

## Predictive Technology Group, Inc. (PRED - OTC)

### Thermo Tie-up a Boon to Diagnostic Development

Based on our discounted cash flow model which employs 15% discount rate. Revenues represent contributions from both cellular therapy, diagnostic testing and specifically from approved cellular therapy products for osteoarthritis, COPD and diagnostic tests for endometriosis.

Current Price (10/1/2019) **\$1.62**  
**Valuation \$7.00**

### OUTLOOK

Predictive Technologies is developing a suite of diagnostic genetic tests for fertility, endometriosis and degenerative disc disease. The company is also generating revenue from sales of cellular therapy products sourced from amniotic and placental tissue.

Predictive is focused on developing platforms with broad applicability in the genetic testing and cellular therapies spaces. With current revenues, the company is in a strong position to fund development activities in their targeted areas.

Commercialization plans include a focus on select centers of excellence for fertility in the US, allowing for the use of a small sales force and the use of LDTs. For the larger endometriosis market, PRED will initially sell the diagnostic as an LDT and will seek FDA approval for its tests in parallel, allowing for broader use. The strategy for cellular therapies is to identify the most successful indications physicians are treating and use this to design clinical trials for FDA approved use in the future.

PRED turned cash flow positive in 4Q:18 and is able to fund its operations internally. However, capital may be raised to accelerate development.

### SUMMARY DATA

52-Week High **6.91**  
 52-Week Low **0.77**  
 One-Year Return (%) **-15.2**  
 Beta **1.6**  
 Average Daily Volume (sh) **470,834**

Shares Outstanding (mil) **283.0**  
 Market Capitalization (\$mil) **458**  
 Short Interest Ratio (days) **N/A**  
 Institutional Ownership (%) **0.0**  
 Insider Ownership (%) **20.1**

Annual Cash Dividend **\$0.00**  
 Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates  
 Sales (%) **N/A**  
 Earnings Per Share (%) **N/A**  
 Dividend (%) **N/A**

P/E using TTM EPS **N/A**  
 P/E using 2019 Estimate **N/A**  
 P/E using 2020 Estimate **54**

Zacks Rank **N/A**

Risk Level **Above Average**  
 Type of Stock **Small-Growth**  
 Industry **Med-Biomed/Gene**

### ZACKS ESTIMATES

#### Revenue

(In millions of US\$)

	Q1	Q2	Q3	Q4	Year
	(Sep)	(Dec)	(Mar)	(Jun)	(Jun)
2018	\$2.0 A	\$3.4 A	\$4.2 A	\$7.2 A	\$16.6 A
2019	\$8.1 A	\$10.7 A	\$11.3 A	\$13.4 A	\$43.5 A
2020					\$66.7 E
2021					\$97.2 E

#### Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Sep)	(Dec)	(Mar)	(Jun)	(Jun)
2018	-\$0.03 A	-\$0.00 A	-\$0.02 A	-\$0.01 A	-\$0.06 A
2019	-\$0.01 A	-\$0.01 A	-\$0.01 A	-\$0.04 A	-\$0.06 A
2020					\$0.03 E
2021					\$0.09 E

## WHAT'S NEW

Predictive Technology Group [filed](#) its fiscal year 2019 10-K on September 30, 2019 for the twelve month period ending June 30, 2019. The company reported revenues of \$43.5 million, which was comprised almost entirely of human cell and tissue products (HCT/Ps) revenues. \$48 thousand was generated in the Diagnostics and Therapeutics segment. Revenues increased 162% over FY:2018 levels. After subtracting cost of goods sold, gross profit was \$27.2 million, representing a gross margin of 62.5%. Total operating expenses including amortization and depreciation were \$47.1 million, an 89% increase over the prior year. Operating loss expanded to (\$20.7) million from (\$13.1) million in FY:19 largely due to a \$12.4 million increase in general and administrative expenditure. On a per share basis, net loss was (\$0.06).

Cash balance as of March 31 was \$1.6 million. \$400,000 of notes were issued in the fourth quarter at 12% interest. FY:2019 cash from operations was \$3.5 million, a reversal from the (\$0.3) million deficit in the prior year. Property and equipment investments equaled \$2.7 million, bringing free cash flow to \$0.8 million for the year. Cash from financing activities was \$0.8 million, as inflows from issuance of promissory note and cash proceeds from stock subscriptions were partially offset by principal payments on capital leases.

Since our initiation on June 11, Predictive has been busy. Efforts on multiple fronts advancing endometriosis work internally and with partners, addition of new personnel and directors, the launch of a new pharmacogenomic test, and continued growth of the genomic database were hallmarks over the last several months.

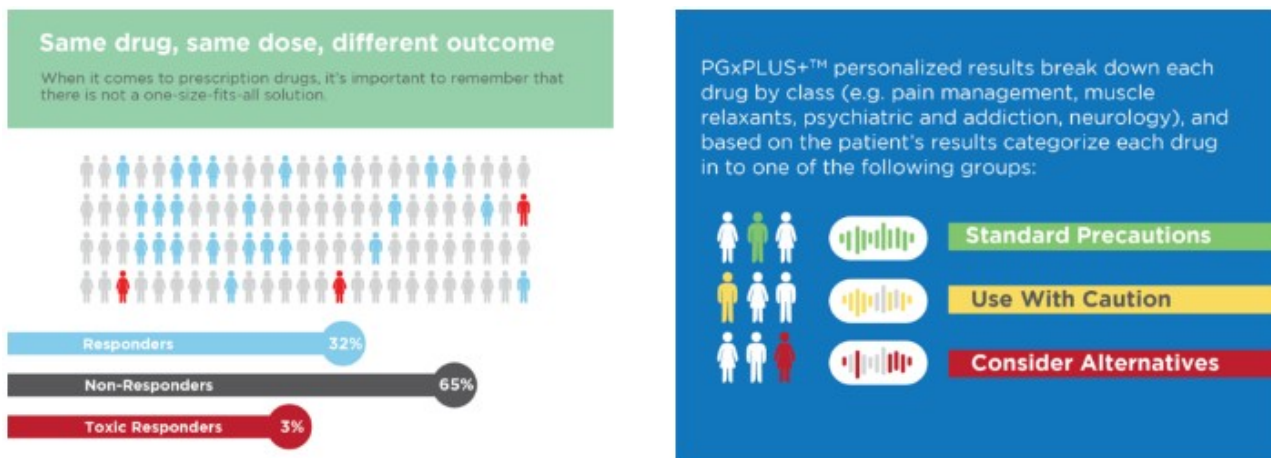
The most important [announcement](#) was the collaboration with Thermo Fisher Scientific (NYSE: TMO) that will study the genetic factors underlying infertility in women. We [published](#) an article discussing the details and implications of this collaboration. A pair of videos was also released that feature [CEO Brad Robinson](#) and Thermo Fisher's [VP and General Manager Yan Zhang](#) discussing the details of the relationship and the reproductive health platform.

One of the largest causes of infertility is endometriosis, and shortly after the collaboration announcement Dr. Ken Ward, Lab Director at Predictive Laboratories gave a presentation entitled *Excess Germline Mutations in Four Genes in Unrelated Women with Surgical Endometriosis* at the 2019 European Society of Human Reproduction and Embryology (ESHRE) meeting in Vienna, Austria. The [study](#) identified four mutated genes that are associated with women presenting endometriosis. The research found that one in four women with endometriosis carries a mutation in one of the four mutated genes as compared to only 8% of the general population. Additional endometriosis data will be presented at the 75<sup>th</sup> American Society of Reproductive Medicine (ASRM) Scientific Congress & Expo October 12-16 in Philadelphia. The presentations will focus on several features of endometriosis, including genetic mechanisms underlying the disorder, potential disease gene interactions and the mechanisms through which some benign endometriosis lesions might become cancerous.

In early August, Predictive Labs [started](#) Dr. E. Robert Wassman as Co-laboratory Director, who will lead the cytogenetics section. He has been a pioneer in genetic testing and personalized medicine and held the role of Chief Medical Officer for a number of companies including Genzyme Genetics, Rosetta Genomics and Helicos Biosciences among others. Predictive Biotech [added](#) Jeff Acuff as Chief Commercial Officer of the segment in late August. Jeff will be responsible for the commercial strategy of the human cell and tissue product (HCT/P) business, growing existing business and expanding into new areas being developed such as wound management and aesthetics. His background includes commercial development roles at GE Healthcare, Bioventus and Varian Medical Systems. He also spent 13 years at Medtronic focused on product areas such as interventional cardiology, interventional radiology, endovascular surgery, spine, and biologics.

Also in August, the company announced the launch of PGxPLUS+, a test that can weigh the effect of genetic factors regarding a patient's response to pain medications. The test is appropriate for patients presenting endometriosis, osteoarthritis, lumbar disc disease and other conditions associated with chronic pain. PGxPLUS+ is able to predict the effects of 112 genetic variants from 38 genes on the body's ability to metabolize over 150 medications. Test results provide a readout that falls into one of three different categories: standard precautions, use with caution and consider alternatives. The following exhibit provides graphic detail.

## Exhibit I – PGxPLUS+ Diagnostic Output<sup>1</sup>



Along with the launch of the test panel, Predictive Laboratories has enrolled 350 chronic pain patients into a clinical study evaluating the mechanisms of chronic pain and response to pain therapy. These patients are taking high doses of opioids, and the study is identifying the genetic variants responsible for their underlying disease, the metabolism of opioids, patient pain thresholds and genetic predisposition to opioid addiction.

As of late August, Predictive Laboratories has collected 2,500 DNA samples along with associated medical records since obtaining Clinical Laboratory Improvement Amendments (CLIA) status in March 2019. The genomic data will be used to develop new commercial diagnostic and therapeutic products. The additional samples add to the 300,000 specimens that are already archived in the company's library. The data is analyzed in a deliberate manner with one sample used for discovery, another for replication, a third set for validation and yet another to prove the clinical utility of an associated drug or diagnostic.

Following the end of the reporting period, Predictive issued additional unsecured promissory notes totaling \$6.1 million bearing a 12% rate of interest. This brings total borrowings to \$6.5 million as of September 30, 2019.

### Key Events

- Launch of ARTguide – October 2018
- Acquisition of Regenerative Medical Technologies – October 2018
- Acquisition of DNA & Ancestry Assets – October 2018
- Acquisition of Inception Dx – September 2018
- Acquisition of Taueret Laboratories – March 2019
- Research collaboration with Thermo Fisher Scientific – June 2019
- Research collaboration with Preeclampsia Foundation – July 2019
- Launch of PGxPLUS+ - August 2019
- Launch of Fertility Dx – 2019
- Launch of EndoRisk – 2020
- Clinical Trials for selected cellular therapy indications – 2020

<sup>1</sup> Source: Predictive Technology Group website. <https://www.predictivelabs.com/pgxplus>

Key reasons to own:

- **Rapidly growing cellular therapy segment**
- **Cash flow from Biotech supports development activities in Therapeutics**
- **Advance of cellular therapy candidates through regulatory approval process in Therapeutics**
- **Library of 300,000 DNA samples and 31 million-individual genealogy database**
- **Multiple new product launches**
- **Development platform that can be applied to many genetic tests and cellular therapy applications**

### **Valuation**

We are encouraged by the better than expected revenues and positive free cash flow for fiscal year 2019. The collaboration with Thermo Fisher Scientific is another positive that will endorse Predictive's efforts in genetic diagnostic testing in the reproductive space. Other collaborations, including the relationship with the Preeclampsia Foundation will help develop new and more precise diagnostics as well as introduce them to the physicians and patients that can benefit from them. While revenues and relationships have advanced, the decline in the share price since our initiation has reduced the currency available to raise capital and accelerate development programs. Our thesis called for a near term capital raise that would rapidly fund the clinical trials in the osteoarthritis and chronic obstructive pulmonary disease indications and the advancement of the endometriosis diagnostic through the regulatory process. We still see these programs being funded either through internally generated cash or a capital raise at a later time. However, our forecast delays launch by one year as compared to our original projection, which reduces our target share price to \$7.00.

### **Summary**

We continue to believe that Predictive Technology Group has identified several underserved areas in medicine that can benefit from advancing technology. Topline growth has been maintained throughout FY:19 and there are continued opportunities for development in other areas that can generate growing revenues in the years to come. The company's vertical integration into hospitals and other birthing centers provides a high quality source of tissue that can be used both internally and with other companies that develop cellular therapy and regenerative medicine products. Based on our forecasts and DCF model assumptions, our work supports a target price of \$7.00 per share.

## PROJECTED FINANCIALS

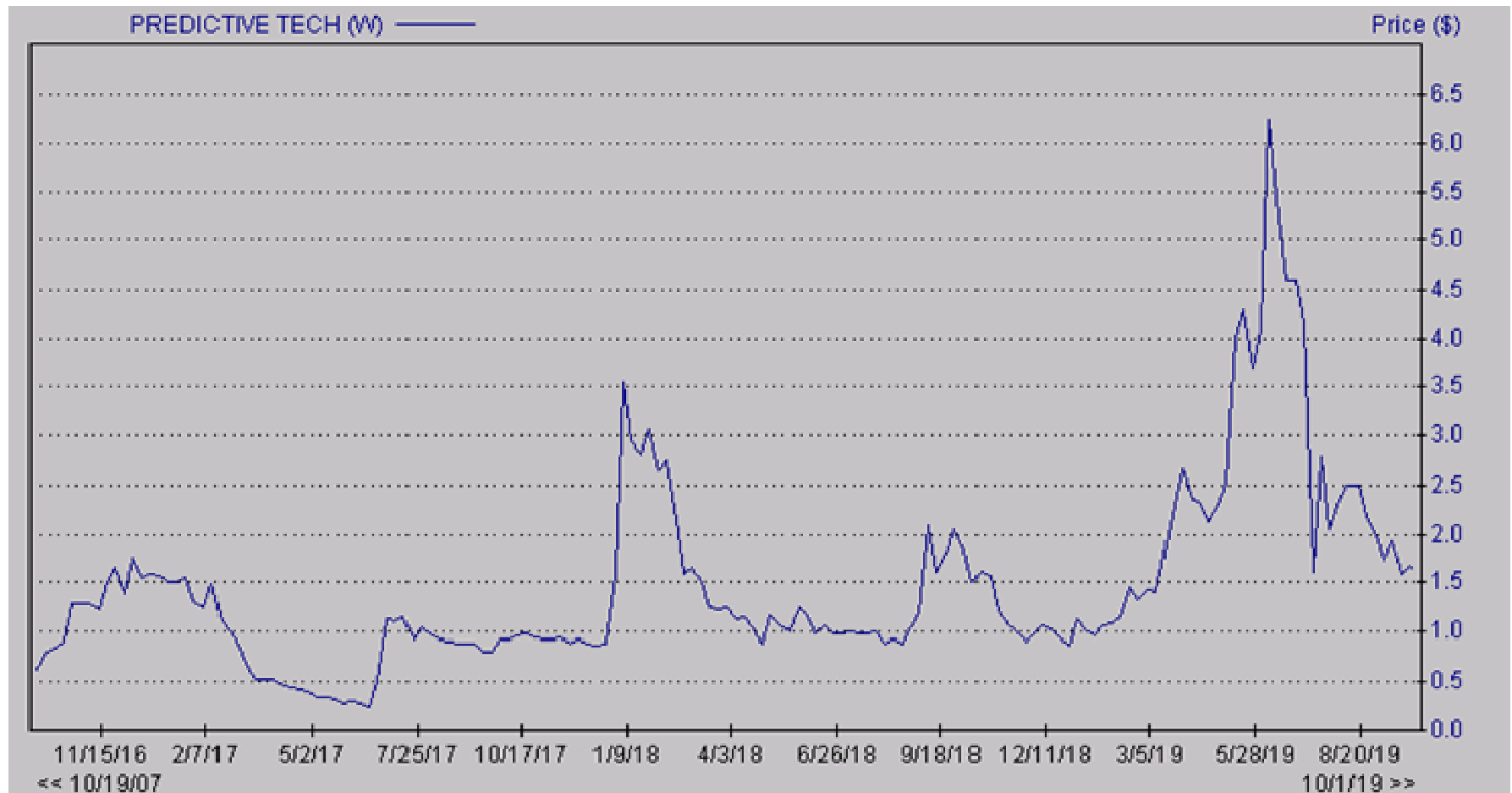
### Predictive Technology Group, Inc. - Income Statement

Predictive Tech. Group, Inc.	2018 A	Q1 A	Q2 A	Q3 A	Q4 A	2019 A	2020 E	2021 E
<b>Total Revenues</b>	<b>\$16.6</b>	<b>\$8.1</b>	<b>\$10.7</b>	<b>\$11.3</b>	<b>\$13.4</b>	<b>\$43.5</b>	<b>\$66.7</b>	<b>\$97.2</b>
Revenue Growth	543.0%	296.2%	216.3%	166.9%	92.7%	161.6%	53.4%	45.7%
Cost of Goods Sold	\$4.0	\$2.9	\$3.1	\$4.8	\$5.6	\$16.3	\$23.3	\$33.0
Gross Margin	76.1%	64.4%	71.4%	57.7%	58.4%	62.5%	65.0%	66.0%
<b>Gross Profit</b>	<b>\$12.7</b>	<b>\$5.2</b>	<b>\$7.6</b>	<b>\$6.5</b>	<b>\$7.9</b>	<b>\$27.2</b>	<b>\$43.4</b>	<b>\$64.1</b>
Sales & Marketing	\$12.7	\$2.4	\$3.4	\$2.9	\$5.2	\$13.9	\$13.2	\$14.0
General & Administrative	\$5.8	\$2.6	\$2.5	\$4.8	\$8.3	\$18.2	\$11.0	\$11.5
Research & Development	\$1.9	\$0.6	\$1.8	\$1.5	\$2.0	\$5.8	\$3.2	\$3.5
Amortization & Depreciation	\$4.6	\$1.7	\$2.0	\$2.4	\$3.1	\$9.2	\$6.8	\$6.8
<b>Operating Income</b>	<b>(\$12.3)</b>	<b>(\$2.1)</b>	<b>(\$2.1)</b>	<b>(\$5.0)</b>	<b>(\$10.8)</b>	<b>(\$19.9)</b>	<b>\$9.2</b>	<b>\$28.3</b>
Operating Margin	-74.1%	-25.6%	-19.4%	-44.6%	-80.0%	-45.8%	13.8%	29.2%
Interest Income (Expense)	\$0.2	\$0.0	\$0.0	\$0.0	(\$0.0)	(\$0.0)	\$0.0	\$0.0
Total Other Income	(\$0.9)	\$0.0	(\$0.6)	\$0.1	(\$0.3)	(\$0.8)	\$0.0	\$0.0
Non-controlling Interest	(\$0.1)	(\$0.3)	\$0.0	\$0.0	\$0.4	\$0.1	\$0.0	\$0.0
<b>Pre-Tax Income</b>	<b>(\$13.1)</b>	<b>(\$2.4)</b>	<b>(\$2.7)</b>	<b>(\$4.9)</b>	<b>(\$10.7)</b>	<b>(\$20.7)</b>	<b>\$9.2</b>	<b>\$28.3</b>
Taxes & Other	\$0.0	\$0.0	\$0.0	(\$1.2)	\$0.0	(\$5.4)	\$0.0	\$0.0
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%
<b>Net Income</b>	<b>(\$13.1)</b>	<b>(\$2.4)</b>	<b>(\$2.7)</b>	<b>(\$3.7)</b>	<b>(\$10.7)</b>	<b>(\$15.3)</b>	<b>\$9.2</b>	<b>\$28.3</b>
<b>Reported EPS</b>	<b>(\$0.06)</b>	<b>(\$0.01)</b>	<b>(\$0.01)</b>	<b>(\$0.01)</b>	<b>(\$0.04)</b>	<b>(\$0.06)</b>	<b>\$0.03</b>	<b>\$0.09</b>
YOY Growth	-	-	-	-	-	-	-	205.6%
Shares Outstanding	217.7	223.3	230.1	272.0	275.0	265.5	310.0	313.0

Source: Company Filing // Zacks Investment Research, Inc. Esti

## HISTORICAL STOCK PRICE

Predictive Technology Group, Inc. – Share Price Chart<sup>2</sup>



<sup>2</sup> Source: Zacks Investment Research

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