

Medical Devices

MLSS - NYSE American May 3, 2021

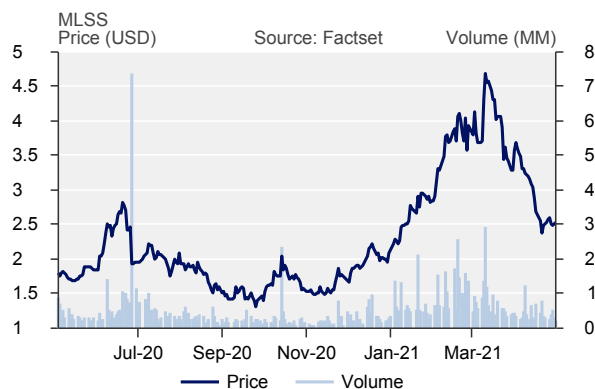
Intraday Price 5/3/21	\$3.00
Rating:	Buy
12-Month Target Price:	\$7.00
52-Week Range:	\$1.30 - \$4.85
Market Cap (M):	199.7
Shares O/S (M):	66.6
Float:	67.4%
Avg. Daily Volume (000):	715.9
Debt (M):	\$0.3
Dividend:	\$0.00
Dividend Yield:	0.0%
Risk Profile:	Speculative
Fiscal Year End:	December

Revenue ('000)

	2020A	2021E	2022E
1Q	1,811	2,920	—
2Q	168	3,120	—
3Q	1,246	3,208	—
4Q	2,212	3,317	—
FY	5,437	12,565	15,751
<i>Prior</i>	—	9,641	12,829

GAAP EPS

	2020A	2021E	2022E
1Q	(0.03)	(0.02)	—
2Q	(0.06)	(0.02)	—
3Q	(0.02)	(0.02)	—
4Q	(0.02)	(0.02)	—
FY	(0.12)	(0.08)	(0.06)
<i>Prior</i>	—	(0.09)	(0.07)



Milestone Scientific Inc.

Buy

1Q21 Preliminary Revenue Significantly Above Estimates as New Dental Sales and Marketing Strategy Pays Off – Reiterate Buy

Summary

- Today, before the Market open, MLSS announced preliminary 1Q21 revenue of **\$2.9M**, representing y/y growth of ~60% and sequential growth of ~31%, significantly above our prior at-consensus estimate of **\$2.0M**.
- MLSS delivered growth in both its domestic and international revenues, driven primarily by the success of its new Dental sales and marketing strategy.
- In addition, we believe MLSS's Medical business, which began generating revenue from the sale of its CompuFlo and CathCheck disposables, has reached an inflection point.
- As MLSS expands its Medical salesforce and continues to establish pilot programs in conjunction with hospitals reopening to outside vendors, we expect the rollout and adoption of the company's technology to accelerate.
- As of December 31, 2020, MLSS had cash and equivalents of **\$14.2M** and **\$0.3M** of debt on its balance sheet. Subsequent to quarter-end, MLSS raised roughly **\$3M** from the exercise of warrants. We expect the company to burn an average **\$0.9M** per quarter through 2022, and do not believe additional capital will be required until the end of 2022.
- We are increasing our 2021 and 2022 revenue estimates, as well as slightly narrowing our 2021 and 2022 GAAP loss per share estimates.

Details

Bottom line. We believe MLSS's new Dental business strategy is yielding results, and the market is recovering, as the company announced preliminary revenue well-ahead of estimates, with growth in both domestic and international segments. Concurrently, MLSS is moving forward with commercialization efforts for CompuFlo and CathCheck, and noted that it is beginning to generate revenue from the sale of its Medical disposables. We expect the rollout and adoption of its technology to accelerate with the company's expanded Medical salesforce and recently signed purchasing agreements, and believe this represents a revenue growth driver. Based on the company's improving Dental business, differentiated products, and continued Medical commercial progress, we reiterate our Buy rating.

Increasing estimates. Based on preliminary 1Q21 revenue and our expectations, we are increasing our 2021 and 2022 revenue estimates to **\$12.6M** and **\$15.8M**, from **\$9.6M** and **\$12.8M**, respectively. In addition, due to the increase in revenue, we are narrowing our 2021 and 2022 GAAP loss per share to **(\$0.08)** and **(\$0.06)**, from **(\$0.09)** and **(\$0.07)**, respectively.

Compelling valuation. Our **\$7** 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 justified due to Milestone's improving Dental business, large medical opportunity, and superior technology.

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Milestone Scientific Inc.

Maxim Group, LLC.

Income Statement

Anthony V. Vendetti, Executive Managing Director of Research

(in \$ thousands, except per share data)

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Fiscal Year ending December 31	2017A	2018A	1Q19A	2Q19A	3Q19A	4Q19A	2019A	1Q20A	2Q20A	3Q20A	4Q20A	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E	
Total revenue, net	11,282	9,622	1,916	2,258	1,900	2,301	8,375	1,811	168	1,246	2,212	5,437	2,920	3,120	3,208	3,317	12,565	15,751	
<i>y/y change</i>	7.6%	(14.7%)	6.1%	(7.0%)	17.1%	(38.9%)	(13.0%)	(5.5%)	(92.6%)	(34.4%)	(3.9%)	(35.1%)	61.2%	1761%	157%	50.0%	131%	25.4%	
Cost of goods sold	4,313	5,191	619	752	524	762	2,656	527	56	410	823	1,816	964	1,030	1,042	1,061	4,097	5,040	
<i>y/y change</i>	3.3%	20.4%	10.0%	(26.4%)	(69.9%)	(59.1%)	(48.8%)	(14.8%)	(92.6%)	(21.8%)	8.1%	(31.6%)	82.8%	1751%	154%	28.9%	126%	23.0%	
% of total revenue	38.2%	53.9%	32.3%	33.3%	27.6%	33.1%	31.7%	29.1%	33.2%	32.9%	37.2%	33.4%	33.0%	33.0%	32.5%	32.0%	32.6%	32.0%	
Gross profit	6,969	4,431	1,297	1,506	1,376	1,539	5,718	1,284	112	836	1,389	3,621	1,956	2,090	2,165	2,256	8,467	10,711	
<i>y/y change</i>	10.5%	(36.4%)	4.4%	7.0%	(1245%)	(19.1%)	29.0%	(1.0%)	(92.6%)	(39.2%)	(9.8%)	(36.7%)	52.4%	1766%	159%	62.4%	134%	26.5%	
Gross margin	61.8%	46.1%	67.7%	66.7%	72.4%	66.9%	68.3%	70.9%	66.8%	67.1%	62.8%	66.6%	67.0%	67.0%	67.5%	68.0%	67.4%	68.0%	
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	2,292	2,513	10,767	2,954	3,020	3,185	3,274	12,433	14,211	
<i>y/y change</i>	(0.3%)	(6.3%)	(30.1%)	(10.8%)	(19.8%)	34.8%	(10.5%)	32.1%	26.2%	(1.0%)	(2.8%)	13.0%	6.1%	(4.9%)	39.0%	30.3%	15.5%	14.3%	
% of total revenue	101%	111%	110%	112%	122%	112%	114%	154%	1895%	184%	114%	198%	101%	96.8%	99.3%	98.7%	99.0%	90.2%	
Research and development expenses	273	246	6	96	8	80	190	107	108	21	71	308	165	166	160	172	663	705	
<i>y/y change</i>	(78.5%)	(9.9%)	(97.2%)	877%	429%	838%	(22.7%)	1594%	13.2%	170%	(12%)	62.1%	53.5%	53.5%	646%	143%	115%	6.3%	
% of total revenue	2.4%	2.6%	0.3%	4.2%	0.4%	3.5%	2.3%	5.9%	64.5%	1.7%	3.2%	5.7%	5.7%	5.3%	5.0%	5.2%	5.3%	4.5%	
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	2,313	2,584	11,074	3,119	3,186	3,345	3,446	13,096	14,916	
<i>y/y change</i>	(8.1%)	6.9%	(34.8%)	(7.7%)	(47.5%)	38.3%	(21.8%)	36.7%	25.7%	(0.4%)	(3.1%)	14.0%	7.8%	(3.0%)	44.6%	33.4%	18.3%	13.9%	
% of total revenue	103%	129%	110%	116%	122%	116%	116%	160%	1959%	186%	117%	204%	107%	102%	104%	104%	104%	94.7%	
Operating income (loss)	(5,234)	(7,999)	(818)	(1,108)	(947)	(1,126)	(3,999)	(1,609)	(3,173)	(1,477)	(1,195)	(7,453)	(1,163)	(1,096)	(1,180)	(1,190)	(4,629)	(4,205)	
Interest income	9	7	1	0	0	0	2	0	(4)	(1)	11	7	4	4	4	4	16	21	
Interest expense	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other income (expense), net	(121)	324	28	(3)	(3)	(34)	(10)	(4)	-	-	(21)	(25)	(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)	(1,477)	(1,204)	(7,471)	(1,162)	(1,095)	(1,179)	(1,189)	(4,625)	(4,184)	
Provision for income tax	19	24	4	(14)	1	(10)	(18)	(0)	(1)	(25)	11	(16)	23	22	24	24	92	(59)	
Effective tax rate	(0.4%)	(0.3%)	(0.6%)	1.3%	(0.0%)	0.3%	0.2%	0.0%	0.0%	1.7%	(0.9%)	0.2%	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	1.4%	
Earnings from Milestone China	-	-	-	-	-	(81)	(81)	-	-	-	98	98	-	-	-	-	-	-	
Noncontrolling interests	(183)	(260)	(10)	12	(13)	67	56	(13)	12	11	42	52	3	3	3	3	13	16	
% of total revenue	(1.6%)	(2.7%)	(0.5%)	0.5%	(0.7%)	2.9%	0.7%	(0.7%)	7.0%	0.9%	1.9%	0.9%	0.1%	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)	(1,491)	(1,080)	(7,337)	(1,188)	(1,120)	(1,206)	(1,217)	(4,730)	(4,141)	
GAAP EPS	(\$0.16)	(\$0.21)	(\$0.02)	(\$0.02)	(\$0.06)	(\$0.06)	(\$0.16)	(\$0.03)	(\$0.06)	(\$0.02)	(\$0.02)	(\$0.12)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.08)	(\$0.06)	
Weighted average common shares - basic	32,704	35,229	40,532	45,366	47,722	49,340	45,740	49,730	56,695	65,817	65,527	63,061	66,527	68,527	70,027	71,027	69,027	75,027	
Weighted average common shares - diluted	36,414	38,826	48,993	49,732	51,006	52,790	50,630	52,810	65,756	73,294	73,925	66,446	74,925	76,925	78,425	79,425	77,425	83,425	

Sources: Company reports and Maxim Group estimates

DISCLOSURES

**Maxim Group LLC Ratings Distribution**

As of: 05/02/21

		% 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.	87%	54%
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.	13%	50%
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; 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



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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

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