

7 July 2022

Pharmaceuticals

52-WEEK HIGH	C\$2.90
52-WEEK LOW	C\$0.29
PRICE	C\$0.43
MARKET CAP MLN	9.27

Share Price



Major Shareholders

Shares in issue	21,568,359
Avg Three-month trading volume	25,580
Primary Index	CVE

Company Information

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Mednow maintaining consistent growth trajectory

Mednow is establishing itself as a national online Canadian pharmacy based on its leading pharmacy app, specialty pharmacy services, telemedicine support, and strategically placed fulfilment centres across Canada. The latest updates from the company and Q3 financial results show the first glimpses of returns from Mednow's campaign of expansion and acquisitions undertaken since the beginning of its current financial year (FY22 commencing 1 August 2021).

The integration of the proprietary Mednow app and acquired services with the ever-expanding network of brick-and-mortar pharmacies is facilitating a dramatic increase in revenue from the company's core retail pharmacy business.

Mednow's latest results from Q3 (ending 30 April) showed record revenues of CA\$6.1mln. This was driven by the aforementioned retail pharmacy business segment (consisting of fulfilment centre pharmacies in British Columbia, Manitoba, Ontario, and Nova Scotia) which generated Q3 revenues of CA\$5.7mln.

Growth in this revenue stream has been fostered by increased patient acquisition and the strategic acquisitions made over the last year which has expanded Mednow's offering to higher-value biologic treatments, niche hepatology drugs, and doctor home visits. As of end of Q3, patient count stands at approximately 23,000, a 20% quarter-on-quarter increase.

In Q3FY22, Mednow completed the acquisition of a specialist liver care pharmacy. Prior to acquisition, Liver Care Canada had annualised revenues of about CA\$21.3mln with a profit of CA\$2.1mln. In the roughly 2 months from acquisition to end of Q3, Liver Care has already generated CA\$2.9mln in revenue.

Services associated with the Liver Care segment are expanding all the time. Most recently, at the end of June, Mednow announced a partnership with a leading non-profit focussed on hepatitis C screening and treatment.

Conclusion

Mednow has a strong vision for the long-term integrated future of the business and aims to double its customer base year-on-year to reach 110,000-120,000 users in the calendar year 2023 located across Canada.

Mednow's Q3 FY22 results showed that revenues increased 225% quarter-on-quarter to CA\$6.1mln with a gross profit of £1.2mln at a 20.1% gross margin. Q3 EBITDA loss was CA\$5.2mln as compared to a loss of CA\$3.6mln in the comparative 2021 period.

Management has estimated that in calendar year 2022, revenues might be between CA\$42.5mln and CA\$47.5mln with a 20% gross margin and an overall loss. Over calendar year 2023, management has further estimated that sales might grow organically to between CA\$105mln and CA\$110mln with a gross margin of 25%. This could give Mednow an EBITDA profit.

With a firm foundation of speciality pharmacy services, digital infrastructure, and brick-and-mortar pharmacies, Mednow's consistently growing customer base and expanding services and infrastructure is starting to deliver organic growth.

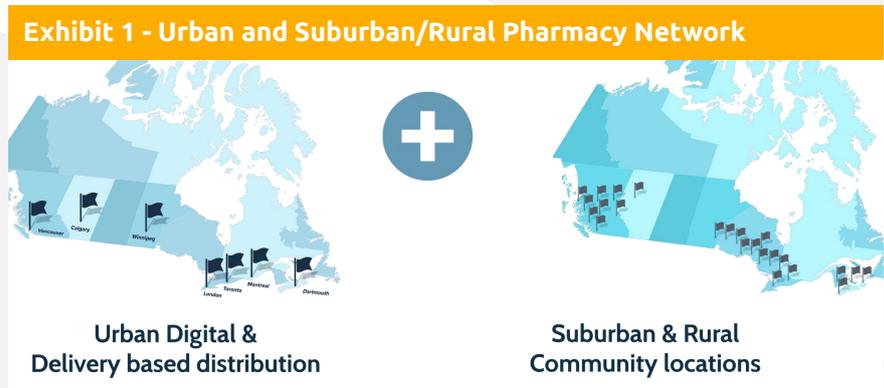
Ali Reyhany, RPh, is chief executive officer and co-founder with over 20 years of experience in Canadian healthcare. He was also CEO and co-founder of Care Group of Pharmacies, the largest pharmacist controlled independent pharmacy chain in Canada.

Benjamin Ferdinand, CPA, CMA, ICDD, is chief financial officer. He has served on the boards of CanDeal Inc. and Shorcan Brokers Ltd. He has an MBA from Ivey Business School at the University of Western Ontario.

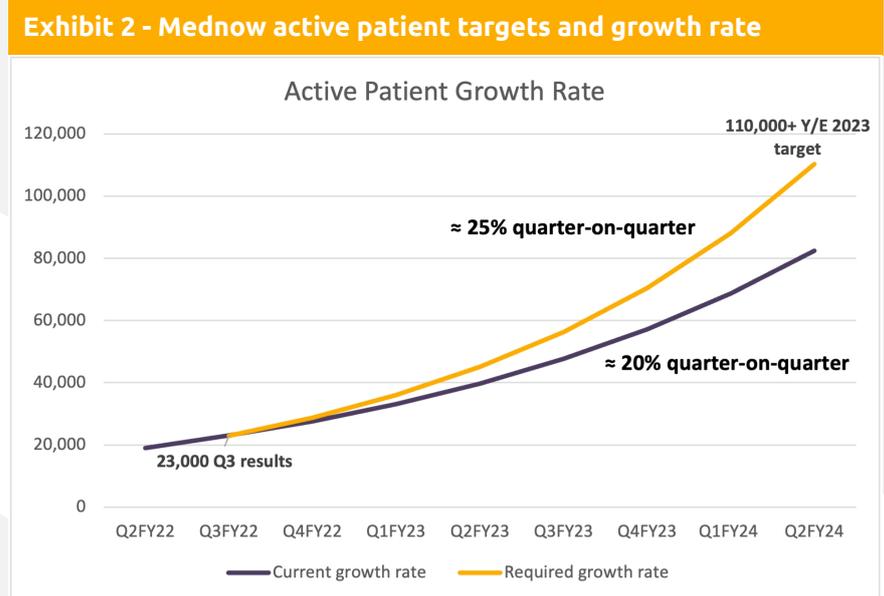
Pharmacy network and growing customer base

Mednow has established a pan-Canadian network of urban pharmacy fulfilment centres and suburban/rural pharmacy distribution facilities (Exhibit 1). 7 Pharmacy Urban fulfilment centres in Vancouver, Calgary, Winnipeg, London, Toronto, Montreal, and Dartmouth serving Canada’s major metropolises.

These pharmacies allow Mednow to provide on-demand and same-day delivery in major urban centres. Mednow has also established a network of over 70 pharmacy distribution centres in suburban and rural locations across Canada. This network of pharmacies and clinics at over 70 locations, the nationwide logistical infrastructure, and over 200 pharmacists that Mednow employ all ensure that the company can continue to scale its operation and facilitate organic growth as more and more patients are gained as customers.



Source: Mednow Investor Presentation



Source: ProActive, Mednow estimates

Patient numbers have grown at a steady rate over the last year, and may continue to grow at the current rate of around 20% quarter-on-quarter. In Q3, active patient count grew 20% to 23,000, up from 19,000 in Q2. Mednow’s management estimate projected growth from 23,000 now to over 40,000 by December 2022 and to over 110,000 by December 2023 (Q4FY24 ends 31st January 2024). This can be achieved if Mednow slightly exceeds the current 20% quarter-on-quarter growth in patient numbers (Exhibit 2).

Expansion

Mednow continues to expand across every area of its operations. While the growth and acquisitions over the last year (Exhibit 3) have been capital intensive, Mednow is now working from a strong base across retail pharmacy, speciality pharmacy, doctor services, and new wellness offerings of non-prescription products from which they expect to see increasing organic growth.

Exhibit 3 - Mednow strategic acquisition record

Acquisition	Date (NA Format)	Cash Payment	Approx. Annual Revenue	Latest Annual Gross	Loan Converted
Medvisit	8/6/21	\$1,320,000	\$3,000,000	\$790,000	NA
Infusicare Canada	10/13/21	\$1,850,000	\$9,300,000	\$400,000	NA
Liver Care Canada & London Pharmicare Inc	2/23/22	\$1,735,000	\$21,300,000	\$2,100,000	NA
Mednow West	10/25/21	\$74,209	\$452,964	NA	\$908,000
Mednow East	4/1/22	\$65,578	NA	NA	\$1,374,422
Total:		\$4,979,209	\$34,052,964	\$3,290,000	\$2,282,422

Source: ProActive, Mednow press releases

Profit and loss

Increase in revenue primarily driven by a dramatic increase in sales from retail pharmacies newly opened in the first half of 2022 in British Columbia, Manitoba, Ontario, and Nova Scotia. These generated CA\$5.7mln in revenue.

Doctor services generated around CA\$380k in Q3 from the acquired Medvisit doctor home visit business.

EBITDA loss for Q3FY22 decreased slightly from CA\$5.4mln in the previous quarter to CA\$5.2mln. This loss is significantly up from the same period last year which saw Mednow post an EBITDA loss of CA\$3.4mln. However, this is reflective of increased administrative and corporate costs related to Mednow's rapid expansion in the last year.

The highest costs come from sales costs and administrative expenses. Mednow accrued CA\$4.9mln in sales costs: CA\$4.6mln of inventory sold in the retail pharmacies and just under CA\$300k of doctor's fees. Administrative expenses increased quarter-on-quarter from CA\$3.1mln to CA\$5mln. The latter is primarily as a result of the rapid growth in retail pharmacy operations and the associated costs of pharmacy employees, pharmacists, and general operating costs of pharmacies.

Mednow is continuing its marketing and branding campaigns to promote its services. This is crucial at this stage of growth as Mednow expands its offering and brick-and-mortar infrastructure to continue its positive customer acquisition growth. This accounts for the Q3 increase in marketing and sales expenses from CA\$720k to CA\$890k.

Overall costs could drop significantly as Mednow grows and takes advantage of the synergies between operation segments and increased efficiencies which come with scale.

Balance sheet

The company has incurred ongoing losses and expects to incur further losses in the development of its business. At April 30, 2022, the company had working capital of CA\$6.5mln and CA\$9.4mln cash.

Total current assets including accounts receivable was CA\$14.3mln.

Total current liabilities were CA\$7.8mln.

Long term lease liabilities were CA\$2.65mln.

Cash flow

Net cash outflow due to operations in the nine months to end of Q3 was CA\$11.8mln, Q3 outflow representing around CA\$4.9mln.

In Q3 there was an additional CA\$120k outflow due to financing, as well as an additional cash outflow from investing activities of CA\$2.1mln.

End of Q3 Mednow was left with total cash and cash equivalents of CA\$9.4mln.

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