additional paid-in-capital	150,000.00	150,000.00	110,826.95	93,653.67
Retained earnings	(123,629.34)	(118,629.34)	(105,885.27)	(80,585.81)
Cum. trans. adj. and treasury stock	0.00	0.00	0.00	0.00
Total stockholders' equity	26,871.45	31,871.45	5,140.52	13,144.22
Total Liabilities and equity	\$35,671.45	\$36,871.45	\$15,558.27	\$24,288.41

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Predictive Oncology Inc. – Cash Flow (\$ in thousands)

	2022E	2021E	2020A
Net Income	(\$5,000.0)	(\$12,744.1)	(\$25,299.5)
Accounts receivable	(400.0)	(343.1)	40.2
Inventories	(100.0)	(10.5)	(99.4)
Other assets	(50.0)	39.5	(129.3)
Notes receivable	0.0	0.0	0.0
Fixed assets, net	200.0	(177.3)	(2,314.9)
Goodwill and intangible	200.0	11.9	13,127.8
Other non-current	(250.0)	11.6	(781.9)
Accounts payable and accrued exp.	2,000.0	(960.1)	(1,567.2)
Short-term notes payable	0.0	(4,431.9)	(363.9)
Deferred revenue	100.0	47.0	12.6
Other current liabilities	1,000.0	108.1	381.4
Conv. and Long Term Debt	0.0	0.0	0.0
Other non-current	700.0	(180.8)	810.6
Preferred stock	0.0	0.0	(35.0)
Common stock	0.0	302.0	157.5
Additional paid-in-capital	0.0	39,173.1	17,173.3
Stock subscription receivable	0.0	0.0	0.0
Other			
Total Cash Flow	(\$1,600.0)	\$20,845.3	\$1,112.4

Source: Litchfield Hills Research LLC

Disclosures:

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POAI-\$5.00 PT

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