

**Action Summary – 8 March 2021**

Analyst Theodore R. O'Neill *is raising our PT to \$5 from \$3*

- **We are raising our price target following a review of our model and in advance of 4Q20 earnings which we estimate will be announced near the end of the month or early next.**
- There is no consensus but our 4Q20 revenue and EPS estimate is \$350,000 and a loss of \$0.18 respectively
- Our price target model is based on the discounted value of all future earnings and that model has changed. Our initial model assumed breakeven earnings in 2023, but given the company is gaining momentum in reaching milestones for its AI-driven model for Ovarian cancer and its now strong balance sheet, we believe 2023 will achieve earnings of at least \$0.10 effectively moving up our earnings timeline by a year. The result of this is that our PT goes to \$5 from \$3
- **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, but at a small premium compared to peers.**

3/5 Closing price: \$1.22	Market cap: \$44 million	Multiple of book: NMF	2022 Sales Multiple: 3.80
Shares outstanding: 36 million	Insider ownership: 7.6%	3-mo. avg. trading volume: 4,424,027	Dividend/Yield: NA/NA

**GAAP estimates (EPS in dollars – Revenue in thousands)**

Period	EPS	Revenue
1Q20A	(\$0.93)	\$294.9
2Q20A	(\$0.36)	\$182.8
3Q20A	(\$0.42)	\$480.8
4Q20E	(\$0.18)	\$350.0
FY20E	(\$1.48)	\$1,308.5
1Q21E	(\$0.09)	\$350.0
2Q21E	(\$0.08)	\$400.0
3Q21E	(\$0.07)	\$600.0
4Q21E	(\$0.07)	\$800.0
FY21E	(\$0.30)	\$2,150.0
1Q22E	(\$0.06)	\$1,000.0
2Q22E	(\$0.05)	\$2,000.0
3Q22E	(\$0.01)	\$4,000.0
4Q22E	\$0.00	\$5,000.0
FY22E	(\$0.11)	\$12,000.0

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

**Cash balance (in thousands)**

• 2019A	• \$151
• 2020E	• \$819
• 2021E	• \$6,154
• 2022E	• \$6,354

**Debt (in thousands)**

• 2019A	• \$4,836
• 2020E	• \$5,865
• 2021E	• \$6,100
• 2022E	• \$6,200

**Risks/Valuation**

- Risks include: Highly regulated and competitive business, volatility of operating results, upcoming debt maturity
- 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 \$5.28 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: \$5.28		
Year	EPS	Discounted EPS
2021	(0.30)	(0.30)
2022	(0.11)	(0.10)
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
<b>Terminal Value:</b>		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 premium to multiples of sales and the disconnect between the discounted earnings flow and multiple of sales metric may easily be that we are underestimating revenue in 2022 or that growth in 2023 will be significant. 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 Sales Multiple
Average	3.30
POAI	3.80
<b>Premium to peers</b>	<b>15%</b>

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.

Our model incorporates the additional shares from the recent capital raise as well as the shares sold as warrants in that transaction. The total number of shares following warrant conversion will be ~36.5MM. 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 the 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	3/4/21 Close	Market Cap \$MM	Net Debt Incl. Pref. Stock & Min. Interest \$MM	EV \$MM	2022 EV / Revenue	2022 Sales Multiple	GICS Industry Name
ROG.S	Roche Holding AG	320.95	278,595.24	6,003.84	285,605.48	4.28	4.14	Pharmaceuticals
PFE	Pfizer Inc	34.20	190,754.93	27,850.00	218,604.93	4.13	3.56	Pharmaceuticals
MRK	Merck & Co Inc	72.17	182,612.88	23,816.00	206,428.88	3.71	3.29	Pharmaceuticals
AZN.L	AstraZeneca PLC	95.28	125,081.71	12,404.00	137,485.71	3.77	3.46	Pharmaceuticals
SNY.O	Sanofi SA	45.90	116,572.02	12,158.04	126,589.78	2.69	2.48	Pharmaceuticals
SYK.N	Stryker Corp	235.80	88,708.18	10,967.00	99,675.18	5.44	4.84	Health Care Equipment & Supplies
GSK.L	GlaxoSmithKline PLC	17.27	86,887.32	36,918.39	124,402.25	2.51	1.75	Pharmaceuticals
BAYGn.DE	Bayer AG	61.73	60,647.67	36,406.94	96,360.25	1.90	1.20	Pharmaceuticals
4502.T	Takeda Pharmaceutical C	34.81	54,867.70	39,721.27	92,848.84	3.11	1.83	Pharmaceuticals
ZBH.N	Zimmer Biomet Holdings	156.25	32,477.42	7,329.60	39,807.02	4.75	3.87	Health Care Equipment & Supplies
MYGN.O	Myriad Genetics Inc	28.43	2,138.23	74.10	2,212.33	3.26	3.11	Biotechnology
CODX.O	Co-Diagnostics Inc	13.20	373.15	-27.28	345.87	3.05	3.58	Health Care Equipment & Supplies
ANPC.O	AnPac Bio-Medical Scien	5.91	66.20	-0.50	65.65	10.06	8.01	Biotechnology
DXR	Daxor Corp	11.46	44.56	0.17	44.73		3.96	Health Care Equipment & Supplies
QBIO.PK	Q BioMed Inc	1.08	27.93	7.05	34.97	0.44	0.35	Biotechnology
	<b>AVERAGE</b>					3.79	3.30	
POAI.O	Predictive Oncology Inc	1.25	45.57	3.28	51.42	4.29	3.80	Health Care Equipment & Supplies
	POAI Premium to peers					13%	15%	

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	2019	2020E				2020E	2021E				2021E	2022E				2022E
	Year	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
<b>Total revenue</b>	\$1,412	\$1,412	\$295	\$183	\$481	\$350	\$1,308	\$350	\$400	\$600	\$800	\$2,150	\$1,000	\$2,000	\$4,000	\$5,000	\$12,000
<i>Y/Y growth</i>			16%	-36%	-8%	1%	-7%	19%	119%	25%	129%	64%	186%	400%	567%	525%	458%
Cost of Goods	416	532	93	85	175	140	493	140	160	240	320	860	400	800	1,600	2,000	4,800
<b>Gross Profit</b>	<b>996</b>	<b>880</b>	<b>202</b>	<b>98</b>	<b>306</b>	<b>210</b>	<b>815</b>	<b>210</b>	<b>240</b>	<b>360</b>	<b>480</b>	<b>1,290</b>	<b>600</b>	<b>1,200</b>	<b>2,400</b>	<b>3,000</b>	<b>7,200</b>
SG&A	6,996	11,694	3,093	3,345	2,348	2,300	11,086	2,300	2,300	2,300	2,300	9,200	2,300	2,300	2,300	2,300	9,200
Operations expense	1,861	2,960	549	521	569	550	2,189	550	550	550	550	2,200	550	550	550	550	2,200
Total Operating Expenses	8,857	14,654	3,642	3,866	2,917	2,850	13,275	2,850	2,850	2,850	2,850	11,400	2,850	2,850	2,850	2,850	11,400
<b>Operating Income</b>	<b>(7,861)</b>	<b>(13,774)</b>	<b>(3,439)</b>	<b>(3,768)</b>	<b>(2,611)</b>	<b>(2,640)</b>	<b>(12,459)</b>	<b>(2,640)</b>	<b>(2,610)</b>	<b>(2,490)</b>	<b>(2,370)</b>	<b>(10,110)</b>	<b>(2,250)</b>	<b>(1,650)</b>	<b>(450)</b>	<b>150</b>	<b>(4,200)</b>
Total Other Items	(2,225)	(5,616)	(1,090)	191	(3,696)	(500)	(5,095)	0	0	0	0	0	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>(10,086)</b>	<b>(19,391)</b>	<b>(4,529)</b>	<b>(3,577)</b>	<b>(6,308)</b>	<b>(3,140)</b>	<b>(17,554)</b>	<b>(2,640)</b>	<b>(2,610)</b>	<b>(2,490)</b>	<b>(2,370)</b>	<b>(10,110)</b>	<b>(2,250)</b>	<b>(1,650)</b>	<b>(450)</b>	<b>150</b>	<b>(4,200)</b>
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
<b>Net Income (loss)</b>	<b>(\$10,086)</b>	<b>(\$19,391)</b>	<b>(\$4,529)</b>	<b>(\$3,577)</b>	<b>(\$6,308)</b>	<b>(\$3,140)</b>	<b>(\$17,554)</b>	<b>(\$2,640)</b>	<b>(\$2,610)</b>	<b>(\$2,490)</b>	<b>(\$2,370)</b>	<b>(\$10,110)</b>	<b>(\$2,250)</b>	<b>(\$1,650)</b>	<b>(\$450)</b>	<b>\$150</b>	<b>(\$4,200)</b>
<b>Diluted EPS</b>	<b>(7.87)</b>	<b>(6.76)</b>	<b>(0.93)</b>	<b>(0.36)</b>	<b>(0.42)</b>	<b>(0.18)</b>	<b>(1.48)</b>	<b>(0.09)</b>	<b>(0.08)</b>	<b>(0.07)</b>	<b>(0.07)</b>	<b>(0.30)</b>	<b>(0.06)</b>	<b>(0.05)</b>	<b>(0.01)</b>	<b>0.00</b>	<b>(0.11)</b>
<b>EPS incl. Deemed Div. if any</b>		<b>(6.86)</b>		<b>(0.46)</b>	<b>(0.18)</b>												
Diluted Shares Outstanding	1,282	2,870	4,866	9,838	15,027	17,700	11,858	30,000	34,000	36,000	36,100	34,025	36,500	36,600	36,700	36,800	36,650

Source: Company reports and Litchfield Hills Research LLC

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

December ending year	FY2022E	FY2021E	FY2020E	FY2019
<b>Balance sheet</b>				
Current Assets				
Cash and S.T.I.	\$6,353.66	\$6,153.66	\$818.66	\$150.83
Accounts receivable	1,000.00	600.00	500.00	297.06
Inventories	400.00	300.00	210.00	190.16
Other assets	300.00	250.00	250.00	160.22
<b>Total Current Assets</b>	<b>8,053.66</b>	<b>7,303.66</b>	<b>1,778.66</b>	<b>798.26</b>
Net PP&E	0.00	0.00	0.00	0.00
Other non-current assets	1,750.00	1,500.00	1,800.00	729.75
<b>Total Assets</b>	<b>\$22,603.66</b>	<b>\$23,603.66</b>	<b>\$22,378.66</b>	<b>\$22,375.51</b>
Current Liabilities				
Accounts payable and accrued exp.	\$7,000.00	\$5,000.00	\$4,100.00	\$5,527.27
Short-term notes payable	6,200.00	6,100.00	5,865.00	4,836.18
Other current liabilities	2,000.00	2,000.00	2,000.00	510.47
<b>Total current liabilities</b>	<b>15,200.00</b>	<b>13,100.00</b>	<b>11,965.00</b>	<b>10,873.93</b>
Conv. and Long Term Debt	0.00	0.00	0.00	0.00
Other non-current	1,600.00	1,500.00	1,300.00	270.26
<b>Total Liabilities</b>	<b>16,800.00</b>	<b>14,600.00</b>	<b>13,265.00</b>	<b>11,144.19</b>
Stockholders' Equity				
Preferred stock	0.79	0.79	0.79	35.80
Common stock	166.00	166.00	166.00	40.57
Additional paid-in-capital	120,000.00	119,000.00	109,000.00	93,653.67
Retained earnings	(114,363.13)	(110,163.13)	(100,053.13)	(82,498.71)
Cum. trans. adj. and treasury stock	0.00	0.00	0.00	0.00
Total stockholders' equity	5,803.66	9,003.66	9,113.66	11,231.32
<b>Total Liabilities and equity</b>	<b>\$22,603.66</b>	<b>\$23,603.66</b>	<b>\$22,378.66</b>	<b>\$22,375.51</b>

Source: Company reports and Litchfield Hills Research LLC

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

	2022E	2021E	2020E	2019A
Net Income	(\$4,200.0)	(\$10,110.0)	(\$17,554.4)	(\$19,390.8)
Accounts receivable	(400.0)	(100.0)	(202.9)	(64.5)
Inventories	(100.0)	(90.0)	(19.8)	50.9
Other assets	(50.0)	0.0	(89.8)	655.5
Notes receivable	0.0	0.0	0.0	1,112.5
Fixed assets, net	0.0	0.0	(2,292.2)	(1,327.3)
Goodwill and intangible	2,000.0	4,000.0	4,339.7	(18,375.2)
Other non-current	(250.0)	300.0	(1,070.3)	(729.7)
Accounts payable and accrued exp.	2,000.0	900.0	(1,427.3)	3,802.5
Short-term notes payable	0.0	200.0	1,004.2	3,160.9
Deferred revenue	100.0	35.0	24.6	17.3
Other current liabilities	0.0	0.0	1,489.5	237.7
Conv. and Long Term Debt	0.0	0.0	0.0	0.0
Other non-current	100.0	200.0	1,029.7	270.3
Preferred stock	0.0	0.0	(35.0)	35.0
Common stock	0.0	0.0	125.4	26.5
Additional paid-in-capital	1,000.0	10,000.0	15,346.3	30,507.1
Stock subscription receivable	0.0	0.0	0.0	0.0
Other				
Total Cash Flow	\$200.0	\$5,335.0	\$667.8	(\$11.3)

Source: Litchfield Hills Research LLC

#### Disclosures:

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## Predictive Oncology Inc.

POAI-\$5.00 PT

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