

Medical Devices

MLSS - NYSE American August 17, 2020

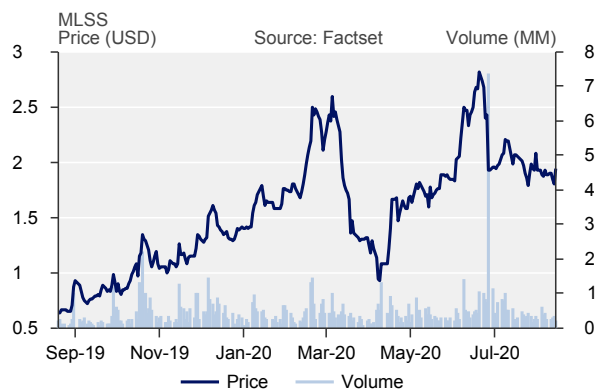
Intraday Price 8/17/20	\$1.77
Rating:	Buy
12-Month Target Price:	\$4.00
52-Week Range:	\$0.46 - \$3.05
Market Cap (M):	116.6
Shares O/S (M):	65.9
Float:	68.8%
Avg. Daily Volume (000):	549.2
Debt (M):	\$0.3
Dividend:	\$0.00
Dividend Yield:	0.0%
Risk Profile:	Speculative
Fiscal Year End:	December

Revenue ('000)

	2019A	2020E	2021E
1Q	1,916	1,811A	1,225
2Q	2,258	168A	1,535
3Q	1,900	485	1,876
4Q	2,301	974	2,711
FY	8,375	3,438	7,347
<i>Prior</i>	—	4,898	10,764

GAAP EPS

	2019A	2020E	2021E
1Q	(0.02)	(0.03)A	(0.04)
2Q	(0.02)	(0.06)A	(0.03)
3Q	(0.06)	(0.05)	(0.03)
4Q	(0.06)	(0.04)	(0.03)
FY	(0.16)	(0.18)	(0.13)
<i>Prior</i>	—	(0.13)	(0.05)



Milestone Scientific Inc.

Buy

2Q20 Results Adversely Impacted by COVID-19; Balance Sheet Strengthened – Reiterate Buy on Epidural/CathCheck Opportunities

Summary

- On August 14, 2020, after the Market close, MLSS reported 2Q20 revenue and GAAP loss per share below our estimates, while gross margin was better-than-expected.
- The company has observed slight improvements in Dental sales trends through the beginning of the third quarter, but still expects 2020 sales to be severely impacted by COVID-19.
- On June 30, 2020, MLSS announced the closing of a \$14.6M offering of common stock and warrants. We expect the company to be cash flow positive in 2022, and at the current average quarterly cash burn of \$2.1M, we do not believe MLSS will require additional funding.
- Although COVID-19 has impeded the commercialization efforts of the CompuFlo Epidural system, MLSS is trialing the technology with KOLs (key opinion leaders) and is in late-stage purchase discussions with leading hospitals.
- Due to 2Q20 results and the uncertainty surrounding COVID-19, we are lowering our 2020 and 2021 estimates. We are also introducing 2021 quarterlies.

Details

Bottom line. Although COVID-19 has severely impacted Dental revenue as practices were closed or operating at reduced hours, we remain confident regarding the safety, efficacy, and economics of the CompuFlo system and its ability to become the standard of care in medicine. The company has increased its marketing activities for The Wand and is exploring new collaboration and distribution opportunities. MLSS's sales and business development pipeline is expanding with the company trialing its CompuFlo Epidural system with KOLs, and the company is in late-stage purchase discussions with leading hospitals. Both CompuFlo Epidural and CathCheck are resonating well with clinicians; however, we expect a slight delay in broader adoption as hospitals continue to focus on combating COVID-19. In the interim, the company has strengthened its balance sheet with two recent capital raises, and we believe it will now begin to pursue other indications for its technology. Even with the setbacks due to COVID-19, based on the company's differentiated products, significant market opportunity, and progress in the commercialization of its CompuFlo System, we reiterate our Buy rating.

2Q20 results summary. On Friday, August 14, 2020, after the Market close, MLSS reported total 2Q20 revenue of \$0.2M, down 92.6% y/y, and below our estimate of \$0.4M. Management noted the y/y decrease in sales was due to the significant impact COVID-19 had on dental practices, with closures and limited hours prevalent around the world. Gross margin of 66.8%, up 10bps y/y, was above our estimate of 55.0%. Finally, GAAP loss per share of (\$0.06) was slightly wider than our estimate of (\$0.04). On a segment basis, Dental accounted for 98.8% of sales.

Lowering estimates. Due to 2Q20 results and our expectations due to the impact of COVID-19, we are lowering our 2020 and 2021 revenue estimates to \$3.4M and \$7.3M, from \$4.9M and \$10.8M, respectively. In addition, we are widening our 2020 and 2021 GAAP loss per share estimates to (\$0.18) and (\$0.13), from (\$0.13) and (\$0.05), respectively.

Compelling valuation. Our \$4 price target is based on a 10-year DCF analysis with a 17% discount rate and 3% perpetual growth rate. We believe our valuation is warranted due to Milestone's large medical market opportunity and superior technology.

Anthony Vendetti
(212) 895-3802
avendetti@maximgrp.com

Additional details:

Balance sheet update. As of June 30, 2020, MLSS had cash and equivalents of \$16.6M and \$0.3M of debt on the balance sheet. We expect the company to burn an average of \$2.1M per quarter through 2021. However, in 2022, we believe the company will be cash flow positive, and thus should not require additional capital.

Underwritten offering. On June 30, 2020, MLSS announced the closing of its previously announced underwritten offering of 6,520,000 shares of common stock and warrants to purchase up to an aggregate of 3,260,000 shares of common stock. Each share of common stock was sold together with a warrant to purchase 0.50 of one share of common stock at a combined price to the public of \$2.15. Gross proceeds before underwriting discounts and commissions and estimated offering expenses were approximately \$14.0M. In addition, Milestone Scientific granted the underwriter a 45-day option to purchase up to an additional 978,000 shares of common stock and/or warrants to purchase up to 489,000 shares of common stock for the purposes of covering any over-allotments, at the public offering price less discounts and commissions. The underwriter partially exercised its option to purchase 250,000 shares of common stock and warrants to purchase up to 489,000 shares of common stock. The over-allotment exercise transaction also closed on June 30, 2020, bringing the total gross proceeds of the offering to approximately \$14.6M. The warrants are immediately exercisable at a price of \$2.60 per share of common stock and expire three years from the date of issuance. The shares of common stock and the accompanying warrants were purchased together in the offering, but were issued separately and were immediately separable upon issuance.

Figure 1. MLSS 2Q20 Results Table

Milestone Scientific Inc.			
2Q20 Comparison	MLSS	Maxim	Difference
Total revenue	\$0.2M	\$0.4M	(\$0.2M)
Gross margin	66.8%	55.0%	1180bps
GAAP EPS	(\$0.06)	(\$0.04)	(\$0.02)

Source: Company reports, Thomson Eikon, and Maxim Group estimates

Figure 2. MLSS 2Q20 Income Statement Comparison Table

Milestone Scientific Inc.				
2Q20 Income Statement Comparison				
<i>Actual vs. Estimates</i>	2Q20E	2Q20A	\$ Diff	% Diff
Total revenue, net	415	168	(247)	(59.6%)
<i>y/y change</i>	(81.6%)	(92.6%)		
Cost of goods sold	187	56	(131)	(70.2%)
<i>y/y change</i>	(75.2%)	(92.6%)		
% of revenue	45.0%	33.2%		
Gross Profit	228	112	(116)	(50.9%)
<i>y/y change</i>	(84.8%)	(92.6%)		
Gross Margin	55.0%	66.8%		1180
Operating expenses:				
Selling, general and administrative expenses	2,205	3,177	972	44.1%
<i>y/y change</i>	(12.4%)	26.2%		
% of revenue	531%	1894.6%		
Research and development expenses	95	108	13	13.9%
<i>y/y change</i>	(1%)	13.2%		
% of revenue	22.9%	64.5%		
Total Operating expenses	2,300	3,285	985	42.8%
<i>y/y change</i>	(12.0%)	25.7%		
% of revenue	554%	1959.1%		
Operating income (loss)	(2,072)	(3,173)	(1,101)	
<i>y/y change</i>	NA	NA		
EBIT margin	NA	NA		
Interest income	4	(4)	(8)	
Interest expense	-	-		
Other income (expense), net	(3)	-	3	
% of revenue	(0.7%)	0.0%		
Pretax income (loss)	(2,071)	(3,177)	(1,106)	
Provision for income tax	41	1	(40)	
Effective Tax	(2.0%)	(0.0%)		
Noncontrolling interests	0	(12)	(12)	
% of revenue	0.1%	(7.0%)		
Net income (loss)	(2,113)	(3,166)	(1,054)	
<i>y/y change</i>	NA	NA		
Net Margin	NA	NA		
GAAP EPS	(\$0.04)	(\$0.06)	(\$0.02)	
Weighted average shares outstanding and to be issued:				
Weighted average common shares - basic	53,910	56,695		
Weighted average common shares - diluted	59,279	65,756		

Source: Company reports, Thomson Eikon, and Maxim Group estimates

Milestone Scientific Inc.

Income Statement

(in \$ thousands, except per share data)

Maxim Group, LLC.

Anthony V. Vendetti, Executive Managing Director of Research

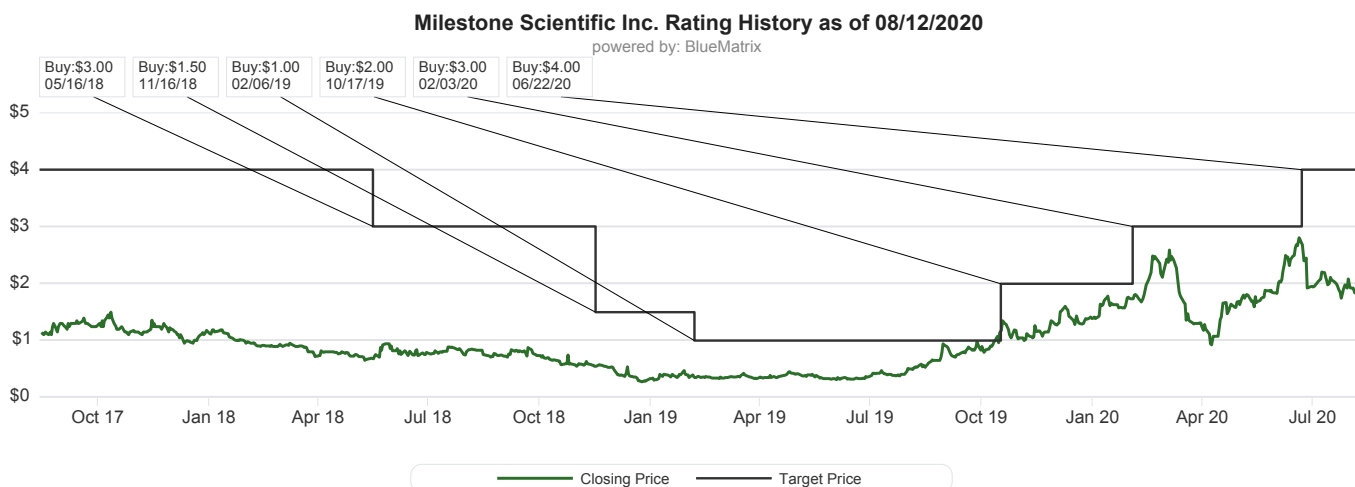
(212) 895-3802

avendetti@maximgrp.com

Fiscal Year ending December 31	2017A	2018A	1Q19A	2Q19A	3Q19A	4Q19A	2019A	1Q20A	2Q20A	3Q20E	4Q20E	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E
Total revenue, net	11,282	9,622	1,916	2,258	1,900	2,301	8,375	1,811	168	485	974	3,438	1,225	1,535	1,876	2,711	7,347
<i>y/y change</i>	7.6%	(14.7%)	6.1%	(7.0%)	17.1%	(38.9%)	(13.0%)	(5.5%)	(92.6%)	(74.5%)	(57.7%)	(58.9%)	(32.4%)	815.5%	286.8%	178.3%	113.7%
Intra-articular	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>y/y change</i>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
% of total revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Epidural & CathCheck	2	120	0	15	16	7	38	8	2	10	10	30	20	50	278	600	948
<i>y/y change</i>	NA	5890%	(98.9%)	(61.9%)	NA	(84.9%)	(69%)	N/A	N/A	(35%)	52%	(21%)	156%	2400%	2680%	5900%	3081%
% of total revenue	0.0%	1.2%	0.0%	0.7%	0.8%	0.3%	0.4%	0.4%	1.2%	2.1%	1.0%	0.9%	1.6%	3.3%	14.8%	22.1%	12.9%
Dental	11,280	9,502	1,916	2,243	1,884	2,294	8,337	1,804	166	475	964	3,408	1,205	1,485	1,598	2,111	6,399
<i>y/y change</i>	7.6%	(15.8%)	8.3%	(6.1%)	16.2%	(38.4%)	(12.3%)	(5.8%)	(92.6%)	(74.8%)	(58.0%)	(59.1%)	(33.2%)	796.3%	236.4%	119.0%	87.7%
% of total revenue	100%	99%	100.0%	99.3%	99.2%	99.7%	99.6%	99.6%	98.8%	97.9%	99.0%	99.1%	98.4%	96.7%	85.2%	77.9%	87.1%
Cost of goods sold	4,313	5,191	619	752	524	762	2,656	527	56	155	302	1,040	380	476	563	813	2,232
<i>y/y change</i>	3.3%	20.4%	10.0%	(26.4%)	(69.9%)	(59.1%)	(48.8%)	(14.8%)	(92.6%)	(70.4%)	(60.4%)	(60.8%)	(28.0%)	755.4%	262.6%	169.4%	114.6%
% of total revenue	38.2%	53.9%	32.3%	33.3%	27.6%	33.1%	31.7%	29.1%	33.2%	32.0%	31.0%	30.3%	31.0%	31.0%	30.0%	30.0%	30.4%
Gross profit	6,969	4,431	1,297	1,506	1,376	1,539	5,718	1,284	112	330	672	2,398	845	1,059	1,313	1,898	5,115
<i>y/y change</i>	10.5%	(36.4%)	4.4%	7.0%	(12.45%)	(19.1%)	29.0%	(1.0%)	(92.6%)	(76.0%)	(56.3%)	(58.1%)	(34.2%)	845.3%	298.2%	182.4%	113.3%
Gross margin	61.8%	46.1%	67.7%	66.7%	72.4%	66.9%	68.3%	70.9%	66.8%	68.0%	69.0%	69.7%	69.0%	69.0%	70.0%	70.0%	69.6%
Operating expenses:																	
Selling, general and administrative expenses	11,358	10,645	2,109	2,518	2,315	2,585	9,527	2,785	3,177	3,150	3,104	12,216	3,205	3,111	3,115	3,605	13,036
<i>y/y change</i>	(0.3%)	(6.3%)	(30.1%)	(10.8%)	(19.8%)	34.8%	(10.5%)	32.1%	26.2%	36.1%	20.1%	28.2%	15.1%	(2.1%)	(1.1%)	16.1%	6.7%
% of total revenue	101%	110.6%	110%	112%	122%	112%	114%	154%	1895%	649%	319%	355%	262%	203%	166%	133%	177%
Research and development expenses	273	246	6	96	8	80	190	107	108	110	110	436	115	115	125	171	526
<i>y/y change</i>	(78.5%)	(9.9%)	(97%)	877%	429%	838%	(22.7%)	1594%	13%	1285%	37.3%	129.4%	7%	6%	14%	55%	20.7%
% of total revenue	2.4%	2.6%	0.3%	4.2%	0.4%	3.5%	2.3%	5.9%	64.5%	22.7%	11.3%	12.7%	9.4%	7.5%	6.7%	6.3%	7.2%
Impairment of long lived assets	-	1,540	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	11,631	12,431	2,115	2,613	2,323	2,666	9,717	2,893	3,285	3,260	3,214	12,652	3,320	3,226	3,240	3,776	13,562
<i>y/y change</i>	(8.1%)	6.9%	(34.8%)	(7.7%)	(47.5%)	38.3%	(21.8%)	36.7%	25.7%	40.3%	20.6%	30.2%	14.8%	(1.8%)	(0.6%)	17.5%	7.2%
% of total revenue	103%	129%	110%	116%	122%	116%	116%	160%	1959%	672.2%	330.0%	368%	271%	210%	173%	139%	185%
Operating income (loss)	(5,234)	(7,999)	(818)	(1,108)	(947)	(1,126)	(3,999)	(1,609)	(3,173)	(2,930)	(2,542)	(10,254)	(2,475)	(2,167)	(1,927)	(1,878)	(8,447)
Interest income	9	7	1	0	0	0	2	0	(4)	5	5	6	4	4	4	4	16
Interest expense	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense), net	(121)	324	28	(3)	(3)	(34)	(10)	(4)	-	(3)	(3)	(10)	(3)	(3)	(3)	(3)	(12)
Pretax income (loss)	(5,350)	(7,668)	(789)	(1,110)	(2,849)	(2,896)	(7,643)	(1,613)	(3,177)	(2,928)	(2,540)	(10,258)	(2,474)	(2,166)	(1,926)	(1,877)	(8,443)
Provision for income tax	19	24	4	(14)	1	(10)	(18)	0	1	59	51	111	49	43	39	38	169
Effective tax rate	(0.4%)	(0.3%)	(0.6%)	1.3%	(0.0%)	0.3%	0.2%	(0.0%)	(0.0%)	(2.0%)	(2.0%)	(1.1%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
Earnings from Milestone China	-	-	-	-	-	(81)	(81)	-	-	-	-	-	-	-	-	-	-
Noncontrolling interests	(183)	(260)	(10)	12	(13)	67	56	(13)	(12)	0	1	(23)	1	2	2	3	7
% of total revenue	(1.6%)	(2.7%)	(0.5%)	0.5%	(0.7%)	2.9%	0.7%	(0.7%)	(7.0%)	0.1%	0.1%	(0.7%)	0.1%	0.1%	0.1%	0.1%	0.1%
Net income (loss)	(5,187)	(7,432)	(795)	(1,112)	(2,860)	(2,757)	(7,524)	(1,600)	(3,166)	(2,987)	(2,592)	(10,346)	(2,524)	(2,211)	(1,966)	(1,918)	(8,619)
GAAP EPS	(\$0.16)	(\$0.21)	(\$0.02)	(\$0.02)	(\$0.06)	(\$0.06)	(\$0.16)	(\$0.03)	(\$0.06)	(\$0.05)	(\$0.04)	(\$0.18)	(\$0.04)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.13)
Weighted average common shares - basic	32,704	35,229	40,532	45,366	47,722	49,340	45,740	49,730	56,695	64,985	65,985	59,349	66,985	67,985	68,985	69,985	68,485
Weighted average common shares - diluted	36,414	38,826	48,993	49,732	51,006	52,790	50,630	52,810	65,756	77,306	78,306	68,545	79,306	80,306	81,306	82,306	80,806

Sources: Company reports and Maxim Group estimates

DISCLOSURES



Maxim Group LLC Ratings Distribution		As of: 08/16/20	
		% of Coverage Universe with Rating	% of Rating for which Firm Provided Banking Services in the Last 12 months
Buy	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to outperform its relevant index over the next 12 months.	80%	51%
Hold	Fundamental metrics are currently at, or approaching, industry averages. Therefore, we expect this stock to neither outperform nor underperform its relevant index over the next 12 months.	20%	41%
Sell	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to underperform its relevant index over the next 12 months.	0%	0%

**See valuation section for company specific relevant indices*

I, Anthony Vendetti, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

Maxim Group makes a market in Milestone Scientific Inc.

Maxim Group managed/co-managed/acted as placement agent for an offering of the securities for Milestone Scientific Inc. in the past 12 months.

Maxim Group received compensation for investment banking services from Milestone Scientific Inc. in the past 12 months.

Maxim Group expects to receive or intends to seek compensation for investment banking services from Milestone Scientific Inc. in the next 3 months.

An affiliate of Maxim Group beneficially owns warrants/shares in Milestone Scientific Inc. .

MLSS: For Milestone Scientific Inc., we use the Russell 3000 Index (RUA) as the relevant index.

Valuation Methods

MLSS: Our 12-month target price for Milestone Scientific Inc. is based on a 10-year discounted cash flow analysis, and is supported by EV/revenue comparative valuation.

Price Target and Investment Risks

MLSS: Aside from general market and other economic risks, risks particular to our Milestone Scientific Inc. price target and recommendation include: substantial doubt about ability to meet obligations and continue as a going concern; inability to collect receivables from Milestone China; the ability to raise capital; additional dilutive capital raises; slow technology adoption; adverse regulatory changes; reimbursement issues; customer, supplier, and manufacturer concentration; liquidity risk stemming from limited free float; company success is dependent on gaining greater market penetration; excessive returns under the June 2016 Exclusive Distribution and Supply Agreement with Henry Schein (HSIC - NR); dependence on marketing success of epidural anesthetic injections and intra-articular injection instruments in the EU; concentration of equity among the principal stockholders; potential inability to access customers or supply chain and manufacturing disruptions due to COVID-19; potential high volatility of stock price; the ability of the company to maintain its exchange listing.

RISK RATINGS

Risk ratings take into account both fundamental criteria and price volatility.

Speculative – Fundamental Criteria: This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry. **Price Volatility:** Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless. Speculative stocks may not be suitable for a significant class of individual investors.

High – Fundamental Criteria: This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry. **Price Volatility:** The price volatility of companies falling within this category is expected to be above the industry. High-risk stocks may not be suitable for a significant class of individual investors.

Medium – Fundamental Criteria: This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

Low – Fundamental Criteria: This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST



Corporate Headquarters

The Chrysler Building
405 Lexington Ave., 2nd FL
New York, NY 10174
Tel: 212-895-3500

Capital Markets/Syndicate: 212-895-3695

Corporate Finance: 212-895-3811

Corporate Services: 212-895-3631

Equity/Options Trading: 212-895-3790

Equity Research: 212-895-3736

Fixed Income Trading: 212-895-3875

Global Equity Trading: 212-895-3623

Institutional Sales: 212-895-3873

Institutional Sales Trading: 212-895-3873

Portfolio/Transition Trading: 212-895-3567

Prime Brokerage: 212-895-3723

Wealth Management: 212-895-3624

Woodbury, Long Island

20 Crossways Park Drive North
Suite 304
Woodbury, NY 11797
Tel: 516-393-8300

Red Bank, New Jersey

246 Maple Avenue
Red Bank, NJ 07701
Tel: 732-784-1900

Florida Offices

105 South Narcissus Avenue
Suite 222
West Palm Beach, FL 33401
Tel: 561-508-4433

San Rafael, California

4040 Civic Center Drive
Suite 200
San Rafael, CA 94903
Tel: 212-895-3670

20801 Biscayne Blvd
Suite 432 / 433
Aventura, FL 33180
Tel: 516-396-3120