



March 16, 2021

ELECTROMEDICAL TECHNOLOGIES, INC.

(OTC – EMED)

Industry: Medical Devices

Price Target: \$5.70

ELECTROMEDICAL TECHNOLOGIES, INC.

EMED on Track for Banner Year

Rob Goldman
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Industry: Medical Devices	12-18 Mo Price Target: \$5.70

COMPANY SNAPSHOT

Electromedical Technologies, Inc. is an FDA cleared commercial stage bioelectronic medical device manufacturing and distribution company that helps people with acute or chronic pain live happier and healthier lives in a safe, non-toxic, and drug free way. Leveraging its popular flagship device, EMED is developing a new professional grade handheld device for retail customers that has more features and is much cheaper than the existing commercial models.

KEY STATISTICS

Price as of 3/16/21	\$0.305
52 Week High – Low	\$2.12- \$0.236
Est. Shares Outstanding	30.6M
Market Capitalization	\$9.3M
Average Volume	101,5918
Exchange	OTCQB

COMPANY INFORMATION

Electromedical Technologies, Inc.
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 Suite 101
 Scottsdale AZ 85260

Web: www.ElectroMedtech.com
 Email: ir@electromedtech.com
 Phone : 888.880.7888

INVESTMENT HIGHLIGHTS

Since our coverage initiation in late 2020, EMED has achieved a key funding milestone which we believe de-risks the stock and affirms our revenue forecasts and price target This leading, chronic pain management bioelectronics provider boasts an FDA-cleared flagship device that has a 10,000 unit installed base. Plus, EMED is set for clearance of a new device in early 2022 that is smaller, cheaper, and with more capabilities including a telemedicine feature.

Targeting multiple markets, EMED’s current and future offerings are primed to serve as an effective, and non-invasive alternative to current drugs, including the \$24 billion opioids market. Bioelectronics is an important and developing field of “electronic” medicine which uses safe electrical impulses over the body’s neural circuitry to relieve pain, without drugs.

EMED’s innovative, affordable financial model also includes a novel telemedicine feature which, along with efficacy and ease of use, should drive new adoption. EMED’s recurring model includes a nominal down payment and a monthly subscription fee.

Our forecasts include a conservative 80,000 POD units sold in 2022 and a 50% top-line jump in 2023.

With an updated 12-18-month term and price target of \$5.70, EMED’s shares are undervalued, relative to its peer group. In our view, the recent drop in stock price from our initiation date represents a terrific entry point for opportunistic investors.

COMPANY OVERVIEW

Tracing its roots to 2004, Arizona-based **Electromedical Technologies, Inc. (OTC – EMED – Not Rated)** is poised to emerge as one of the leading bioelectronics providers in the industry. Bioelectronics is an important and developing field of “electronic” medicine which uses safe electrical impulses over the body’s neural circuitry to relieve pain, without drugs. A highly regarded company that has been providing pain management for thousands of sufferers with a high-end device for many years, EMED is set to offer a new, smaller, less expensive version that features existing and new capabilities, in early 2022.

This new device offers an innovative pay-as-you-go monthly subscription model that includes a portal whereby doctors can monitor patients’ in-home progress and modify treatments, as necessary. Given the installed base of happy customers, historical strength and efficacy of the technology, innovative pricing, and impressive feature-set vis-à-vis the competition, we believe exponential unit sales growth is in the cards. As illustrated in the comp table found in the **VALUATION** section, we believe EMED is undervalued at current levels and could enjoy an enviable rise in the next 12-18 months.

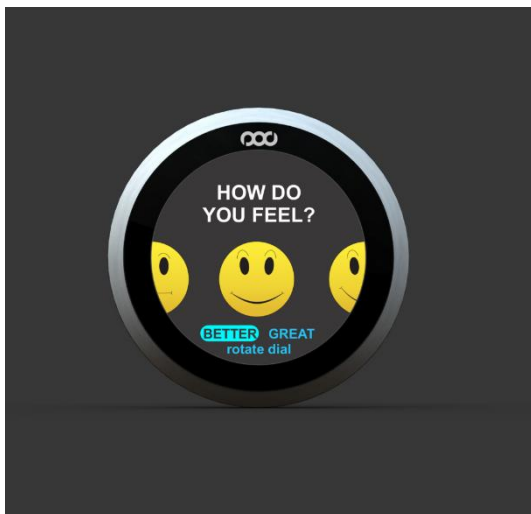
The View from 30,000 Feet

Electromedical Technologies is a bioelectronics medical device company that helps people with acute or chronic pain live happier and healthier lives in a safe, non-toxic, and drug-free way. The team is comprised of Ph.D.’s, medical doctors and systems engineers from institutions that include Weill Cornell School of Medicine, **Johnson & Johnson (NYSE – JNJ – Not Rated)**, and **Microsoft (NASDAQ – MSFT – Not Rated)**. The current clinical product, the *WellnessPro Plus*, is 11 7/8 x 7 inch bioelectronic device



that treats chronic and acute pain using

TENS (transcutaneous electrical nerve stimulation). The Company currently has a provisional patent pending for its *WellnessPlus POD*. To date, the Company has sold roughly 10,000 units of its *WellnessPro Plus* directly and through independent distributors, many of whom are customers/users as well. Approximately \$11 million worth of products have been sold since EMED received FDA clearance.



The Products

EMED is developing the *WellnessPlus POD* a new, professional grade device for retail customers that is smaller, has more features, and is much cheaper than the existing commercial models.

This handheld or miniaturized version, which is 1 inches x 4 inches and has some clever, easy to use, front-end interactivity features.

The *WellnessPro POD* is being designed to target any chronic or acute pain such as migraines, PTSD, insomnia, depression, and anxiety. This product may be particularly useful for muscle oxygenation and diabetic neuropathy. Interestingly, the POD may be best suited for veterans and anyone using opioids for pain. To date, 287 schools and universities use the flagship device in their athletic departments and research programs and company clients include many professional athletes and teams NBA, NHL, NFL.

Bioelectronics devices manipulate the nervous system to both ignore the pain and release the body's natural pain killer, endorphins. Clearly, a device such as the EMED POD under development would serve as a go-to solution for these sufferers. EMED units, even the current flagship, *WellnessPro Plus*, are generally small, portable and are often attached to the skin's surface through two or more electrodes. Their small form factors are key as the recent designs are intended for home use. This non-invasive therapy can reduce the amount of prescription drugs needed to treat chronic pain and other conditions in many patients by blocking the nerve signals that are producing the feeling of pain. Back, neck, and shoulder pain are just some of the spots on the body that are targeted by the portable TENS units.

Due to its portability, users can treat themselves for 30-40 minutes per session, as guided by physicians. The *WellnessPro POD* is being designed with an established link between doctors and patients through a remote POD portal. This should allow a doctor to actively monitor progress and modify treatments in real time, depending upon the monthly service subscription level in which the patient selects. Through this interaction, patients can reduce their trips to the doctor and still enjoy effective treatment and monitoring for a monthly subscription fee of up to \$30 for a two or three-year commitment. (Monthly fees range from \$10-30, depending upon service level.) Thus, EMED is a pure play bioelectronics firm with a telemedicine component that should serve as a driver of broad product adoption.

Looking ahead, management plans to file with the FDA for new product clearance late this year and given the predicate device of its current flagship, we believe it will be cleared with relative ease. The POD could be available for sale by early 2022, depending upon manufacturing and FDA clearance timing. In anticipation of the launch, management is designing the prototype POD and has begun pre-sales and marketing internal design as well.

The Market

An estimated 1.5 billion people around the world suffer from chronic pain more than 100M Americans who suffer from chronic pain resulting from disease or an accident. Many of these sufferers want and seek out alternative to toxic painkillers (such as opioids) and invasive surgical procedures. Perhaps no category is as ripe for migration to an alternative therapy such as bioelectronics as opioids.

Many patients are not initially aware of the highly addictive properties of prescription opioids, or the adverse consequences related to long-term opioid use, as roughly 1 in 10 patients prescribed for longer than average use often become addicted. Symptoms of addiction can be physical, behavioral, and psychological, and are often linked with anxiety attacks, mood swings, nausea, and depression, as well as impacting the individual's ability to work and sustain relationships. According to Mizhou Securities, there were about 300 million pain prescriptions written in 2015. The 300 million pain prescriptions equal a **\$24 billion market---a key, low-hanging target market for EMED.**

In addition, there is a distinct correlation between pain and depression as well. Depending upon the study, anywhere from 10-31% of 21.8M US Veterans suffer from PTSD while 77% of chronic pain sufferers report feeling depressed due to their condition. EMED plans to offer all veterans a POD with no \$100 down payment requirement and choice of subscription. Plus, Any purchase of a Premier subscription will result in a donation of a 1-year Premier subscription to another Veteran at no cost.

What's New

EMED recently announced that it has secured a \$1 million investment by a fund managed by Yorkville Advisors Global, LP to complete prototype production of its *WellnessPlus POD*, a critical step in the Company's product development and expansion plans. The Company's prototype is slated to be completed later this year and will be used in a 510(k) medical device submission with the FDA later this year. In our view, this funding de-risks the EMED story and affirms the development path for the Company. Moreover, EMED has a new funding partner with confidence in the Company's technology and marketing capabilities.

Our Forecasts

Beginning with the introduction of the POD, EMED plans to use an innovative financial model which we believe will result in exponential unit sales growth. Each unit will initially be available by prescription for a nominal down payment of \$100, with a monthly subscription services fee of \$10-30 depending upon service features level. This recurring revenue model is expected to be widely accepted and provides meaningful cash flow forecasting for the Company.

With the timeline pushed back a few months, we are no longer forecasting POD revenue for 2021. Still, the overall valuation is based on 2022/2023 sales, rather than 2021. For 2022, we continue to forecast a total of 80,000 new unit sales with an associated \$100 down payment per unit, and \$15 in subscription fees for an average of six months. The six-month average reflects consumers that procure and sign on at different times throughout the year. Our adjusted total projected revenue in 2022 is \$13.9M, reflecting the removal of nominal contribution from formerly forecasted potential sales in 2021. For 2023, we forecast new POD sales of 50,000 units, with the same metrics as noted above, thereby bringing total revenue to \$23.9M.

Our Bioelectronics/Neuromodulation Pubco Peer Group exhibits major annual revenue growth averaging an estimated 34% from 2021 to 2022 annually and as a result the components of the group trade at remarkably high Price/Revenue multiples. The average P/R multiple on current year's revenue is 18.6x. Thus, our 12-18-month price target of \$5.70 for EMED is 12.6x our \$13.9M 2022 forecast---a 32% discount to the peer group--as

the shares should trade on next year's (2022) forecasts in the next 12-18 months. We increased our target term to 12-18 from 12 months due to the slightly later prototype development commencement.



THE BIOELECTRIC SPACE: A PRIMER

Bioelectronic medicine (sometimes referred to as bioelectronics) is the convergence of biology and electrical engineering. The human body is an electrochemical system. Bioelectronic devices work by modulating the electrical activity in peripheral and central nerves in order to mitigate both symptoms and underlying causes of disease. Bioelectronics is considered one of the top ten emerging health trends that delivers non-invasive, drug-free medicine through the use of neuromodulation to effectively

treat a variety of chronic conditions. In fact, McKinsey recently described bioelectronics as the underrecognized multi-billion-dollar opportunity, set to be a pillar of medical innovations for the next century.

Neuromodulation, a subset of bioelectronics, is a \$6.2 Billion global market. Neuromodulation is another term commonly used to describe technologies that modulate nerve activity in the central nervous system or the peripheral nervous system using electrical current, magnetism, or other stimuli.

Devices in this market include the pacemaker for cardiac arrhythmia, deep brain stimulator for Parkinsonian tremor, spinal cord stimulator for chronic pain, and transcranial magnetic stimulation for drug-resistant major depressive disorder. Both implantable and non-invasive devices are being sold or developed for a number of new applications including the treatment of a migraine, rheumatoid arthritis, back pain, and Crohn's disease. Plus, early studies show this approach can also treat depression and anxiety.

Bioelectric Pain Management

Pain relief is one of the most promising applications of bioelectrical stimulation, especially for the estimated 1.5 billion men and women who experience chronic pain, many of whom and want an alternative to toxic painkillers and invasive surgical procedures. There is a distinct correlation between pain and depression as well. Depending upon the study, anywhere from 10-31% of 21.8M US Veterans suffer from PTSD while 77% of chronic pain sufferers report feeling depressed due to their condition. A subset of this group includes more than 100M Americans who suffer from chronic pain resulting from disease or an accident.

An alternative to pharmaceuticals, bioelectronics blocks nerve signals in a safe and natural way, so the brain does not sense the pain. This delivers relief while allowing other medicine to safely treat the underlying cause of the pain. Moreover, bioelectronics reduces pain by manipulating specific nerves, which in turn reduces the sensation of pain we experience. This approach manipulates the nervous system to both ignore the pain and release the body's natural pain killer, endorphins. Pulsating electrical waves interfere with the transmission of

neural pain signals into the brain, reducing or even eliminating the pain people feel. From a physiotherapy point of view, the effectiveness and benefits of electrical nerve stimulation can be explained by the “gate control theory” of pain management. The gate control theory says that before pain signals reach the brain, they encounter “nerve gates” in the central nervous system. Bioelectronics closes these gates, which reduces the strength and intensity of the pain signals that pass through them — if they even pass through and reach the brain at all.

Unlike pharmaceutical drugs that affect the entire body in order to relieve pain, bioelectronics can be used to provide targeted pain relief at specific areas of the body. This means you get the same pain-relieving benefits of prescription pills without the full body side effects of painkillers, such as constipation, dizziness, drowsiness, nausea, and vomiting.

TENS Technology

Bioelectronics devices, specifically TENS (transcutaneous electrical nerve stimulation) devices like the *WellnessPro Plus* and the POD under development, can be used to relieve pain symptoms resulting from a wide range of chronic and acute conditions. TENS device to relieve back pain one day, carpal tunnel the next, and pain resulting from a surgical procedure or disease in the future.

Most units are small, portable and are often attached to the skin’s surface through two or more electrodes. Their small form factors are key as the recent designs are intended for home use. This non-invasive therapy can reduce the amount of prescription drugs needed to treat chronic pain in many patients by blocking the nerve signals that are producing the feeling of pain. Back, neck, and shoulder pain are just some of the spots on the body that are targeted by the portable TENS unit. Some are available in the OTC market, while other devices are available by prescription only. Bio-electrical stimulation is a safe pain management therapy that activates the body’s innate ability to heal itself and regulate pain signals. Today, the use of TENS is one of the most promising all-natural alternatives to toxic and addictive painkillers such as opioids.

The Opioid Crisis

Perhaps no category is as ripe for migration to an alternative therapy such as bioelectronics as opioids. According to the Centers for Disease Control (CDC), we are firmly in the midst of an opioid epidemic. As EMED forges ahead on the R&D front, we believe that it will introduce products such as POD to reduce patient addiction directly and indirectly to opioids by using its alternative therapy.

CDC Stats and Info:

- From 1999 to 2017, more than 700,000 people have died from a drug overdose.
- Around 68% of the more than 70,200 drug overdose deaths in 2017 involved an opioid.
- In 2017, the number of overdose deaths involving opioids (including prescription opioids and illegal opioids like heroin and illicitly manufactured fentanyl) was 6 times higher than in 1999.
- On average, 130 Americans die every day from an opioid overdose.
- From 1999-2017, nearly 400,000 people died from an overdose involving opioids, including prescription and illicit opioids.

Many patients are not initially aware of the highly addictive properties of prescription opioids, or the adverse consequences related to long-term opioid use, as roughly 1 in 10 patients prescribed for longer than average use often become addicted. Symptoms of addiction can be physical, behavioral, and psychological, and are often linked with anxiety attacks, mood swings, nausea, and depression, as well as impacting the individual's ability to work and sustain relationships. Thus, it is not uncommon for these patients to turn to bioelectronics for improved pain management that does not carry the "baggage" associated with opioids and pain drugs. According to Mizhou Securities, there were about 300 million pain prescriptions written in 2015. The 300 million pain prescriptions equal a **\$24 billion market---a key, low-hanging target market for EMED.**

EXECUTIVE LEADERSHIP TEAM

Matthew Wolfson, Chief Executive Officer

- Launched IntelSource Group and Electromedical Technologies in 2004, paving way for bioelectronic research and development of the Wellness Pro.
- Co-founded Globalcom 2000, one of the largest phone card companies in the United States, and One World Communications, an "International Callback" business with over 150 training centers worldwide.
- Phoenix-based entrepreneur and inventor with a keen interest in technology and design.

Dos. D. Sarbassov, Ph.D., Lead Scientific Advisor

- Over 20 years of experience in cell-signaling, with a focus on the regulation of cell growth.
- Background includes training in immunology at Weill Cornell School of Medicine, where he contributed substantially to the study of mTOR complexes.
- Holds a Ph.D. degree from the University of Arkansas for Medical Sciences.
- Joined the laboratory of David M. Sabatini in 1999 as a Postdoctoral Fellow at the Whitehead Institute for Biomedical research at MIT, Cambridge, MA.
- Joined the Department of Molecular and Cellular Oncology at the University of Texas MD Anderson Cancer Center in 2006, continuing his studies on deregulation of cell growth in human cancers.

Alexander A. Pedenko, MD, Chief Medical Advisor

- President and founder of Premier Anesthesia Consultants.
- Clinical instructor and assistant professor of anesthesiology at Penn State University.
- Over 20 years of experience in general anesthesia and postoperative pain management.
- Board certified anesthesiologist in Greater Phoenix area.
- Graduated with honors from Kharkov Medical School in Ukraine, one of the oldest and most respected medical schools in Europe.

Constantin Kishkovski, European Business Development

- Helped to introduce Nestle branded products (Nescafe, Maggi, Nuts, and Nesquick) to the Ukrainian market.
- Head of the Johnson & Johnson representative office in Ukraine and Moldova.
- CEO and owner of KeyWord Group, a leading company in corporate support business in Ukraine and CIS.

Cindy Solovei, Chief Financial Advisor

- Seasoned financial executive and CFO advisor.
- Specialized in leading both public and private equity-funded companies through global expansion, infrastructure building, M&A due diligence and IPO preparation.
- Key financial lead in Real D Inc.'s IPO and sale of Learner's Digest Inc. to Wolters Kluwer.

Petar Gajic, Director of Technology

- Microsoft System Engineer (MCSE) with over 25 years of experience with a range of computer systems and networks.
- Director of engineering/Network Advisor for SHARP Electronic regional distribution office.
- Manager for IT projects/System and Network Administrator at One World Communications Inc.
- System Administrator - Webmaster at One World Communications.
- Network Administrator at Engineering Service.

FINANCIALS SNAPSHOT

To date, EMED has sold roughly 10,000 units of its flagship product, generating \$11M in estimated revenue. For 2020, we project total revenue of around \$750,000 with a loss per share of around **(\$0.27)**. Still, we proffer that this year's financials generally have little to no bearing on the Company's valuation, given its shift from its higher-priced, large form flagship product to the expected early 2022 introduction of the handheld *WellnessPro POD*. Moreover, given that the valuation metric used by Wall Street is a Price/Sales Ratio, our emphasis is on forecasted POD unit sales, going forward.

Conservative Forecasts Leads to Conservative Valuation

It should be noted that our unit sales forecasts could be considered low, or conservative. There are 125M Americans who suffer from chronic and acute pain and could migrate their current drugs or other treatment to the low-cost, highly effective EMED product that offers a valuable telemedicine feature. Current distributors (and users) of the *WellnessPro Plus* are likely to be strong cheerleaders for the POD with key influencers and digital marketing approaches set to drive awareness and sales. Thus, it is possible that far our unit sales projections prove to be low.

Another example of our conservative approach to forecasting is our decision to utilize a \$15/mo subscription fee versus a higher figure. EMED plans to charge between \$10-30/mo to consumers, depending upon the service level offering. Although it is more likely that the services average \$20/mo, we elected to be conservative and use the \$15 figure, since this model has no history for the Company. This shift in average would have a meaningful impact on revenue.

Table I. Electromedical Technologies, Inc. Unit and Revenue Forecast		
<u>WellnessPro POD Units</u>		
	<u>FY22E</u>	<u>FY23E</u>
New Units Sold	80,000	50,000
Down Payment	\$100	\$100
Mo Sub Fee	\$15	\$15
Average Months	6	6
2021 Unit Subscriber Fees	\$15	\$15
Average Months	12	12
<u>Revenue</u>		
	<u>FY22E</u>	<u>FY23E</u>
Down Payment	\$8,000,000	\$5,000,000
Total Mo Sub Fees	\$7,200,000	\$18,900,000
Total Revenue	\$13,900,000	\$23,900,000
Sources: EMED and Goldman Small Cap Research		

RISK FACTORS

In our view, the Company's biggest near term risk is related to the timing of the filing with the FDA for prospective clearance of the *WellnessPro POD* and the timing of the clearance itself. Given the predicate device of the FDA-cleared flagship product, and its similar method of action and approach, we believe clearance will occur in early 2022. The next major and broad-based risk is related to the timing and magnitude of the sales and marketing ramp and adoption, and subsequent monthly subscriber fee variability.

Some of the aforementioned risks could come from larger competitors, existing firms, or new entrants. Additionally, the migration from opioid use to POD could be slower than forecast, impacting the Company and peers. Still, these future concerns are consistent with firms of EMED's size and standing. Moreover, we believe

that EMED's seasoned management team is prepared to overcome these hurdles and generate significant top-line growth.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter (OTC) stock market. Although the number of shares outstanding has been little changed in recent quarters, it is also possible that the share count could increase due to future fundraises to substantially expand the Company's business and reach. However, an overriding financial benefit as a public company is the favorable access to and the availability of capital to fund product launches, consistent marketing campaigns and other initiatives. Since the proceeds of any future funding would be used in large part to advance major business development and sales, we believe that any dilutive effect from such a funding could be offset by related increases in market value.

VALUATION AND CONCLUSION

The key reason behind Wall Street's use of the Price/Revenue multiple for this industry segment's peer valuation is the high sales growth rates driven by consumers' appetite and utilization for the bioelectronic offerings. Plus, the leading companies in this industry segment are not yet operating profitably. Against this backdrop, we have elected not to publish a Pro Forma P&L at this time, pending greater clarity on future production and Sales/Marketing expenses for EMED. Given the standard valuation methodology in the peer group, we do not deem it critical to our price target at this time. However, we believe that given its many years of production history, the potential leverage of current distributors and influencers, and the innovative recurring revenue model, EMED could reach operating profitability ahead of its peers. If we are correct, then the Company's stock could be afforded a premium valuation to the peers versus our current expectation of the low-end multiple for price target purposes.

As illustrated below, the Bioelectronics/Neuromodulation Peer Group below exhibits major annual revenue growth and the components of the group trade at remarkably high Price/Revenue Multiples on both current year (2021) and next year's (2022) projections. The key takeaway from this group snapshot is that the average P/R multiple on this year's revenue is 18.6x and on next year's revenue the figure is 13.7x.

Table II. EMED Publicly-Traded Peer Group

Company Name	Symbol	Price (3/15/21)	Mkt Cap (mil)	FY21E Revs (mil)	FY22E Revs (mil)	21E - 22E Revs Growth	2021E Price/Revs	2022E Price/Revs
Axonics	AXNX	\$57.47	\$2,390	\$170	\$243	42.9%	14.1	9.8
electroCore	ECOR	\$2.21	\$108	\$7	\$9	38.5%	16.6	12.0
Inspire Med	INSP	\$218.22	\$5,920	\$187	\$259	38.5%	31.7	22.9
Nevro	NVRO	\$151.74	\$5,264	\$441	\$518	17.5%	11.9	10.2
Average			\$3,421	\$201	\$257	34%	18.6	13.7
				FY22E	FY23E		FY22E	FY23E
EMED: Today		\$0.31	\$9					
EMED: 12-18 Mo Tgt		\$5.70	\$175	\$13.9	\$23.9	72%	12.6	7.3

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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