

Action Summary – 14 December 2020

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- **USAQ reported 3Q20 which was generally in-line with expectations. It reported a loss of \$0.01 EPS on no revenue. We were looking for a loss of \$0.01 EPS also on no revenue. On the margin, expenses were higher than expected but not by enough to change the results.**
- Medical Practices Income (MPI) has developed a unique, cloud-based, medical office and mobile patient education **digital medicine platform** designed to generate new medical practice income for the physician and improve clinical outcomes for the patient.
- The COVID-19 Pfizer vaccine has recently shown there are serious side effects among people with severe allergies. MPI is positioned with its AllergiEnd™ allergy test kits which could be used to screen patients for severe allergies by physicians and NPs that are not allergy specialists.
- **We have increased the operating expenses in the model consistent with 3Q20 and between that and 4Q20, our 2020 EPS loss goes to \$0.05 from \$0.04. No change to other estimates.**
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

12/11 Closing price: \$0.59	Market cap: \$4 million	2021 P/E: NMF	2021 EV / Sales: 5
Shares outstanding: 6.6 million	Insider ownership: 52%	Avg. trading volume: 6,258	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
3Q20E	\$(0.01)	\$0	NMF
4Q20E	<u>\$(0.01)</u>	<u>\$0</u>	<u>NMF</u>
FY20E	<u>\$(0.05)</u>	<u>\$0</u>	<u>NMF</u>
1Q21E	\$(0.01)	\$50	NMF
2Q21E	\$(0.01)	\$100	NMF
3Q21E	\$0.01	\$300	32%
4Q21E	<u>\$0.03</u>	<u>\$500</u>	<u>40%</u>
FY21E	<u>\$0.02</u>	<u>\$950</u>	<u>25%</u>
1Q22E	\$0.02	\$800	24%
2Q22E	\$0.05	\$1,200	28%
3Q22E	\$0.05	\$1,250	28%
4Q22E	<u>\$0.05</u>	<u>\$1,300</u>	<u>27%</u>
FY22E	<u>\$0.17</u>	<u>\$4,550</u>	<u>27%</u>

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

Cash balance (in thousands)

• 2020E	• \$110
• 2021E	• \$83.5
• 2022E	• \$1,126

Debt (in thousands)

• 2020E	• \$400
• 2021E	• \$400
• 2022E	• \$400

Adj. EBITDA (in thousands)

• 2020E	• (\$77)
• 2021E	• (\$168)
• 2022E	• \$1,123

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 has developed a unique, cloud-based, medical office and mobile patient education **digital medicine platform** designed to generate new medical practice income for the physician and improve clinical outcomes for the patient.

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 approximately the same figure: \$5.00. 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 3Q21 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 \$5.68 which we round down to \$5.00.

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

Disc. Future Earnings \$5.66		
Year	EPS	Discounted EPS
2020	(\$0.04)	(\$0.04)
2021	\$0.02	\$0.02
2022	\$0.17	\$0.14
2023	\$0.25	\$0.18
2024	\$0.35	\$0.22
2025	\$0.40	\$0.23
2026	\$0.50	\$0.25
2027	\$0.75	\$0.34
2028	\$0.83	\$0.33
2029	\$0.91	\$0.33
Terminal Value:		\$3.67

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 7.87 (See Figure 4 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 2021 Sales Multiple	7.87
Our 2022 Revenue Estimate	\$4.55MM
Implied Market Cap	\$35.8MM
Estimated Share Count	6.6MM
Implied Share Price	\$5.42

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 if 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 4 – USA Equities Corp. – Comp Table

Ticker	Company Name	Price Close	Market Cap \$MM	EV \$MM	2021 Sales Multiple	2021 EV / Revenue
DXCM.O	DexCom Inc	\$348.16	33,433	32,529	14.33	13.94
TDOC.K	Teladoc Health Inc	\$198.26	28,740	28,527	14.65	14.54
QDEL.O	Quidel Corp	\$195.37	8,219	8,148	2.59	2.56
AKER.OL	Aker ASA	\$58.88	4,387	11,097		
SWAV.O	Shockwave Medical Inc	\$95.61	3,276	3,077	26.07	24.49
TCMD.O	Tactile Systems Technology Inc	\$42.51	826	774	3.59	3.37
SMLR.PK	Semler Scientific Inc	\$81.00	539	523	10.05	9.74
ZYXI.O	Zynex Inc	\$13.85	481	440	3.37	3.08
IIN.O	IntriCon Corp	\$18.44	165	135	1.38	1.13
CEMI.O	Chembio Diagnostics Inc	\$6.66	134	124	3.75	3.46
NMRD.O	Nemaura Medical Inc	\$3.77	86	75		
BMRA.O	Biomerica Inc	\$6.76	79	73	3.60	3.29
GWHP.PK	Global Wholehealth Partners Corp	\$1.22	73	73		
OPGN.O	OpGen Inc	\$2.07	42	51	3.20	3.91
ALRT.PK	ALR Technologies Inc	\$0.07	36	53		
NAOV.O	Nanovibronix Inc	\$1.09	21	18		
DECN.PK	Decision Diagnostics Corp	\$0.11	16	19		
NEMD.PK	iNeedMD Holdings Inc	\$0.12	6	6		
HDII.PK	Hypertension Diagnostics Inc	\$0.03	4	8		
EQUR.PK	E-QURE Corp	\$0.09	3	3		
GTHP.PK	Guided Therapeutics Inc	\$0.22	3	9		
CTTC.PK	Calmare Therapeutics Inc	\$0.06	2	2		
ESMC.PK	Escalon Medical Corp	\$0.13	1	1		
	AVERAGE				7.87	7.59
USAQ.PK	USA Equities Corp	\$0.66	4	5	4.56	5.06
	USAQ Discount to Peers				-42%	-33%

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 5 – USA Equities Corp. – Income Statement (\$000)

December ending year	2018 Year	2019 Year	2020E				2020E Year	2021E				2021E Year	2022E				2022E Year
			Q1A	Q2A	Q3A	Q4E		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$50.0	\$100.0	\$300.0	\$500.0	\$950.0	\$800.0	\$1,200.0	\$1,250.0	\$1,300.0	\$4,550.0
Cost of Goods	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$25.0	\$20.0	\$90.0	\$150.0	\$285.0	\$400.0	\$600.0	\$625.0	\$650.0	\$2,275.0
Gross Profit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$25.0	\$80.0	\$210.0	\$350.0	\$665.0	\$400.0	\$600.0	\$625.0	\$650.0	\$2,275.0
G&A	\$27.4	\$53.9	\$23.1	\$15.0	\$37.4	\$38.0	\$113.6	\$40.0	\$40.0	\$40.0	\$50.0	\$170.0	\$60.0	\$70.0	\$80.0	\$100.0	\$310.0
R&D	\$0.0	\$100.2	\$27.6	\$20.3	\$20.2	\$20.0	\$88.1	\$20.0	\$20.0	\$20.0	\$20.0	\$80.0	\$20.0	\$20.0	\$20.0	\$20.0	\$80.0
Marketing	\$0.0	\$0.0	\$0.0	\$19.9	\$29.0	\$30.0	\$78.9	\$35.0	\$50.0	\$75.0	\$100.0	\$260.0	\$150.0	\$200.0	\$200.0	\$200.0	\$750.0
Total Operating Expenses	\$27.4	\$53.9	\$23.1	\$34.9	\$66.4	\$68.0	\$192.5	\$75.0	\$90.0	\$115.0	\$150.0	\$430.0	\$210.0	\$270.0	\$280.0	\$300.0	\$1,060.0
Operating Income	(\$27.4)	(\$53.9)	(\$23.1)	(\$34.9)	(\$66.4)	(\$68.0)	(\$192.5)	(\$50.0)	(\$10.0)	\$95.0	\$200.0	\$235.0	\$190.0	\$330.0	\$345.0	\$350.0	\$1,215.0
Operating income %	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	32%	40%	25%	24%	28%	28%	27%	27%
Total Other Items	(\$11.3)	(\$12.4)	(\$27.7)	(\$6.6)	(\$6.9)	(\$6.0)	(\$47.2)	(\$27.7)	(\$6.6)	(\$6.0)	(\$6.0)	(\$46.3)	(\$27.7)	(\$6.6)	(\$6.0)	(\$6.0)	(\$46.3)
Pre-Tax Income	(\$38.6)	(\$66.3)	(\$50.8)	(\$41.5)	(\$73.3)	(\$74.0)	(\$239.7)	(\$77.7)	(\$16.6)	\$89.0	\$194.0	\$188.7	\$162.3	\$323.4	\$339.0	\$344.0	\$1,168.7
Taxes (benefit)	\$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
Tax Rate	\$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
Net Income (loss)	(\$38.6)	(\$166.5)	(\$78.4)	(\$61.9)	(\$93.4)	(\$94.0)	(\$327.7)	(\$62.7)	(\$36.6)	\$69.0	\$174.0	\$108.7	\$142.3	\$303.4	\$319.0	\$324.0	\$1,088.7
EPS, as reported	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.02)	(0.05)	(0.01)	(0.01)	0.01	0.03	0.02	0.02	0.05	0.05	0.05	0.17
Diluted Shares Outstanding	3,590	5,411	5,763	6,084	6,389	6,100	6,084	6,100	6,100	6,400	6,400	6,250	6,400	6,400	6,400	6,400	6,400

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – USA Equities Corp. – Balance Sheet (\$000)

December ending year	FY2022E	FY2021E	FY2020E	FY2019
Balance sheet				
Current Assets				
Cash and S.T.I.	\$1,125.9	\$83.5	\$64.0	\$23.6
Accounts receivable	2.0	1.0	0.5	2.8
Inventories	0.5	0.1	0.0	0.0
Other assets	0.1	0.0	0.0	0.0
Total Current Assets	1,128.5	84.6	64.5	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	\$1,128.5	\$84.6	\$64.5	\$26.3
Current Liabilities				
Accounts payable	0.2	1.0	35.0	20.9
Advances due to related party	0.0	44.0	44.0	0.0
Other current liabilities	0.2	0.2	0.0	0.0
Total current liabilities	0.4	45.2	79.0	20.9
Accrued interest expense				
	1.3	1.3	105.0	93.5
Convertible note payable				
	400.0	400.0	400.0	341.7
Total Liabilities	401.7	446.5	584.0	456.1
Stockholders' Equity				
Preferred stock	0.0	0.0	0.1	0.1
Common stock	0.0	0.0	0.6	0.6
Additional paid-in-capital	1,200.0	1,200.0	1,150.0	990.9
Retained earnings	(472.8)	(1,561.5)	(1,670.2)	(1,421.3)
Cum. trans. adj. and treasury stock	(0.4)	(0.4)	0.0	0.0
Total stockholders' equity	726.8	(361.9)	(519.5)	(429.8)
Total Liabilities and equity	\$1,128.5	\$84.6	\$64.5	\$26.3

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – USA Equities Corp. – Cash Flow (\$'000)

Cash Flow	2022E	2021E	2020E	2019
Net Income	\$1,088.67	\$108.67	(\$248.85)	(\$166.52)
Accounts receivable	(1.00)	(0.50)	2.25	(1.00)
Inventories	(0.40)	(0.10)	0.00	0.00
Other assets	(0.10)	0.00	0.00	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	0.00	0.00	0.00	0.00
Accounts payable	(0.80)	(34.00)	14.06	20.40
Advances due to related party	(44.00)	0.00	44.00	(109.98)
Accrued interest expense	0.00	0.00	0.00	(95.57)
Other current liabilities	0.00	0.20	0.00	0.00
Accrued interest expense	0.00	(103.70)	11.50	93.50
Convertible note payable	0.00	0.00	58.31	12.51
Preferred stock	0.00	(0.11)	0.00	0.11
Common stock	0.00	(0.57)	0.02	0.22
Additional paid-in-capital	0.00	50.00	159.14	269.92
Accumulated other comp. loss	0.00	(0.40)	0.00	0.00
Other				
Total Cash Flow	\$1,042.37	\$19.49	\$40.44	\$23.59

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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Total return is defined as price appreciation plus dividend yield.

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USA Equities Corp.

USAQ-Buy-\$5 PT

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