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CRRX-TSX	
Rating:	BUY
Target:	\$6.50
Price:	\$3.60
Return:	81%
Valuation:	10x EBITDA (F2022 estimates)

Market Data	
S/O, basic (M)	24.8
Market capitalization (\$M)	89.2
Enterprise Value (\$M)	144.1
Pro forma cash (\$M)	20.6
Total LT debt, inc conv debt (\$M)	75.5
52 Week Range	\$2.00-\$6.20
Avg. Daily Volume (M)	0.0275
Fiscal Year End	Dec-31

Financial Metrics			
In C\$	2019A	2020E	2021E
Rev. Rx (\$M)	125.8	165.2	202.0
Rev. surg (\$M)	0.0	0.0	0.0
Total revenue (\$M)	125.8	165.2	202.0
EBITDA, Rx (\$M)	15.1	18.3	25.1
EBITDA, surg (\$M)	0.0	0.0	0.0
Less: corporate cost	(5.7)	(4.3)	(4.5)
Adj EBITDA (\$M)	9.5	14.0	20.6
Adj net in (\$M)	(35.6)	(10.3)	(0.1)
EPS (basic)	(\$3.11)	(\$0.47)	(\$0.00)
P/E	NA	NA	NA
EV/EBITDA	15.2x	10.3x	7.0x

Quarterly Data					
In C\$M		Q1	Q2	Q3	Q4
REVENUE	2020E	30.4	39.7	45.6	49.4
	2021E	49.3	50.7	49.4	52.7
EBITDA	2020E	2.0	2.8	3.8	5.3
	2021E	5.1	5.5	4.3	5.7

**Company Description**  
 CareRx is a diversified healthcare service provider with Cdn healthcare services now exclusively focused on LT care pharmacy services in ON/BC/AB; legacy physio/rehab & surgical operations fully-divested by mid-F2019



Source: Consensus data- Refinitiv, Forecasts/Estimates - Leede Jones Gable

## Mitigation of Long-Term Care Rx Funding Compression in Ontario Reduces Risk to Our Revenue/EBITDA Forecasts

ON-based long-term care pharmaceutical services (LTC Rx) provider CareRx provided a positive update on its Ontario-specific funding macroenvironment today. The update indicated that the province's Ministry of Health & Long-Term Care will be delaying its intention to incrementally compress funding to the LTC Rx sector into next year, a sector in which we believe CareRx is the largest competitor in Canada.

**Sustained LTC Rx funding in ON reduces risk to our F2021/22 EBITDA forecasts, at least in one key geography.** Recall that the Ontario government in its previously-passed Ontario Drug Benefit Act chose to shift its LTC Rx funding formula from a prescription-based method to a capitation method (fixed funding per LTC resident served, rather than on a Rx-specific basis as before). The government chose to then set industry funding at \$1,500 per bed annually, and then enact a scheduled annual reduction in annual bed-based fees down to \$1,400 in F2021/22, and eventually down to \$1,200 by F2023/24. We have long viewed any decision to compress funding to eldercare services as an unusual way to curtail provincial health expenditures. And so we are encouraged by the province's decision to delay timelines to implementing its linear funding compression timelines, however pandemically-driven the decision may have been.

**Softening of pending ON funding compression provides us with an encouraging signal on provincial support for eldercare services.** The Ontario government's LTC Rx funding update is Ontario-specific for now, though we will closely monitor the funding environment in the other two provinces for any indications on this theme. CareRx does not stratify its revenue/EBITDA by geography, so we do not know how many beds it has under management in ON-AB-BC (it also has one Rx fulfillment center in SK). If we assume that fulfillment center bandwidth is proportional to beds under management, then we would assume that CareRx has about 16,500-to-17,000 beds under management in ON. Accordingly, a shift in per bed funding of \$100 would of course positively impact our FQ221-to-FQ122 quarterly revenue forecast by about \$0.4M. We assume that most of this funding increment would similarly impact quarterly EBITDA/margin as well.

The firm has about 51,100 beds under management in 900 LTC facilities nationwide at present. Recall that it impressively added a new 1,100-bed contract with a major ON-based LTC service provider back in late FQ420, thus showing us that its scale of operations is facilitating successful bidding for new contracts at this scale. CareRx's current LTC Rx network was largely assimilated through acquisition, initially acquiring ON-based Classic care (for \$50M in Q411), followed by AB-based Pharmicare (for \$34M in Q115) and BC-based CareRx from which the firm derives its current name (for \$14M in Q416) and then more recently acquiring Remedy'sRx for \$44M in Q120. Accordingly, and independent of ON funding revisions indicated above, we believe CareRx has achieved national leadership on scale of operations, which should facilitate its ability to drive revenue/EBITDA growth through new contract wins and at a pace that exceeds its historic performance on this theme.

**Cost synergies through Remedy'sRx integration provide a separate and significant driver for EBITDA margin growth in F2021/22.** Supplemental to this, we are encouraged that CareRx specifically indicated in its Jan/21 investor presentation that it is well-advanced on its consolidation of Rx fulfillment centers in ON-AB-BC as part of its integration of newly-acquired Remedy'sRx into its national LTC Rx network. The end result of integration activities will be to consolidate Rx fulfillment into 18 centers from 25 originally, for which CareRx is projecting \$3.2M in annual operating cost reduction commencing in FQ221.

### Exhibit 1. Income Statement and Financial Forecasts for CareRx

<i>Year-end December 31</i> <i>(C\$000, except EPS)</i>	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Physio/Rehab/Assessment	170,439	NA								
Pharmacy (inc Karie/homecare)	99,960	121,449	125,134	124,453	125,352	125,795	165,209	201,989	209,475	218,304
Surgical & Medical Centers	37,640	39,600	43,352	44,514	43,679	0	0	0	0	0
Assessments	NA									
Retail & Home Medical	35,217	1,372	NA							
<b>Total revenue</b>	<b>\$343,256</b>	<b>\$162,421</b>	<b>\$168,486</b>	<b>\$168,967</b>	<b>\$169,031</b>	<b>\$125,795</b>	<b>\$165,209</b>	<b>\$201,989</b>	<b>\$209,475</b>	<b>\$218,304</b>
<i>Revenue growth (%)</i>	<i>(\$25%)</i>	<i>(\$53%)</i>	<i>4%</i>	<i>0%</i>	<i>0%</i>	<i>(\$26%)</i>	<i>31%</i>	<i>22%</i>	<i>4%</i>	<i>4%</i>
EBITDA, pharmacy	\$12,812	\$16,571	\$17,157	\$17,014	\$9,844	\$15,137	\$18,295	\$25,128	\$26,472	\$28,017
<i>EBITDA margin, pharmacy (%)</i>	<i>12.8%</i>	<i>13.6%</i>	<i>13.7%</i>	<i>13.7%</i>	<i>7.9%</i>	<i>12.0%</i>	<i>11.1%</i>	<i>12.4%</i>	<i>12.6%</i>	<i>12.8%</i>
EBITDA, surgery	\$3,064	\$3,459	\$4,920	\$6,180	\$6,596	\$0	\$0	\$0	\$10	\$26
<i>EBITDA margin, surgery (%)</i>	<i>8.1%</i>	<i>8.7%</i>	<i>11.3%</i>	<i>13.9%</i>	<i>15.1%</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
EBITDA, other divisions less corporate costs	\$12,321	(\$11,654)	(\$6,603)	(\$5,681)	(\$5,570)	(\$5,658)	(\$4,334)	(\$4,545)	(\$4,713)	(\$4,912)
<b>EBITDA</b>	<b>\$28,197</b>	<b>\$8,376</b>	<b>\$15,474</b>	<b>\$17,513</b>	<b>\$10,870</b>	<b>\$9,479</b>	<b>\$13,961</b>	<b>\$20,583</b>	<b>\$21,769</b>	<b>\$23,131</b>
<i>EBITDA growth (%)</i>	<i>(32%)</i>	<i>(70%)</i>	<i>85%</i>	<i>13%</i>	<i>(38%)</i>	<i>(13%)</i>	<i>47%</i>	<i>47%</i>	<i>6%</i>	<i>6%</i>
<i>EBITDA margin (%)</i>	<i>8.2%</i>	<i>5.2%</i>	<i>9.2%</i>	<i>10.4%</i>	<i>6.4%</i>	<i>7.5%</i>	<i>8.5%</i>	<i>10.2%</i>	<i>10.4%</i>	<i>10.6%</i>
Net Income (adj)	(\$35,546)	(\$47,319)	(\$7,726)	(\$782)	(\$6,167)	(\$35,642)	(\$10,282)	(\$99)	\$5,712	\$6,285
<b>EPS (basic)</b>	<b>(\$4.65)</b>	<b>(\$5.87)</b>	<b>(\$0.93)</b>	<b>(\$0.08)</b>	<b>(\$0.59)</b>	<b>(\$3.11)</b>	<b>(\$0.47)</b>	<b>(\$0.00)</b>	<b>\$0.23</b>	<b>\$0.25</b>
EPS (fd)	(\$3.75)	(\$5.22)	(\$0.87)	(\$0.07)	(\$0.58)	(\$2.92)	(\$0.45)	(\$0.00)	\$0.23	\$0.25
<i>S/O, basic</i>	<i>7,641</i>	<i>8,056</i>	<i>8,297</i>	<i>10,256</i>	<i>10,436</i>	<i>11,475</i>	<i>21,890</i>	<i>24,774</i>	<i>24,774</i>	<i>24,774</i>
<i>S/O, fd (inc convert debt)</i>	<i>9,473</i>	<i>9,059</i>	<i>8,927</i>	<i>10,528</i>	<i>10,654</i>	<i>12,200</i>	<i>22,695</i>	<i>25,023</i>	<i>25,023</i>	<i>25,023</i>
<i>P/E (basic)</i>	<i>NA</i>	<i>15.6x</i>	<i>14.2x</i>							
<i>EV/EBITDA</i>	<i>5.1x</i>	<i>17.2x</i>	<i>9.3x</i>	<i>8.2x</i>	<i>13.3x</i>	<i>15.2x</i>	<i>10.3x</i>	<i>7.0x</i>	<i>6.6x</i>	<i>6.2x</i>

Source: Historical Data – CareRx; Forecasts/Estimates – Leede Jones Gable

F2021/22 EBITDA forecasts of \$20.6M/\$21.8M already incorporate cost synergies of this magnitude into our projections, but we are still encouraged that CareRx projects that notional synergies that were theoretically possible when the acquisition was announced (it was clear to us that Remedy'sRx and CareRx had high geographic overlap in their respective Rx fulfillment center footprint) are well on pace to become actual synergies in the next quarter or two. As we described in our report last month, we calculate that CareRx generated annualized revenue per bed last quarter of \$3,699, down from quarterly revenue levels that were at or near \$4,000. This thus showed us that funding compression in CareRx's LTC network was already impacting quarterly revenue, if not quite to the degree that was on the imminent horizon before today's announcement. Our model assumed that CareRx could mitigate funding risk through achieving cost synergies (as it should with Remedy'sRx integration, as described above) and bed count supplementation through new contract wins and new acquisitions. CareRx has documented expertise on all three of these growth categories.

CareRx has explicitly indicated that it expects to double its beds under management by end-of-F2023, and this is a projection that was described in the firm's FQ320 MD&A as well. While we assume that this statement is more of an objective than a promise, we believe that three-year operational scale-up of this magnitude is achievable, though probably through a combination of acquisitions and contract wins. Our model does not overtly assume any acquisitive growth until relevant acquisitions are consummated, but our investment thesis does assume that CareRx will remain active on considering Classic Care-Pharmicare-CareRx-Remedy'sRx-like transactions in coming quarters.

Exhibit 2. Valuation Summary for CareRx

EV/EBITDA multiple, F2022	4x	6x	8x	10x	12x	14x
Implied share price <sup>1</sup>	\$1.29	\$3.03	\$4.77	<b>\$6.51</b>	\$8.25	\$9.99
<b>One-year CRRX target price<sup>1,2</sup></b>	<b>\$6.51</b>					

<sup>1</sup> Based on F2022 ad EBITDA of \$21.8M; 24.8M pro forma basic S/O post-consolidation (inc shares issued to Remedy's Rx & Q220 equity issue), 25.0M S/O (fd), 37.8M S/O (fd, fully-converted)

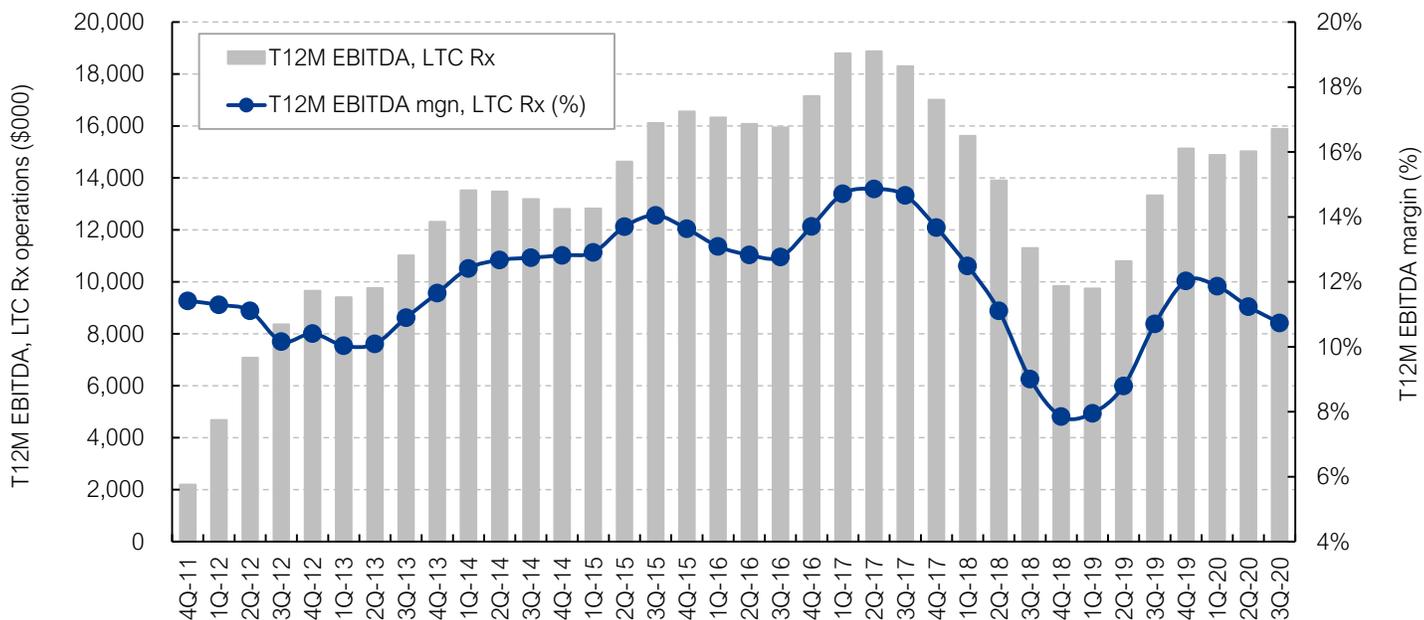
<sup>2</sup> FQ320 cash & equivalents of \$20.6M; FQ320 LT debt of \$75.5M (\$41.5M excluding convertible debt)

Source: Historical Data – CareRx; Forecasts/Estimates – Leede Jones Gable

**Summary & valuation.** In conclusion, we are positive about the alleviation of LTX Rx funding pressure in Ontario that provides us with added confidence that our quarterly revenue/EBITDA projections at least into F2022 are achievable, and we are cautiously optimistic that Ontario's decision could signal other provincial ministries to do same. **We are maintaining our BUY rating and PT of \$6.50 on CRRX**, with our PT corresponding to a one-year return of 81% and with our valuation still based on 10x EV/F2022 EBITDA (\$21.8M), and with our EV calculation incorporating FQ320 balance sheet data (cash & equivalents of \$20.6M, total debt including convertible debt of \$75.5M); our share-based projections are based on fully-diluted (but not fully-converted) S/O of 25.0M. As shown in Exhibit 1, we project F2020 revenue/EBITDA/margin of \$165.2M/\$14.0M/8.5%, increasing to \$202.0M/\$20.6M/10.2% in F2021 (largely from a full-year or Remedy's Rx contribution and integration-enabled cost synergies indicated above) and then to \$209.5M/\$21.8M/10.4% in F2022, which is the reference year in our valuation.

As indicated in Exhibit 3 below, we are encouraged by how well CareRx management has responded to historic funding compression (EBITDA margin dips in FH116 and FH118 were from reductions in dispensation fees in the relevant periods, and from shift to a capitation-based funding formula in ON in FH120) through acquisition and cost synergies. As we describe above, we expect CareRx to copy from that page of its playbook in F2021 as well.

Exhibit 3. Historic T12M EBITDA/Margin Data for CareRx (excludes corporate costs)



Source: Historical Data – CareRx, adapted graphically by Leede Jones Gable

## Exhibit 4. Comparable Healthcare Services Firms for CareRx

Company	Curr.	Sym	Shares	Share	Mkt	Ent.	EV/EBITDA			Price/Earnings			Description
			Out (M)	Price 18-Jan	Cap (\$M)	Value (\$M)	(T12)	(FY1)	(FY2)	(T12)	(FY1)	(FY2)	
<b>Canada-based healthcare services firms</b>													
Akumin	CAD	AKU	70.2	\$3.80	\$267	\$687	8.2x	10.0x	8.4x	NA	NA	17.7x	US -based medical imaging clinic consolidator
Assure Holdings	CAD	IOM	51.4	\$1.50	\$77	\$73	NA	NA	NA	24.7x	NA	NA	US-based neuromonitoring services firm
Chartwell REIT	CAD	CSH.UN	215.6	\$9.36	\$2,018	\$4,833	18.0x	18.6x	17.2x	NA	NA	NA	Nursing care and retirement residences operator
CRH Medical	CAD	CRH	71.4	\$2.78	\$199	\$279	9.4x	10.5x	7.5x	NA	NA	NA	US-based GI anesthesiology/ endoscopy services
Extendicare	CAD	EXE	89.5	\$5.96	\$534	\$935	8.1x	7.7x	9.9x	16.8x	35.1x	20.9x	Nursing care and home healthcare operator
K-Bro Linen	CAD	KBL	10.7	\$40.51	\$433	\$538	NA	13.6x	12.5x	NA	NA	NA	Linen & laundry processing for hospital & hospitality sectors
Medical Facilities	CAD	DR	31.1	\$7.12	\$221	\$360	4.4x	3.7x	4.0x	8.7x	17.4x	20.6x	US-based physician-owned surgical services
Northwest Healthcare Properties	CAD	NWH.UN	175.7	\$12.84	\$2,256	\$5,801	22.4x	20.9x	18.9x	15.1x	14.8x	20.1x	REIT, with substantial client base of healthcare services vendors
Protech Home Medical	CAD	PTQ	112.5	\$1.92	\$216	\$202	11.1x	9.8x	7.0x	NA	NA	32.7x	OH-based post-acute care respiratory equipment distribution
Savaria Corp	CAD	SIS	51.0	\$15.34	\$783	\$811	14.1x	13.8x	12.8x	27.7x	28.5x	25.2x	QC-based patient mobility device manufacturer
Sienna Senior Living	CAD	SIA	67.0	\$13.04	\$874	\$1,855	18.1x	18.7x	16.1x	NA	NA	NA	Nursing care and retirement residences operator
Viemed Healthcare	CAD	VMD	39.1	\$10.75	\$420	\$313	10.5x	8.4x	10.8x	15.6x	16.9x	30.1x	LA-based post-acute respiratory services & disease mgmt
<b>Average</b>							<b>12.4x</b>	<b>12.3x</b>	<b>11.4x</b>	<b>18.1x</b>	<b>22.5x</b>	<b>23.9x</b>	
<b>Hospice, home health services, rehabilitation therapy</b>													
Amedisys	USD	AMED	32.8	\$293.89	\$9,643	\$9,843	NA	NA	NA	NA	NA	NA	LA-based home health and hospice care; 529 home care agencies, 72 hospice agencies
Ensign Group	CAD	ESI	163.1	\$1.26	\$206	\$1,644	6.2x	7.3x	8.5x	NA	NA	NA	CA-based rehabilitation therapy and nursing services firm; 77 facilities mostly in western U.S.
HealthSouth	CAD	HLS	31.7	\$16.54	\$525	\$503	24.5x	22.6x	13.3x	NA	NA	NA	AL-based inpatient rehab services (LT care/acute care hospitals)
LHC Group	USD	LHCG	31.6	\$210.62	\$6,654	\$6,514	NA	NA	23.4x	NA	NA	35.7x	LA-based post-acute healthcare services, nursing agencies, hospices; 264 homecare service, 230 nursing services
National HealthCare	USD	NHC	15.4	\$71.05	\$1,091	\$815	6.8x	NA	NA	39.1x	NA	NA	TN-based operator of LT care & assisted living facilities, home care and hospice care services
Select Medical Holdings	USD	SEM	134.8	\$28.52	\$3,843	\$7,328	10.9x	9.7x	9.7x	17.9x	17.6x	17.3x	PA-based specialty hospitals; 89 LT acute care hospitals, 6 inpatient rehab clinics, 961 outpatient rehab clinics
<b>Average</b>							<b>12.1x</b>	<b>13.2x</b>	<b>13.7x</b>	<b>28.5x</b>	<b>17.6x</b>	<b>26.5x</b>	
<b>Hospital management</b>													
Community Health Systems	USD	CYH	119.6	\$9.05	\$1,083	\$12,680	10.8x	7.6x	8.0x	NA	NA	NA	TN-based hospital manager; 122 hospitals with 18,140 beds in 29 states; merged with Triad Hospitals in 2007
Netcare	ZAc	NTC	1,445.6	\$1,305.00	\$1,886,495	\$30,337	12.0x	8.2x	6.7x	NA	NA	NA	Acute care hospital provider in UK/South Africa
Ramsay Health Care	AUD	RHC	228.9	\$61.92	\$14,172	\$22,921	12.3x	11.9x	10.6x	NA	31.8x	23.5x	Private hospital and day surgery service provider in Australia, France, Indonesia, UK
Tenet Healthcare	USD	THC	105.5	\$47.38	\$4,999	\$19,790	9.6x	7.3x	6.9x	NA	10.5x	15.4x	TX-based hospital operator; 53 hospitals with 14,352 beds
Universal Health Services	USD	UHS	84.3	\$132.48	\$11,171	\$13,755	7.7x	7.7x	7.4x	13.0x	12.8x	12.3x	PA-based operator of acute care hospitals, ASCs, radiation oncology centers, surgical hospitals
<b>Average</b>							<b>10.5x</b>	<b>8.6x</b>	<b>7.9x</b>	<b>13.0x</b>	<b>18.3x</b>	<b>17.1x</b>	
<b>Specialty health services</b>													
Bioscrip	USD	BIOS	186.8	\$17.66	\$3,298	\$4,330	NA	19.9x	17.8x	NA	NA	NA	NY-based PBM; specialty pharmacies, focuses on chronic conditions, infusion therapies, mail service drug distrib
Chemed	USD	CHE	16.0	\$529.20	\$8,442	\$8,329	21.0x	18.7x	19.4x	32.1x	29.3x	30.0x	OH-based hospice care (Vitas division), plumbing repair-maintenance (Roto-Rooter division)
Cryolife	USD	CRY	38.9	\$24.24	\$942	\$1,174	NA	NA	NA	NA	NA	NA	GA-based surgery services; processing of human tissues in CV surgery; CryoValve SG, CryoPatch SG, Biogluce
CVS Caremark	USD	CVS	1,308.9	\$76.26	\$99,818	\$155,031	8.2x	8.6x	8.5x	12.6x	10.3x	10.1x	RI-based retail pharmacy, mail service drug distrib, formulary mgmt, claims processing
Davita	USD	DVA	112.0	\$118.75	\$13,300	\$22,083	9.2x	9.3x	9.1x	18.1x	15.9x	14.4x	CO-based dialysis services provider, 1,530 outpatient centers in 43 US states, acute inpatient dialysis services
Hanger Orthopedics	USD	HNGR	38.1	\$22.98	\$876	\$1,250	11.8x	14.6x	9.5x	21.8x	NA	21.4x	Texas-based owner/operator of orthotic and prosthetic patient-care centers; 677 centers in 45 states
Healthcare Services Group	USD	HCSG	74.4	\$30.37	\$2,260	\$2,056	16.3x	15.7x	15.6x	25.3x	24.4x	25.1x	Cleaning, maintenance, food services for nursing homes and rehab facilities
Tivity Health	USD	TVTY	48.6	\$20.65	\$1,004	\$1,924	8.9x	8.8x	12.3x	NA	12.4x	15.2x	TN-based alternative medicine and fitness center network
Magellan Health Services	USD	MGLN	25.9	\$94.55	\$2,448	\$2,970	14.5x	19.4x	13.1x	NA	NA	28.9x	CT-based health management, serves insurance firms, unions, government agencies; radiology, pharma benefits
Mednax	USD	MD	85.6	\$23.60	\$2,020	\$3,389	11.3x	13.2x	13.4x	NA	17.3x	14.6x	FL-based neonatal and pediatric anesthesia services
<b>Average</b>							<b>12.7x</b>	<b>14.2x</b>	<b>13.2x</b>	<b>22.0x</b>	<b>18.3x</b>	<b>20.0x</b>	
<b>CareRx</b>	<b>CAD</b>	<b>CRRX</b>	<b>24.8</b>	<b>\$3.60</b>	<b>\$89</b>	<b>\$145</b>	<b>NA</b>	<b>11.2x</b>	<b>6.7x</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>ON-based healthcare services firm, focused on LTC pharmacy operations in Ontario &amp; western Canada</b>

Source: Refinitiv

Disclosures none

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8. LJG acts as a market maker of the company.
9. The analyst has conducted a site visit and has viewed a major facility or operation of the issuer.
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<b>Speculative Buy</b>	The security is considered a BUY but carries an above-average level of risk.
<b>Hold</b>	The security represents fair value and no material appreciation is expected over the next 12 month time horizon.
<b>Sell</b>	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
<b>Under Review</b>	The rating is temporarily placed under review until further information is disclosed.
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RECOMMENDATION	NO. OF COMPANIES	%
Buy	6	42.9%
Speculative Buy	7	50.0%
Hold	1	7.1%
Sell	-	-
Tender	-	-
Under Review	-	-

