

Action Summary – 15 March 2021

Analyst Theodore R. O'Neill – 4Q20 results better than expected – reiterate Buy and \$5 PT

- **USAQ 4Q20 results were better than expected.** It reported a loss of \$0.01 EPS on revenue of \$124.5K. We were looking for a loss of \$0.02 EPS on revenue of \$120K. The nearly one cent improvement of EPS compared to our estimates was due to higher sales and margins, partially offset by higher operating and non-operating expenses.
- In November, building on the capabilities of its QHSLab, the company began shipping AllergiEnd® diagnostic related products and immunotherapy treatments to primary care physicians (PCPs) in response to their requests based upon courses of treatment recommended for their patients by QHSLab. Revenue in the fourth quarter was \$124,532 as a result of these sales. Medical Practices Income, Inc. (MPI) positioned its AllergiEnd™ allergy test kits to screen patients for severe allergies by physicians and NPs that are not allergy specialists.
- USAQ's MPI subsidiary is a medical device technology and software as a service (SaaS) company focused on enabling primary care physicians (PCP's) to increase their revenues by providing them with relevant, value-based tools to evaluate and treat chronic disease through reimbursable procedures
- We have increased the operating expenses to support rollout of its products and services. Our 2021 EPS drops \$0.04 to a loss of \$0.02 from a gain of \$0.02. Our 2022 EPS estimate decline \$0.08 to \$0.09 from \$0.17.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

3/12 Closing price: \$0.60	Market cap: \$4 million	2022 P/E: 7	2022 EV / Sales: 1
Shares outstanding: 6.8 million	Insider ownership: 52%	3-mo. avg. trading volume: 3,773	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in thousands)

Period	EPS	Revenue	Op Margin
1Q20A	\$(0.01)	\$0	NMF
2Q20A	\$(0.01)	\$0	NMF
3Q20A	\$(0.01)	\$0	NMF
4Q20A	<u>\$(0.01)</u>	<u>\$0</u>	<u>NMF</u>
FY20A	<u>\$(0.05)</u>	<u>\$0</u>	<u>NMF</u>
1Q21E	\$(0.00)	\$50	NMF
2Q21E	\$(0.01)	\$100	NMF
3Q21E	\$(0.01)	\$300	2%
4Q21E	<u>\$0.01</u>	<u>\$500</u>	<u>20%</u>
FY21E	<u>\$(0.02)</u>	<u>\$950</u>	<u>8%</u>
1Q22E	\$0.00	\$800	13%
2Q22E	\$0.03	\$1,200	21%
3Q22E	\$0.03	\$1,250	22%
4Q22E	<u>\$0.03</u>	<u>\$1,300</u>	<u>23%</u>
FY22E	<u>\$0.09</u>	<u>\$4,550</u>	<u>20%</u>

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

Cash balance (in thousands)

• 2020A	• \$94.3
• 2021E	• \$98.7
• 2022E	• \$149.3

Debt (in thousands)

• 2020A	• \$625
• 2021E	• \$625
• 2022E	• \$200

Adj. EBITDA (in thousands)

• 2020A	• (\$293)
• 2021E	• (\$72)
• 2022E	• \$673

Risks/Valuation

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

Company description: USAQ's solely owned subsidiary, Medical Practices Income is a medical device technology and software as a service (SaaS) company focused on enabling primary care physicians (PCP's) to increase their revenues by providing them with relevant, value-based tools to evaluate and treat chronic disease through reimbursable procedures

Figure 1 – USA Equities Corp. – One-year Trading snapshot



Source: Refinitiv

Valuation Methodology

We believe USAQ is undervalued and we support that belief with two valuation techniques, both of which generate the same valuation within \$0.01: 5.26 and \$5.27. 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 4Q21 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 \$5.26 which we round down to \$5.00.

Figure 2 – USA Equities Corp. – Implied Price Target Calculation

Disc. Future Earnings \$5.26		
Year	EPS	Discounted EPS
2021	(\$0.02)	(\$0.02)
2022	\$0.09	\$0.08
2023	\$0.20	\$0.16
2024	\$0.30	\$0.21
2025	\$0.38	\$0.24
2026	\$0.45	\$0.26
2027	\$0.55	\$0.28
2028	\$0.65	\$0.29
2029	\$0.72	\$0.29
2030	\$0.79	\$0.28
Terminal Value:		\$3.18

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Here we are going to use a multiple of sales because the company is not yet profitable. The average sales multiple looking into next year is 7.88 (See Figure 5 for a table of Comparables). Based on our estimates for 2022, and using the average sales multiple, if USAQ reaches \$4.55MM of revenue, it would have a market cap of ~\$35.8MM or ~\$5.42 per share (Figure 3).

Figure 3 –USA Equities Corp. – Summary Discount to Peers

	Implied Share Price Calculation
Average Peers 2022 Sales Multiple	7.88
Our 2022 Revenue Estimate	\$4.55MM
Implied Market Cap	\$35.9MM
Estimated Share Count	6.8MM
Implied Share Price	\$5.27

Source: Litchfield Hills Research LLC and Refinitiv Eikon

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.

Quarterly Results

As shown in Figure 4 (below) USAQ reported 4Q20 which was better than expected. It reported a loss of \$0.01 EPS on revenue of \$124.5K. We were looking for a loss of \$0.02 EPS on revenue of \$120K. The nearly one cent improvement of EPS compared to our estimates was due to higher sales and margins, partially offset by higher operating and non-operating expenses.

Figure 4 USA Equities Corp – Variance Analysis (\$ in thousands except per share)

	2020	2020	Better/(worse) than forecast
	Q4E	Q4A	
Income Statement			
Total Revenue	\$120.0	\$124.5	\$4.5
Total cost of revenue	120.0	74.4	45.6
Total Gross Profit	0.0	50.1	50.1
Operating expenses:			
G&A	38.0	56.2	(18.2)
R&D	20.0	30.2	(10.2)
Marketing	30.0	46.3	(16.3)
Total Expenses	88.0	132.7	(44.7)
Earnings (loss) from Operations	(88.0)	(82.6)	5.4
Total Other income/(expense)	(6.0)	(11.1)	(5.1)
Earnings before taxes	(94.0)	(93.7)	0.3
Tax expense/(benefit)	0.0	0.0	0.0
Net income	(94.0)	(93.7)	\$0.3
EPS	(\$0.02)	(\$0.01)	\$0.00
Pro-forma EPS			
Diluted common shares	6,100	6,400	

Source: Company filings and Litchfield Hills Research LLC

Figure 5 – USA Equities Corp. – Comp Table

Ticker	Company Name	3/12/21 Close	Market Cap \$MM	EV \$MM	2022 Sales Multiple	2022 EV / Revenue	2021 Sales Multiple	2021 EV / Revenue
DXCM.O	Dexcom Inc	357.73	34,406	33,419	12.33	12.00	14.80	14.39
TDOC.K	Teladoc Health Inc	197.95	30,227	30,886	11.60	11.89	15.22	15.57
AKER.OL	Aker ASA	86.91	6,459	13,452				
QDEL.O	Quidel Corp	136.19	5,763	5,278	4.23	3.90	2.45	2.25
SWAV.O	Shockwave Medical Inc	112.21	3,910	3,724	20.08	19.12	30.42	29.20
TCMD.O	Tactile Systems Technology Inc	51.12	997	939	3.72	3.52	4.54	4.27
SMLR.PK	Semler Scientific Inc	107.00	718	696	10.23	9.75	13.03	12.42
ZYXI.O	Zynex Inc	16.87	588	549	3.03	2.80	4.26	3.96
IIN.O	IntriCon Corp	27.29	244	216	1.79	1.56	2.08	1.82
NMRD.O	Nemauro Medical Inc	8.03	184	174	NMF	NMF		
CEMI.O	Chembio Diagnostics Inc	4.39	89	78	2.13	1.88	2.41	2.02
OPGN.O	OpGen Inc	2.94	83	92	8.08	8.39	20.23	22.04
BMRA.O	Biomerica Inc	6.02	71	65	9.44	7.69	11.89	11.05
GWHP.PK	Global Wholehealth Partners Corp	0.67	42	42				
ALRT.PK	ALR Technologies Inc	0.06	29	45				
NAOV.O	Nanovibronix Inc	1.13	27	24				
NEMD.PK	iNeedMD Holdings Inc	0.20	11	11				
GTHP.PK	Guided Therapeutics Inc	0.75	10	16				
HDII.PK	Hypertension Diagnostics Inc	0.03	4	9				
CTTC.PK	Calmare Therapeutics Inc	0.10	4	4				
DECN.PK	Decision Diagnostics Corp	0.03	4	7				
EQR.PK	E-QUIRE Corp	0.08	3	3				
ESMC.PK	Escalon Medical Corp	0.25	2	2				
	AVERAGE				<u>7.88</u>	<u>7.50</u>	<u>11.03</u>	<u>10.82</u>
USAQ.PK	USA Equities Corp	0.60	4	5	0.90	1.02	2.92	3.30
	USAQ Discount to peers				-89%	-86%	-74%	-69%

We eliminated NMRD values because they were multiples above 1,000

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 6 – USA Equities Corp. – Income Statement (\$000)

December ending year	2018 Year	2019 Year	2020A				2020A Year	2021E				2021E Year	2022E				2022E Year
			Q1A	Q2A	Q3A	Q4A		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$0	\$0	\$0	\$0	\$0	\$125	\$125	\$300	\$300	\$300	\$500	\$1,400	\$800	\$1,200	\$1,250	\$1,300	\$4,550
Cost of Goods	0	0	0	0	0	74	74	180	150	120	200	650	400	600	625	650	2,275
Gross Profit	0	0	0	0	0	50	50	120	150	180	300	750	400	600	625	650	2,275
G&A	27	54	23	15	37	56	132	65	75	75	100	315	150	150	150	150	600
R&D	0	100	28	20	20	30	98	40	40	40	50	170	60	60	60	60	240
Marketing	0	0	0	20	29	46	95	50	75	100	100	325	150	200	200	200	750
Total Operating Expenses	27	54	23	35	66	102	227	115	150	175	200	640	300	350	350	350	1,350
Operating Income	(27)	(54)	(23)	(35)	(66)	(52)	(177)	5	0	5	100	110	100	250	275	300	925
Operating income %	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	0	0	0	0	0	0	0	0
Total Other Items	(11)	(12)	(28)	(7)	(7)	(11)	(52)	(28)	(7)	(6)	(6)	(46)	(28)	(7)	(6)	(6)	(46)
Pre-Tax Income	(39)	(66)	(51)	(42)	(73)	(63)	(229)	(23)	(7)	(1)	94	64	72	243	269	294	879
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)	(\$39)	(\$167)	(\$78)	(\$62)	(\$93)	(\$94)	(\$327)	(\$13)	(\$47)	(\$41)	\$44	(\$106)	\$12	\$183	\$209	\$234	\$639
EPS, as reported	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.00)	(\$0.01)	(\$0.01)	\$0.01	(\$0.02)	\$0.00	\$0.03	\$0.03	\$0.03	\$0.09
Diluted Shares Outstanding	3,590	5,411	5,763	6,084	6,389	6,400	6,200	6,400	6,400	6,400	6,800	6,500	6,800	6,800	6,800	6,800	6,800

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – USA Equities Corp. – Balance Sheet (\$000)

December ending year	FY2022E	FY2021E	FY2020A	FY2019
Balance sheet				
Current Assets				
Cash and S.T.I.	\$149.3	\$98.7	\$94.3	\$23.6
Accounts receivable	150.0	100.0	60.5	2.8
Inventories	400.0	200.0	99.7	0.0
Other assets	40.0	20.0	11.6	0.0
Total Current Assets	739.3	418.7	266.2	26.3
Net PP&E				
	0.0	0.0	0.0	0.0
Other non-current assets				
	0.0	0.0	0.0	0.0
Total Assets	\$774.3	\$450.7	\$297.9	\$26.3
Current Liabilities				
Accounts payable	300.0	225.0	159.6	20.9
Advances or notes payable -related part	55.0	55.0	55.0	0.0
Other current liabilities	20.0	10.0	0.0	0.0
Total current liabilities	375.0	290.0	214.6	20.9
Accrued interest expense				
	115.0	115.0	115.6	93.5
Convertible note payable				
	200.0	600.0	576.0	341.7
Total Liabilities	690.0	1,005.0	906.2	456.1
Stockholders' Equity				
Preferred stock	0.1	0.1	0.1	0.1
Common stock	0.6	0.6	0.7	0.6
Additional paid-in-capital	1,300.0	1,300.0	1,139.6	990.9
Retained earnings	(1,216.4)	(1,855.0)	(1,748.7)	(1,421.3)
Cum. trans. adj. and treasury stock	0.0	0.0	0.0	0.0
Total stockholders' equity	84.3	(554.3)	(608.3)	(429.8)
Total Liabilities and equity	\$774.3	\$450.7	\$297.9	\$26.3

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – USA Equities Corp. – Cash Flow (\$'000)

Cash Flow	2022E	2021E	2020A	2019
Net Income	\$638.67	(\$106.33)	(\$327.39)	(\$166.52)
Accounts receivable	(50.00)	(39.48)	(57.77)	(1.00)
Inventories	(200.00)	(100.30)	(99.70)	0.00
Other assets	(20.00)	(8.40)	(11.60)	0.00
PP&E	0.00	0.00	0.00	0.00
Intangibles net of depr.	0.00	0.00	0.00	0.00
Long term assets	(3.00)	(0.30)	(31.70)	0.00
Accounts payable	75.00	65.38	138.68	20.40
Advances or notes payable -related party	0.00	0.00	55.00	(109.98)
Accrued interest expense	0.00	0.00	0.00	(95.57)
Other current liabilities	10.00	10.00	0.00	0.00
Accrued interest expense	0.00	(0.57)	22.07	93.50
Convertible note payable	(400.00)	24.00	234.32	12.51
Preferred stock	0.00	0.00	0.00	0.11
Common stock	0.00	(0.06)	0.08	0.22
Additional paid-in-capital	0.00	160.37	148.77	269.92
Accumulated other comp. loss	0.00	0.00	0.00	0.00
Other				
Total Cash Flow	\$50.67	\$4.32	\$70.75	\$23.59

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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USA Equities Corp.

USAQ-Buy-\$5 PT

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