



BIOLASE, Inc.

Q1 about inline and maintained strong 2023 guidance. We remain positive on execution and long-term growth potential. Lowering P/T to \$10.

COMPANY UPDATE

Rating: BUY

Ticker: BIOL

Price: \$0.16

Target: \$10.00
(from \$11)

Q1 about inline: BIOLASE recently (on May 11) reported its Q1 2023 (ending March) results. Total revenue was \$10.5 million (+3% y-o-y), compared with our and consensus estimates of \$10.2 million. Pro forma EPS was \$(0.14), compared with our estimates of \$(0.10) and consensus of \$(0.20). Q1 guidance was for revenue of “at least” \$10.0 million.

Q1 growth: Revenue was up (+3% y-o-y) due to continued execution on its sales initiatives. This was the 9th consecutive quarter of y-o-y revenue growth. However, EPS was tempered due to lower margin from higher international sales mix (which has lower margins) and higher costs due to inflation and supply chain costs though should be much improved starting in the current Q2.

International sales strength: In Q1, U.S. laser sales were -14% (y-o-y) due to tough comps but international was strong at +22% (y-o-y). BIOLASE had a record quarter in consumable sales, with U.S. consumable sales +19% (y-o-y), driven by increased procedures using BIOLASE laser systems. In Q1, 58% of sales were from new customers.

Strong 2023 guidance: Management maintained strong 2023 guidance for revenue to be above \$60 million (+25% y-o-y) and positive EBITDA. Q2 revenue is expected to be “at least” \$15.3 million (+25% y-o-y).

Maintaining estimates: We are maintaining our 2023 estimates for revenue of \$60 million, and for EPS of \$(0.14).

Large market opportunities: The company estimates that with every one percentage point increase in market adoption of laser technology in the U.S. alone, BIOLASE will generate an additional \$50 million in revenue (based on current BIOLASE market share of 60%).

Marketing opportunities: BIOLASE continues to make progress in expanding to Dental Services Organizations (DSOs). In addition, the company is expanding its various marketing programs especially to dental specialists (periodontist, endodontist, and hygienist).

We remain positive: We believe BIOLASE is progressing (even if slow and lumpy at times) in its return to growth and profitability. We expect significant improvement in 2023 after a strong 2022 (+24% y-o-y) which should drive momentum. BIOLASE has a solid line of innovative products, and should benefit from growth in the dental market, consistent sales execution, and new sales opportunities.

Balance sheet: The company has \$7 million in cash and \$14 million in debt. In Q1, the company raised \$9.75 million (selling 27.9 million shares at \$0.35/share). We believe it has enough cash through 2024.

Valuation positive: Maintaining our BUY, but lowering our 12-month price target to \$10 from \$11 which is based on an NPV analysis. We believe that BIOLASE represents a compelling investment story as the company continues to ramp up product sales. We believe the large market potentials presents a high reward for the high risks.

Company Description

Based in Foothill Ranch, CA, BIOLASE is a medical device company that markets laser systems (Waterlase and diode dental laser systems) for dentistry and medicine in the U.S. and internationally.

United States
Healthcare

May 19, 2023

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Stock Data

Exchange:	NasdaqCM
52-week Range:	\$0.10 –5.94
Shares Outstanding (million):	38
Market cap (\$million):	\$6
EV (\$million):	\$13
Debt (\$million):	\$14
Cash (\$million):	\$7
Avg. Daily Trading Vol. (\$million):	\$0.4
Float (million shares):	6
Short Interest (million shares):	1
Dividend, annual (yield):	\$0 (NA%)

Revenues (US\$ million)

	<u>2023E</u> <u>(Cur.)</u>	<u>2023E</u> <u>(Old)</u>	<u>2024E</u> <u>(Cur.)</u>	<u>2024E</u> <u>(Old)</u>
Q1 Mar	11A	10E	12E	11E
Q2 Jun	15E		17E	16E
Q3 Sep	15E		17E	
Q4 Dec	<u>20E</u>	<u>21E</u>	<u>22E</u>	<u>23E</u>
Total	60E		66E	
EV/Revs	0.2x		0.2x	

Earnings per Share (pro forma)

	<u>2023E</u> <u>(Cur.)</u>	<u>2023E</u> <u>(Old)</u>	<u>2024E</u> <u>(Cur.)</u>	<u>2024E</u> <u>(Old)</u>
Q1 Mar	(0.14)A	(0.10)E	(0.05)E	(0.06)E
Q2 Jun	(0.06)E		(0.02)E	
Q3 Sep	(0.01)E		(0.01)E	
Q4 Dec	<u>0.05E</u>	<u>0.02E</u>	<u>0.12E</u>	<u>0.13E</u>
Total	(0.14)E		0.04E	
P/E	N/A		4x	

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 12.

Exhibit 1: BIOLASE Company Background and Highlights

BIOLASE at a Glance

Robust Product Line

For general dentists and specialists

Large IP Portfolio

- 266 active and 25 pending patents
- \$37.5M in value¹

45.5K+ Laser Systems Sold

In 80 countries to date²

Broad Range of Applications

Dental lasers perform a broad range of cosmetic, restorative and surgical applications



Large Market Opportunity






- Only 7% to 8%* of U.S. Dental Practices incorporate all tissue lasers
- Every additional 1% = \$50M* in new revenue

Experienced Management Team

Transitioned the company from R&D focus to commercialization

BIOLASE's Spectrum of Laser Systems & Consumables

266 Active + 25 Pending Patents

ALL TISSUE LASER SOLUTIONS	SOFT TISSUE LASER SOLUTIONS	TIPS & ACCESSORIES
 <p>Waterlase iPlus®</p> <ul style="list-style-type: none"> • Our best selling All-Tissue dental laser—80 FDA cleared indications • Replaces scalpel for minimally invasive, minimally bleeding microsurgery for soft tissues • Replaces drill with substantial reduced need for anesthesia for teeth & bone 	 <p>Epic X®</p> <ul style="list-style-type: none"> • Surgery, fast tooth whitening and pain therapy in one device • Ultra portable for multiple-operator use 	
 <p>Waterlase Express®</p> <ul style="list-style-type: none"> • Smallest, easiest most cost-effective Waterlase • Vivid HD tablet user interface • Exclusive procedural animations • Rich on-board reference library and Customer Care Button 	 <p>Epic Hygiene™</p> <ul style="list-style-type: none"> • Designed by hygienists, for hygienists • FDA cleared for laser bacterial reduction ("LBR") 	

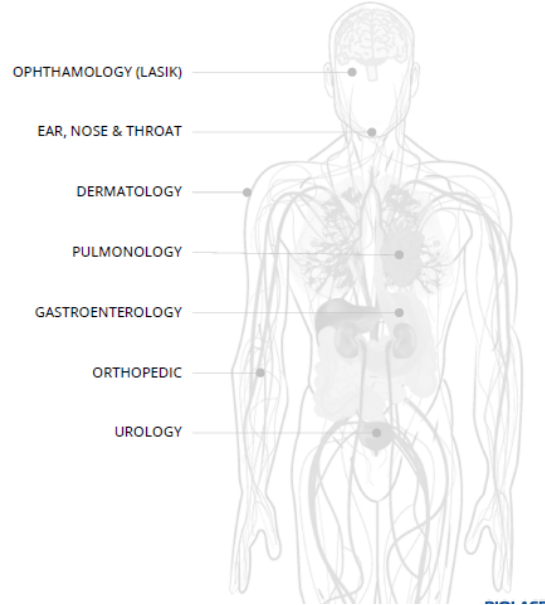
Source: Company report.

Exhibit 2: Market Opportunity

Lasers are Widely Used in Medicine

With Only **8%*** Penetration, Laser Dentistry Offers a Significant Growth Opportunity for Lasers in Medicine

- ✓ Minimally invasive
- ✓ Less bleeding/trauma
- ✓ Faster healing
- ✓ Enhanced precision
- ✓ More patient-friendly experience



*BIOLASE estimate

BIOLASE Opportunity

Targeted Growth Strategy to Further Penetrate the U.S. Market



Source: Company report

Exhibit 3: Waterlase Marketing Programs

Executing Our Growth Strategy Focused on Education & Training

Waterlase Exclusive Trial Program (WETP) for General Practitioners

35-40
planned
events for
2023

4-8
dentist
participants at
each event

> 60%
close rate

\$7-10M
revenue
opportunity
annually

Increased messaging, marketing, education & training efforts are bearing fruit

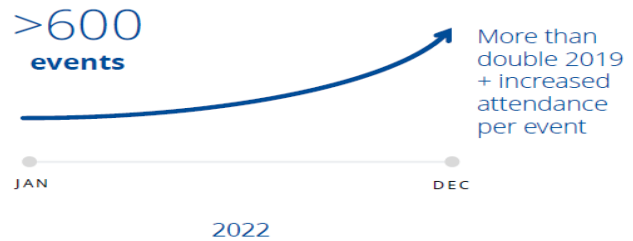
>80%
of U.S. Waterlase sales in 2022
generated from new customers

>40%
coming from dental
specialists in 2022

Specialist Academies
Expand Awareness



Increased Marketing & Sales Efforts Biggest Improvement in the Company Over the Past Couple of Years



BIOLASE Partnership Program (BPP)



First 6 Months
= Customer Revenue
Enables customers to generate revenue without any cash outflow for first 6 months



Immediate Cash in Hand
Puts money in the customer's pocket now



BIOLASE
= Compelling Reason to See Their Dentist
As offices open, it is critical to get patients to come back right away



In-office Training

- No travel, no need to spend time away from the office, staff can participate
- Facilitates true integration throughout the office
- Includes ongoing personal coaching

Source: Company report.

Exhibit 4: Waterlase Markets

Minimally invasive perio protocols for the Complete Office.

Gingivitis / Early Periodontitis	Moderate Periodontitis/Implantitis	Severe Periodontitis/Implantitis
		
HYGIENIST	DENTIST	PERIODONTIST
<ul style="list-style-type: none"> Effectively manage non-surgical Periodontitis Proven clinical protocols, including <i>Pocket Therapy</i> and <i>Perio Debridement</i> Step-by-step training & guidebooks for easy integration 	<ul style="list-style-type: none"> Easily manage moderate Periodontitis & Implantitis Minimally Invasive, Patient-Friendly protocols Excellent clinical results & patient-reported outcomes 	<ul style="list-style-type: none"> Manage Severe, Difficult and Complex Cases
GROW REVENUE +\$15 - \$40K per year	GROW REVENUE +\$32 - \$64K per year	Refer Out
Epic Hygiene 	Waterlase Dentistry 	Waterlase Dentistry 
FDA Clearance 12/19 LBR Clearance 03/20	WME 50% Closure	McGuire Release 7/2020

A Significant Growth Opportunity

60M People in the U.S. Alone Have Gum Disease & Increased Health Risk Due to the Connection Between Oral and Systemic Health

Under-diagnosed, Under-Treated, Under-managed

Peri-Implantitis

Less Frequent Dentist Visits

<p>85% OF AMERICAN ADULTS SUFFER FROM GUM DISEASE</p> <p>47% Have periodontitis that's 64.7 Million Adults 35 years and older</p> <p>8% have periodontitis, 30% moderate periodontitis, 8% severe periodontitis</p> 	<p>3.0 M+ implants placed in the U.S. in 2019 with a 6% increase each year</p> <p>500,000+ implants per year in USA need attention for peri-implantitis and that number continues to grow</p> <p>Over 1/3 of patients experience peri-implantitis over 3.5-year period (Clin Oral Impl Res. 2019)</p> <p>Waterlase lasers are highly effective, safe solution to preserving sick implants</p>	<p>> 60% of the U.S. population avoids going to the dentist because of "dental anxiety or fear"</p> <p>(DentaVax survey of 18,000 people 1/19)</p> 
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Source: Company report.

Exhibit 5: Q1 2023 Financial Results Highlights and Guidance (as of May 11, 2023)

First Quarter Financial Highlights

- Reported revenue of \$10.5 million, the ninth consecutive quarter of year-over-year growth
- Increased international laser sales by 22% year over year
- Record quarter in consumable sales, with U.S. consumable sales increasing 19% year over year, driven by increased procedures using BIOLASE laser systems
- Generated increased adoption of its industry-leading laser, with approximately 58% of U.S. Waterlase sales coming from new customers and approximately 33% from dental specialists
- Sales conversion success rate continued to rise in the first quarter, up more than 20% over the year-ago sales conversion success rate of the Company's Waterlase Exclusive Trial Program

2023 Second Quarter and Full Year Financial Guidance

BIOLASE is anticipating second-quarter net revenue to grow at least 25% year over year. The Company is also reiterating its 2023 full-year revenue guidance for net revenue to increase at least 25% year over year and expects to achieve positive adjusted EBITDA results for the full year of 2023 (adjusted EBITDA is defined as net loss before interest, taxes, depreciation and amortization, stock-based and other non-cash compensation, and the change in allowance for doubtful accounts).

Source: Company report.

Exhibit 6: Planned 2023 Milestones (as of March 2023)

Anticipated 2023 Milestones

- **Achieve positive adjusted EBITDA results for the full year of 2023** (adjusted EBITDA is defined as net loss before interest, taxes, depreciation and amortization, patent litigation settlements, stock-based and other non-cash compensation, and the change in allowance for doubtful accounts)
- **Grow total full-year 2023 revenue by at least 25% through continued adoption of lasers and consumables** by the dental community, including general dentists, dental specialists, dental hygienists, and group practice entities (DSOs)
- **Expand OEM revenue base through its partnership with EdgeEndo**
- **Expand the Waterlase Exclusive Trial Program** to drive increased adoption
- **Broaden participation in BIOLASE dental and hygiene academies** to expand awareness of the benefits of BIOLASE lasers to patients
- **Launch training centers** to enhance sales and marketing efforts and communicate the benefits of BIOLASE technology
- **Open a model dental office** to increase marketing, testimonial, and training opportunities
- **Expand the DSO customer base** and further penetrate the DSO market
- **Realize cost savings and improve quality** from in-house manufacturing of key components

Source: Company report.

Exhibit 7: BIOLASE's Stock Price (Five Years)



*Reflects a 1:25 reverse stock split in April 2022

Source: <https://bigcharts.marketwatch.com/>

Exhibit 8: Consensus Expectations (as of May 11, 2023)

	Revenue (mil)			EPS	
	2023E	2024E		2023E	2024E
Q1 Mar	\$10E		Q1 Mar	\$(0.20)E	
Q2 Jun	\$15E		Q2 Jun	\$(0.12)E	
Q3 Sep			Q3 Sep		
Q4 Dec			Q4 Dec		
Total	\$60E	\$70E	Total	\$(0.47)E	\$(0.22)E

*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, Refinitiv, and Ascendant Capital Markets estimates

BIOLASE, Inc.

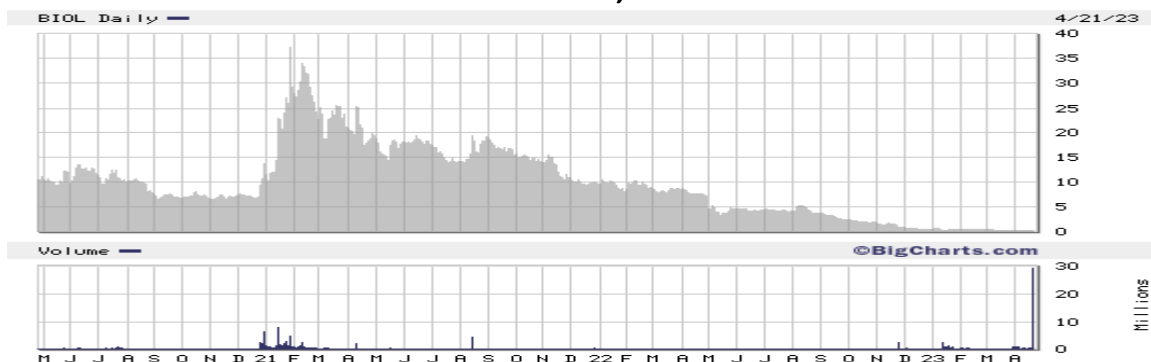
Cash Flow Statement (\$ mils)	Mar-21	Jun-21	Sep-21	Dec-21	2021	Mar-22	Jun-22	Sep-22	Dec-22	2022	Mar-23	Jun-23	Sep-23	Dec-23	2023	Mar-24	Jun-24	Sep-24	Dec-24	2024	
Fiscal Year End: December 31	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2E	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E	
Cash flow from operating activities																					
Net income	(6.9)	(0.7)	(3.3)	(5.3)	(16.2)	(4.8)	(5.6)	(8.4)	(9.9)	(28.6)	(5.8)	(2.1)	(0.2)	1.7	(6.5)	(2.1)	(0.7)	(0.5)	4.6	1.4	
Depreciation and amortization	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.5	0.1	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2	0.8	
Provision for bad debt	(0.0)	(0.1)	(0.1)	(0.0)	(0.2)	0.1	0.1	(0.1)	(0.0)	0.0	(0.0)				(0.0)					0.0	
Inventory reserves	(0.0)	(0.1)	(0.0)	(0.3)	(0.4)	0.1	(0.1)	1.8	1.1	2.8					0.0					0.0	
Amortization of debt	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	1.0	1.2	0.1				0.1					0.0	
Stock comp	0.9	0.4	0.4	0.2	1.8	0.2	0.9	0.6	0.7	2.4	0.7	0.3	0.3	0.3	1.4	0.3	0.3	0.3	0.3	1.0	
Other gains/losses		(3.0)			(3.0)					0.0					0.0					0.0	
Deferred taxes					0.0					0.0					0.0					0.0	
Warrant revaluation					0.0					0.0					0.0					0.0	
Other	0.1	0.1	0.0	0.1	0.3					0.0		(0.3)	(0.3)	(0.3)	(0.8)	(0.3)	(0.3)	(0.3)	(0.3)	(1.0)	
Changes in operating assets and liabilities:																					
Restricted cash					0.0					0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	(0.2)	(0.5)	0.3	(0.6)	(1.0)	(1.1)	(0.9)	1.3	(1.0)	(1.6)	0.7	(7.6)	0.2	(3.9)	(10.5)	6.8	(4.4)	0.3	(4.2)	(1.6)	
Inventory	(0.7)	(0.8)	(1.3)	1.4	(1.4)	(1.7)	(1.9)	(1.6)	(0.5)	(5.8)	(1.9)	5.5	1.0	(1.9)	2.8	6.2	(3.2)	0.2	(1.6)	1.6	
Prepaid expenses & other current as	0.6	(0.1)	(0.2)	0.1	0.3	(0.2)	(0.1)	(0.6)	(0.3)	(1.1)	0.2	1.0	0.0	0.5	1.8	(0.2)	(0.5)	0.0	0.6	(0.1)	
Other assets					0.0	(1.0)	1.0			0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accounts payable and accrued liabilit	(0.5)	1.0	0.2	1.1	1.8	(0.2)	0.9	2.9		3.5	0.3	4.4	(0.4)	10.0	14.3	(14.5)	6.9	(0.4)	10.8	2.8	
Deferred revenue	0.0	0.1	0.2	0.0	0.3	0.2	0.1	(0.6)	0.3	(0.1)	(0.1)	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	
Other liabilities					0.0					0.0					0.0					0.0	
Net cash (used in) provided by oper	(6.5)	(3.5)	(3.6)	(3.1)	(16.7)	(8.0)	(6.6)	(6.5)	(5.6)	(26.8)	(5.7)	1.4	0.9	6.6	3.3	(3.6)	(1.7)	(0.2)	10.4	4.9	
Cash flow from investing activities																					
Purchases of property and equipment	(0.0)	(0.3)	(0.1)	(0.3)	(0.7)	(0.3)	(0.3)	0.6	0.0	0.0	(0.6)	(0.2)	(0.2)	(0.2)	(1.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	
Purchases of short-term investments					0.0					0.0					0.0					0.0	
Acquisitions					0.0			(3.3)	(0.5)	(3.7)					0.0					0.0	
Other					0.0					0.0					0.0					0.0	
Net cash used in investing activities	(0.0)	(0.3)	(0.1)	(0.3)	(0.7)	(0.3)	(0.3)	(2.7)	(0.5)	(3.7)	(0.6)	(0.2)	(0.2)	(0.2)	(1.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	
Cash flow from financing activities																					
Issuance of debt		(0.0)	(0.0)		(0.0)		(1.0)			(1.0)					0.0					0.0	
Issuance of stock	13.3	(0.0)	0.0	0.0	13.3	5.8	(0.2)	(0.0)		5.6	8.5				8.5					0.0	
Proceeds from stock option exercise	16.5	0.0	0.1	0.1	16.7					0.0	0.0				0.0					0.0	
Other					0.0					0.0					0.0					0.0	
Cash provided by (used in) financin	29.8	(0.0)	0.1	0.1	30.0	0.0	4.8	(0.2)	(0.0)	4.6	8.5	0.0	0.0	0.0	8.5	0.0	0.0	0.0	0.0	0.0	
Effect of exchange rate on cash	(0.1)	0.1	(0.1)	(0.1)	(0.2)	(0.0)	(0.2)	(0.2)	0.3	(0.1)	0.1				0.1					0.0	
Net increase (decrease) in cash and	23.2	(3.8)	(3.7)	(3.4)	12.3	(8.4)	(2.3)	(9.6)	(5.8)	(26.0)	2.4	1.2	0.7	6.4	10.7	(3.8)	(1.9)	(0.4)	10.2	4.1	
Beginning cash and equivalents	17.6	40.8	37.0	33.3	17.6	30.2	21.8	19.5	10.0	30.2	4.2	6.5	7.7	8.4	4.2	14.9	11.1	9.2	8.7	14.9	
Ending cash and equivalents	40.8	37.0	33.3	29.9	30.2	21.8	19.5	10.0	4.181	4.2	6.5	7.7	8.4	14.9	14.9	11.1	9.2	8.7	19.0	19.0	

Source: Company reports and Ascendant Capital Markets estimates

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BIOLASE, Inc.



Source: <https://bigcharts.marketwatch.com/>

	Report Date		Price
Report	Date	Rating	Target
24	3/16/2018	B	137.50
25	3/16/2018	B	137.50
26	5/3/2018	B	125.00
27	8/9/2018	B	75.00
28	11/15/2018	B	68.75
29	1/18/2019	B	68.75
30	3/6/2019	B	75.00
31	5/10/2019	B	81.25
32	8/12/2019	B	68.75
33	11/7/2019	B	43.75
34	1/29/2020	B	50.00
35	3/29/2020	B	43.75
36	5/12/2020	B	41.25
37	8/18/2020	B	43.75
38	10/18/2020	B	43.75
39	11/14/2020	B	37.50
40	3/31/2021	B	43.75
41	5/19/2021	B	50.00
42	8/18/2021	B	75.00
43	11/28/2021	B	81.25
44	3/20/2022	B	75.00
45	6/5/2022	B	35.00
46	8/18/2022	B	28.00
47	11/12/2022	B	14.00
48	3/28/2023	B	11.00

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Risks to attainment of our share price target include dentists and consumers acceptance of products, competition, changing technologies for medical devices, macroeconomic factors, and balance sheet risks.

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BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of April 14, 2023)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	49	98%	18	37%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	50	100%	18	36%

Other Important Disclosures

Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

Dissemination of Research

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