LITCHFIELD HILLS RESEARCH

QHSLab, Inc. USAQ-Buy-$5 PT

Action Summary – 27 September 2022

Analyst Theodore R. O'Neill - Digital Healthcare company QHSLab reports mixed 2Q22 – reiterate Buy rating and $5 PT

- USAQ reported 2Q22 revenue and an EPS loss of $351K and $0.03, respectively versus our estimate of $500K and an EPS loss of $0.03, respectively, meeting our EPS estimates while missing our top line estimate. There is no consensus. The in-line EPS on slightly lower than expected revenue was due to higher margins and lower-than-expected operating expenses.
- **Revenue transition underway**. During 2Q22, it began to enter SaaS subscription agreements to provide physicians with access to its proprietary internally-developed QHSLab platform software that provides clinical decision support and patient monitoring which facilitate the diagnosis and treatments of allergies using its AllergiEnd® Products. The transition to a SaaS based model that reports revenue as its products are used, rather than the customer buying in bulk, hurts Yr/Yr comparisons but results in more transparent financials in the short term.
- **Adjustment to estimates.** Due to this transition, we are lowering our 2022 revenue forecast to $1.7MM from $3.2MM and EPS goes to a loss of $0.08 from a loss of $0.04. For 2023, our revenue and EPS forecast falls to $3.0MM from $8.5MM. 2023 EPS moves to a loss of $0.01 from a gain of $0.14.
- **Attractive valuation. Trading at an EV/Sales of 0.88, the shares appear to us inexpensive on an absolute and relative basis**. Reiterating Buy rating and $5 PT

9/26 Closing price: $0.14	**Market cap: $1.4 million**	**2023 P/E: NMF**	**EV/2023 Sales: 0.88**
Shares outstanding: 9.1 million	**Insider ownership: 50%**	**Avg. trading volume: 11,000**	**Dividend/Yield: NA/NA**

GAAP estimates (EPS in dollars – Revenue in thousands)

Period	EPS	Revenue	Op Margin
1Q21A	$(0.01)	$304	NMF
2Q21A	$(0.02)	$456	NMF
3Q21A	$(0.03)	$324	NMF
4Q21A	$(0.03)	$330	NMF
FY20A	$(0.10)	$1,414	NMF
1Q22A	$(0.02)	$355	(12%)
2Q22A	$(0.03)	$351	(38%)
3Q22E	$(0.01)	$450	(23%)
4Q22E	$(0.02)	$500	(32%)
FY22E	$(0.08)	$1,656	(27%)
1Q23E	$(0.01)	$550	(8%)
2Q23E	$(0.00)	$650	(5%)
3Q23E	$(0.00)	$800	1%
4Q23E	$0.01	$1,000	7%
FY23E	$(0.01)	$3,000	0%

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

Cash balance (in thousands)

• 2021A	• $287
• 2022E	• $351
• 2023E	• $1,740

Debt (in thousands)

• 2021A	• $503
• 2022E	• $900
• 2023E	• $900

Adj. EBITDA (in thousands)

• 2021A	• ($736)
• 2022E	• ($712)
• 2023E	• ($17)

Risks/Valuation

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

Company description: QHSLab is a medical device company providing digital healthcare solutions and point-of-care-diagnostic tests to primary care physicians. Digital healthcare allows doctors to assess patients' responses quickly and effectively using advanced artificial intelligence algorithms. It also markets and sells point-of-care, rapid-response diagnostic tests used in the primary care practice. QHSLab, Inc.'s products and services are designed to help physicians improve patient monitoring and medical care while also improving the revenues of their practice.

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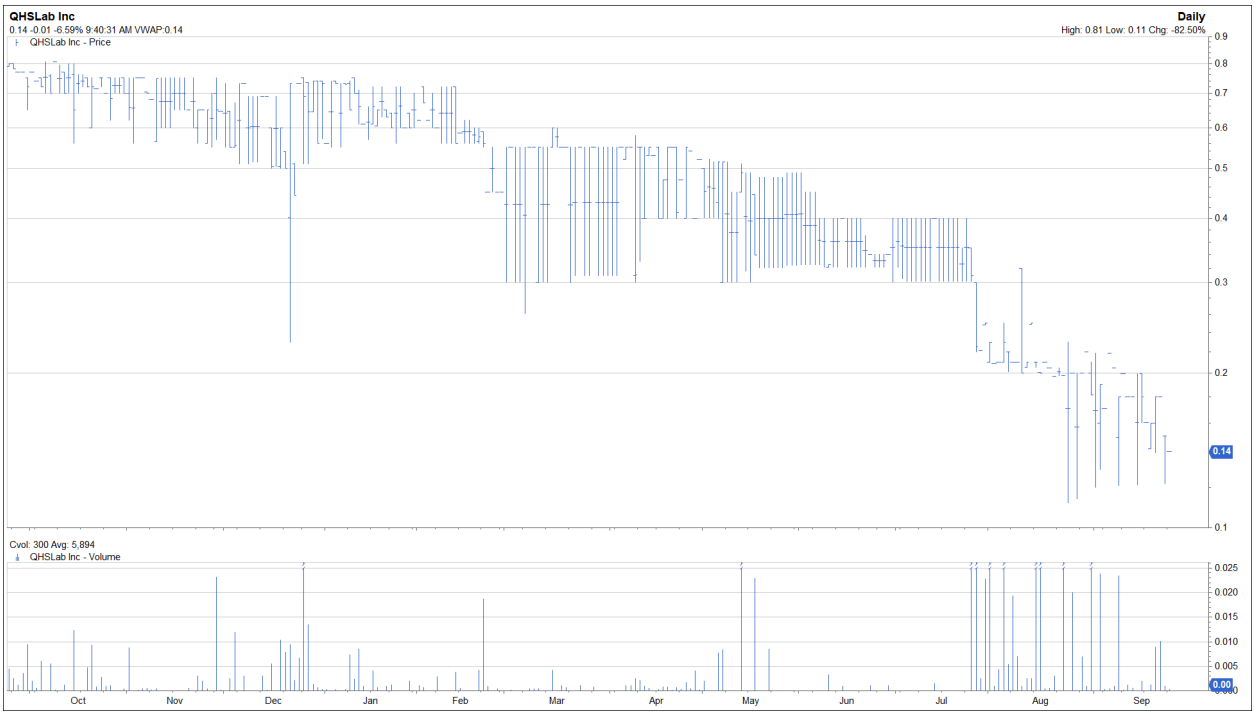
Figure 1 – QHSLab, Inc. – One-year Trading snapshot



Source: FactSet

Valuation Methodology

We believe USAQ is undervalued, and we support that belief with two valuation techniques, both of which generate approximately a value significantly greater than where the shares trade today. 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 4Q22 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 $5.10 which we round down to $5.00.

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Figure 2 – QHSLab, Inc. – Implied Price Target Calculation

Disc. Future Earnings	$5.10
Year	EPS	Discounted EPS
2022	($0.08)	($0.08)
2023	($0.01)	($0.01)
2024	$0.20	$0.16
2025	$0.30	$0.21
2026	$0.38	$0.24
2027	$0.45	$0.26
2028	$0.55	$0.28
2029	$0.65	$0.29
2030	$0.72	$0.29
2031	$0.79	$0.28
Terminal Value:		$3.18

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

As we show in Figure 5, USAQ shares sell at a significant discount to average peer sales multiples. The average market cap/sales multiple looking into next year is above 4x. Based on our estimates for 2023, and using the average sales multiple, if USAQ reaches $3MM of revenue, it would have a market cap of ~$10.3MM or ~$1.12 per share (see Figure 3).

Figure 3 –QHSLab, Inc. – Summary Discount to Peers

	Implied Share Price Calculation
Average Peers 2023 Sales Multiple	3.42
Our 2023 Revenue Estimate	$3MM
Implied Market Cap	$10.26MM
Estimated Share Count	9.1MM
Implied Share Price	**$1.12**

Source: Litchfield Hills Research LLC and FactSet

Quarterly Results

USAQ reported 2Q22 revenue and an EPS loss of $351K and $0.03, respectively versus our estimate of $500K and an EPS loss of $0.03, respectively, meeting our EPS estimates while missing our top line estimate. There is no consensus. The in-line EPS on slightly lower than expected revenue was due to higher margins and lower-than-expected operating expenses.

Figure 4 –USA Equities Corp. – Quarterly Variance Analysis ($000)

			Better/(worse) than forecast
	2022 Q2E	2022 Q2A	
Income Statement			
Total Revenue	$500.0	$350.8	($149.2)
Total cost of revenue	260.0	180.6	79.4
Total Gross Profit	240.0	170.2	(69.8)
Operating expenses:			
G&A	250.0	124.1	125.9
R&D	20.0	58.6	(38.6)
Marketing	200.0	119.8	80.2
Total Expenses	470.0	302.5	167.5
Earnings (loss) from Operations	(230.0)	(132.3)	97.7
Total other income/(expense)	(6.6)	(147.1)	(140.5)
Earnings before taxes	(236.6)	(279.4)	(42.8)
Tax expense/(benefit)	0.0	0.0	0.0
Net income	($236.6)	($279.4)	($42.8)
EPS	($0.03)	($0.03)	($0.00)
EPS Excluding other income/expense	($0.03)	($0.02)	$0.01
Diluted common shares	8,780	8,798	

Source: Company filings and Litchfield Hills Research LLC

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.

Figure 5 – QHSLab, Inc. – Comp Table

					2023 Consensus Multiples	
FactSet Ticker	Company Name	Closing Price	Market Cap $MM	EV $MM	Market Cap / Sales	EV /Sales
NVS-US	Novartis AG (Adr)	$76.01	182,073	178,885	3.31	3.31
4543-JP	Terumo Corporation	$29.83	22,658	22,764	3.67	3.69
RHC-AU	Ramsay Health Care Ltd	$39.57	9,057	16,756	0.92	1.68
508869-IN	Apollo Hospitals Enterprise Limited (IN Listing)	$54.59	7,850	8,217	3.16	
ATR-US	Aptargroup	$98.08	6,408	7,724	1.83	2.22
GDRX-US	GoodRx Holdings, Inc.	$5.15	435	2,092	2.30	2.35
ROSE-CH	Zur Rose Group AG	$31.54	394	697	0.20	0.34
IRBT-US	Irobot Corp	$57.81	1,574	1,583	0.98	0.99
AEVS-CH	AEVIS Victoria SA	$19.30	1,632	2,620		
WELL-CA	WELL Health Technologies Corp.	$2.28	517	804	1.13	1.70
DOC-CA	CloudMD Software & Services, Inc. (XCLOSE Security)	$0.20	54	62	0.45	0.46
PAVM-US	PAVmed Inc (US Listing)	$0.98	89	75	7.31	5.93
VICO-SE	Vicore Pharma Holding AB	$1.99	143	120	18.52	15.73
CFX-GB	Colefax Group	$8.56	68	79	0.67	0.77
ACHV-US	Achieve Life Sciences Inc	$3.84	37	23	NMF	NMF
	AVERAGE				3.42	3.26
USAQ-US	QHSLab Inc	$0.15	1	3	0.46	0.88
	USAQ-US Discount to peers				**-87%**	**-73%**
We excluded ACHV metrics with NMF because they were more than 10 standard deviations above the average.						

Source: Litchfield Hills Research LLC and FactSet

Figure 6 – QHSLab, Inc. – Income Statement ($000)

December ending year	2019	2020A		2021A			2021A		2022E			2022E		2023E			2023E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	$0	$125	$304	$456	$324	$330	$1,414	$355	$351	$450	$500	$1,656	$550	$650	$800	$1,000	$3,000
												17%					
Cost of Goods	0	74	171	249	167	157	744	167	181	234	260	841	286	338	416	520	1,560
Gross Profit	**0**	**50**	**134**	**207**	**157**	**173**	**671**	**189**	**170**	**216**	**240**	**815**	**264**	**312**	**384**	**480**	**1,440**
G&A	54	132	70	135	150	99	454	90	124	125	125	464	135	150	155	160	600
R&D	100	98	28	15	20	28	91	29	59	75	75	238	50	50	50	50	200
Sales & Marketing	0	95	112	162	182	137	592	113	120	120	200	553	125	145	175	200	645
Total Operating Expenses	154	325	210	312	351	264	1,137	232	302	320	400	1,254	310	345	380	410	1,445
Operating Income	**(154)**	**(275)**	**(76)**	**(105)**	**(194)**	**(91)**	**(466)**	**(43)**	**(132)**	**(104)**	**(160)**	**(439)**	**(46)**	**(33)**	**4**	**70**	**(5)**
Operating income %	NMF	NMF	NMF	NMF	-60%	-28%	-33%	-12%	-38%	-23%	-32%	-27%	-8%	-5%	1%	7%	0%
Total Other Items	(12)	(52)	(10)	(8)	(107)	(179)	(304)	(147)	(147)	(6)	(6)	(306)	(28)	(7)	(6)	(6)	(46)
Pre-Tax Income	**(167)**	**(327)**	**(87)**	**(112)**	**(301)**	**(270)**	**(770)**	**(190)**	**(279)**	**(110)**	**(166)**	**(746)**	**(74)**	**(40)**	**(2)**	**64**	**(51)**
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)	**($167)**	**($327)**	**($87)**	**($112)**	**($301)**	**($270)**	**($770)**	**($190)**	**($279)**	**($110)**	**($166)**	**($746)**	**($74)**	**($40)**	**($2)**	**$64**	**($51)**
EPS, as reported	**($0.03)**	**($0.05)**	**($0.01)**	**($0.02)**	**($0.03)**	**($0.03)**	**($0.10)**	**($0.02)**	**($0.03)**	**($0.01)**	**($0.02)**	**($0.08)**	**($0.01)**	**($0.00)**	**($0.00)**	**$0.01**	**($0.01)**
Diluted Shares Outstanding	5,411	6,200	6,833	7,207	8,646	8,760	7,861	8,780	8,798	8,800	8,800	8,794	8,900	9,000	9,100	9,200	9,050

Source: Company reports and Litchfield Hills Research LLC

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Figure 7 – QHSLab, Inc. – Balance Sheet ($000)

December ending year	FY2023E	FY2022E	FY2021A	FY2020A
Balance sheet				
Current Assets				
Cash and S.T.I.	$1,739.8	$351.1	$286.9	$94.3
Accounts receivable	120.0	100.0	70.5	60.5
Inventories	100.0	50.0	65.7	99.7
Other assets	40.0	30.0	22.7	11.6
Total Current Assets	**1,999.8**	**531.1**	**445.8**	**266.2**
Net PP&E	0.0	0.0	186.3	0.0
Other non-current assets	1,400.0	1,500.0	1,576.4	0.0
Total Assets	**$3,434.8**	**$2,066.1**	**$2,208.5**	**$297.9**
Current Liabilities				
Accounts payable	200.0	100.0	20.4	159.6
Advances or notes payable	1,000.0	800.0	796.0	55.0
Other current liabilities	40.0	20.0	58.6	0.0
Total current liabilities	**1,240.0**	**920.0**	**875.0**	**214.6**
Accrued interest expense	10.0	10.0	6.5	115.6
Convertible note and loans	900.0	900.0	503.0	576.0
Total Liabilities	**2,150.0**	**1,830.0**	**1,384.4**	**906.2**
Stockholders' Equity				
Preferred stock	0.1	0.1	0.4	0.1
Common stock	0.6	0.6	0.9	0.7
Additional paid-in-capital	4,600.0	3,500.0	3,348.7	1,139.6
Retained earnings	(3,315.9)	(3,264.6)	(2,518.9)	(1,748.7)
Cum. trans. adj. and treasury stock	0.0	0.0	(7.0)	0.0
Total stockholders' equity	1,284.8	236.1	824.1	(608.3)
Total Liabilities and equity	**$3,434.8**	**$2,066.1**	**$2,208.5**	**$297.9**

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – QHSLab, Inc. – Cash Flow ($000)

	2023E	2022E	2021A	2020A
Net Income	($51.33)	($745.69)	($770.18)	($327.39)
Accounts receivable	(20.00)	(29.53)	(9.95)	(57.77)
Inventories	(50.00)	15.74	33.96	(99.70)
Other assets	(10.00)	(7.29)	(11.12)	(11.60)
PP&E	0.00	186.27	(186.27)	0.00
Intangibles net of depr.	100.00	76.44	(1,576.44)	0.00
Long term assets	0.00	(35.00)	31.70	(31.70)
Accounts payable	100.00	79.63	(139.25)	138.68
Advances or notes payable	200.00	4.03	740.97	55.00
Accrued interest expense	0.00	0.00	0.00	0.00
Other current liabilities	20.00	(38.62)	58.62	0.00
Accrued interest expense	0.00	3.48	(109.05)	22.07
Convertible note and loans	0.00	397.04	(73.05)	234.32
Preferred stock	0.00	(0.26)	0.26	0.00
Common stock	0.00	(0.28)	0.22	0.08
Additional paid-in-capital	1,100.00	151.32	2,209.05	148.77
Accumulated other comp. loss	0.00	6.97	(6.97)	0.00
Other				
Total Cash Flow	$1,388.67	$64.26	$192.52	$70.75

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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