



# OraSure Technologies

Date: November 19, 2020

Company Ticker: OSUR

Sector: Health Care

Industry: Medical Instruments & Supplies

OraSure P/B: 1.60

Sector P/B: 2.39

Market Price: \$11.80

Forecasted Price: \$18.27

## Recommendation: HOLD

### Company Summary:

OraSure Technologies empowers the global community to improve health and wellness by providing access to accurate, essential information. Together with its wholly-owned subsidiaries, DNA Genotek, Diversigen, CoreBiome (now operating under the Diversigen brand) and Novosanis, OraSure provides its customers with end-to-end solutions that encompass tools, services and diagnostics. The OraSure family of companies is a leader in the development, manufacture, and distribution of rapid diagnostic tests, sample collection and stabilization devices, and molecular services solutions designed to discover and detect critical medical conditions.

OraSure's portfolio of products is sold globally to clinical laboratories, hospitals, physician's offices, clinics, public health and community-based organizations, research institutions, government agencies, pharma, commercial entities and direct to consumers.

### Industry Outlook:

Since mid-March, many hospitals and research facilities have shifted their focus to medical equipment and supplies to help the fight against COVID-19. However, currently the health care equipment market is beginning to shift back to pre COVID-19 levels and is likely to be propelled due to increased coverage from political factors. While competition is very high in the industry, the industry is expected to consistently grow at ~5% over the next several years.

### Earnings Forecast:

In Thousands of the reported currency, except per share items.	FY 2018A	FY 2019 A	FY 2020 E	FY 2021 E	FY 2022 E	FY 2023 E	FY 2024 E
<b>NET REVENUES:</b>							
Total revenue	\$ 181,743.00	\$ 154,605.00	\$ 168,828.66	\$ 250,204.07	\$ 285,622.90	\$ 326,055.61	\$ 372,211.96
COST OF PRODUCTS SOLD	\$ (76,332.06)	\$ (64,934.10)	\$ (60,778.32)	\$ (90,073.47)	\$ (114,249.16)	\$ (136,943.36)	\$ (156,329.02)
Gross profit	\$ 105,410.94	\$ 89,670.90	\$ 108,050.34	\$ 160,130.61	\$ 171,373.74	\$ 189,112.25	\$ 215,882.94
<b>OPERATING EXPENSES:</b>							
Research and development	\$ 16,250.00	\$ 19,629.00	\$ 17,939.50	\$ 17,939.50	\$ 17,939.50	\$ 17,939.50	\$ 17,939.50
Sales and Marketing	\$ 30,609.00	\$ 31,869.00	\$ 31,239.00	\$ 31,239.00	\$ 31,239.00	\$ 31,239.00	\$ 31,239.00
General and Administrative	\$ 38,325.00	\$ 35,287.00	\$ 36,806.00	\$ 36,806.00	\$ 36,806.00	\$ 36,806.00	\$ 36,806.00
Change in the estimated fair value of acquisition-related contingent consideration	\$	\$ (664.00)					
Gain on sale of business	\$	\$ (10,149.00)					
Total operating expenses	\$ 85,184.00	\$ 75,972.00	\$ 85,984.50	\$ 85,984.50	\$ 85,984.50	\$ 85,984.50	\$ 85,984.50
Operating income	\$ 20,226.94	\$ 13,698.90	\$ 22,065.84	\$ 74,146.11	\$ 85,389.24	\$ 103,127.75	\$ 129,898.44
<b>OTHER INCOME</b>	\$ 3,287.00	\$ 2,720.00	\$ 3,003.50	\$ 3,003.50	\$ 3,003.50	\$ 3,003.50	\$ 3,003.50
Income before income taxes	\$ 23,513.94	\$ 16,418.90	\$ 25,069.34	\$ 77,149.61	\$ 88,392.74	\$ 106,131.25	\$ 132,901.94
INCOME TAX EXPENSE	\$ (4,937.93)	\$ (3,447.97)	\$ -	\$ (16,201.42)	\$ (18,562.48)	\$ (22,287.56)	\$ (27,909.41)
NET INCOME	\$ 18,576.01	\$ 12,970.93	\$ 25,069.34	\$ 60,948.19	\$ 69,830.26	\$ 83,843.69	\$ 104,992.53
<b>EARNINGS PER SHARE:</b>							
BASIC	\$ 0.28	\$ 0.20	\$ 0.38	\$ 0.92	\$ 1.06	\$ 1.27	\$ 1.59

OSUR's earnings forecast is driven by a large increase in revenue in 2021 that decreases to a consistent 14% revenue growth rate due to vital and industry leading testing equipment OSUR will release. Gross margins are

expected to marginally decrease in the future but will stay ~58%. Using both of these drivers, we were able to make a conservative, yet realistic estimation for the future.

#### Valuation:

Valuation	*3 Months				
	FY 2020 E	FY 2021 E	FY 2022 E	FY 2023 E	FY 2024 E
Net Income	\$ 6,267.34	\$ 60,948.19	\$ 69,830.26	\$ 83,843.69	\$ 104,992.53
+ D&A	1,500	6,000	6,000	6,000	6,000
- Capex	(2,500)	(10,000)	(10,000)	(10,000)	(10,000)
- Change in NWC	(898)	(16,577)	(5,125)	(6,748)	(8,896)
+ Change in Debt Balance	-	-	-	-	-
<b>FCFE</b>	<b>4,369.17</b>	<b>40,370.92</b>	<b>60,704.99</b>	<b>73,095.81</b>	<b>92,096.48</b>
PV of FCFE	4,269.09	35,954.54	49,278.51	54,084.60	62,111.53
<b>Terminal Value</b>	<b>1,482,689.57</b>				
Sum of Discounted FCFE	205,698.28				
Discounted Terminal Value	999,952.74				
<b>Equity Value</b>	<b>1,205,651.02</b>				
Shares Outstanding	66,000				
<b>Target Share Price</b>	<b>\$ 18.27</b>				
<b>Current Share Price</b>	<b>\$ 12.28</b>				
<b>Recommendation</b>	<b>HOLD</b>				

The 'FY 2020 E' financials shows what we expect in Q4 of 2020 while all future years are 12-month periods. Depreciation and Capex were found from guidance from the company while OSUR currently has zero debt. Using a long-term growth rate of 3.5% and discount rate of 9.71%, the target share price for OSUR is \$18.27. Since this number is well below the current stock price of \$12.28, we recommend holding this position.

#### Sensitivity Analysis:

Sensitivity Analysis		Short-term Growth Rate		
	\$ 18.27	10%	14%	17%
Discount Rate	9.00%	19.02	20.70	21.99
	9.71%	16.74	18.21	19.34
	10.00%	15.96	17.36	18.42

The table shows the target stock price based on the discount rate and short-term growth rate of revenues for OSUR. With the current price of \$18.27, we believe that even with a dip to the short-term growth rate this stock is still undervalued and our recommendation remains true.

#### Conclusion:

We recommend holding our position in OSUR due to the expected increase in revenues from OSUR's COVID-19 and HIV saliva tests.