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CRRX-TSX	
Rating:	BUY
Target:	\$7.00 ↑ (was \$6.50)
Price:	\$4.22
Return:	66%
Valuation:	10x EBITDA (F2022 estimates)

Market Data	
S/O, basic (M)	24.9
Market capitalization (\$M)	105.0
Enterprise Value (\$M)	163.9
Pro forma cash (\$M)	16.6
Total LT debt, inc conv debt (\$M)	75.5
52 Week Range	\$2.00-\$6.20
Avg. Daily Volume (M)	0.0323
Fiscal Year End	Dec-31

Financial Metrics			
In C\$	2019A	2020E	2021E
Rev, Rx (\$M)	125.8	165.2	211.7
Rev, surg (\$M)	0.0	0.0	0.0
Total revenue (\$M)	125.8	165.2	211.7
EBITDA, Rx (\$M)	15.1	18.3	26.4
EBITDA, surg (\$M)	0.0	0.0	0.0
Less: corporate cost	(5.7)	(4.3)	(4.8)
Adj EBITDA (\$M)	9.5	14.0	21.7
Adj net in (\$M)	(35.6)	(10.3)	0.3
EPS (basic)	(\$3.11)	(\$0.47)	\$0.01
P/E	NA	NA	341.2x
EV/EBITDA	17.3x	11.7x	7.6x

Quarterly Data					
In C\$M		Q1	Q2	Q3	Q4
REVENUE	2020E	30.4	39.7	45.6	49.4
	2021E	49.3	53.9	52.6	55.9
EBITDA	2020E	2.0	2.8	3.8	5.3
	2021E	5.1	5.8	4.6	6.1

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

Leverages Leadership in the Canadian Long-Term Care Rx Universe with New Acquisitive Growth - BUY

ON-based long-term care pharmaceutical services (LTC Rx) provider CareRx provided further evidence of its ability to grow strategically through acquisition by acquiring ON-based private peer SmartMeds Pharmacy in a deal valuing the acquisition at \$4.5M in mostly cash (\$4.0M) and \$0.48M in CRRX shares (about 112,000 shares, if priced at yesterday's close), with another \$2.9M potentially owed to SmartMeds shareholders if unspecified EBITDA thresholds are achieved over the next two years. As indicated in the press release announcing the transaction, SmartMed's revenue/EBITDA run-rate of \$13.0M/\$1.5M implied that CareRx acquired the firm for 0.35x/3.0x annualized revenue/EBITDA, respectively.

SmartMeds acquisition can be funded with available cash and thus incurs no supplemental capital costs. CareRx exited FQ320 with \$20.6M in cash & equivalents and thus can comfortably fund the transaction without incurring new financing costs. Our calculated fully-diluted S/O of 25.1M (excluding future impact on debt conversion) is trivially impacted by the transaction and on its own has no impact on our CRRX valuation and PT. The transaction itself, however, is solidly positive to our revenue/EBITDA projections and we are modestly revising both to incorporate new contribution on both metrics from SmartMeds (see below).

Even without considering future integration cost synergies that should be achievable, SmartMeds was already performing to CareRx's standards on EBITDA/margin. SmartMeds' implied EBITDA margin based on annualized revenue/EBITDA data provided is >10% (well, 11.5% to be exact). If we assume that there are administrative costs that could be extracted from SmartMeds' legacy operations and enveloped into CareRx's existing administrative framework, there is clear potential for SmartMeds to be accretive not just to EBITDA but to CareRx's consolidated margins as well. Recall that CareRx generated adjusted LTC Rx EBITDA margins in FQ120-FQ220-FQ320 of 6.7%-7.1%-8.4% (pure EBITDA margin excluding corporate costs were 10.5%-9.7%-10.7%), all of which were below SmartMeds' existing margin threshold.

Canada's leading LTC Rx service provider just scaled its client base by another 5% through this transaction. The acquisition adds 2,400 new LTC beds to CareRx's existing client base of about 51,000, itself supplemented with a new 1,100 LTC Rx contract that CareRx added organically to its prior client network. Current bed count is thus at or near 53,400, excluding any new smaller LTC Rx contract wins that CareRx may not have yet announced. As a separate EBITDA-augmenting initiative, we believe that SmartMeds could be integrated into CareRx's existing Rx fulfillment centers in Ontario, and thus further augment EBITDA and margin through fulfillment center consolidation. But for now, our model will assume that SmartMeds augments our prior F2021/22 revenue/EBITDA forecasts up to its historic run-rate, with integration activities likely to provide upside to that assumption by end-of-F2021.

SmartMeds transaction is consummated at attractive revenue/EBITDA multiples as compared to CareRx's own acquisition history in the space. Both multiples are attractive in our view both in absolute terms and when compared to multiples previously ascribed to CareRx's historic acquisitions in the LTC Rx universe.

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.

These include ON-based Classic care (for \$50M in Q411, about 0.8x/7.5x projected annualized revenue/EBITDA of \$65M/\$6.7M, 16,000 beds), followed by AB-based Pharmacare (for \$26M upfront in Q115, about 5.1x T12M EBITDA of \$5.1M, 4,800 beds) and BC-based CareRx from which the firm derives its current name (for \$14M in Q416, about 4.3x notional two-year EBITDA at the time of \$3.25M, 1,500 beds) and then more recently acquiring Remedy'sRx for \$44M in Q120 (about 0.7x T12M revenue of \$60M/18,000 beds, and about 8x T12M EBITDA assuming T12M EBITDA margin was at CareRx-like level already, around 9% at the time).

Exhibit 1. Income Statement and Financial Forecasts for CareRx

<i>Year-end December 31 (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	211,739	220,525	227,144
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							
Total revenue	\$343,256	\$162,421	\$168,486	\$168,967	\$169,031	\$125,795	\$165,209	\$211,739	\$220,525	\$227,144
<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>28%</i>	<i>4%</i>	<i>3%</i>
EBITDA, pharmacy	\$12,812	\$16,571	\$17,157	\$17,014	\$9,844	\$15,137	\$18,295	\$26,442	\$27,979	\$29,266
<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>12.5%</i>	<i>12.7%</i>	<i>12.9%</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)	(\$4,764)	(\$4,962)	(\$5,111)
EBITDA	\$28,197	\$8,376	\$15,474	\$17,513	\$10,870	\$9,479	\$13,961	\$21,678	\$23,027	\$24,182
<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>55%</i>	<i>6%</i>	<i>5%</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)	\$308	\$6,130	\$6,648
EPS (basic)	(\$4.65)	(\$5.87)	(\$0.93)	(\$0.08)	(\$0.59)	(\$3.11)	(\$0.47)	\$0.01	\$0.25	\$0.27
EPS (fd)	(\$3.75)	(\$5.22)	(\$0.87)	(\$0.07)	(\$0.58)	(\$2.92)	(\$0.45)	\$0.01	\$0.24	\$0.26
<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>21,918</i>	<i>24,886</i>	<i>24,886</i>	<i>24,886</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>22,723</i>	<i>25,135</i>	<i>25,135</i>	<i>25,135</i>
<i>P/E (basic)</i>	<i>NA</i>	<i>341.2x</i>	<i>17.1x</i>	<i>15.8x</i>						
<i>EV/EBITDA</i>	<i>5.8x</i>	<i>19.6x</i>	<i>10.6x</i>	<i>9.4x</i>	<i>15.1x</i>	<i>17.3x</i>	<i>11.7x</i>	<i>7.6x</i>	<i>7.1x</i>	<i>6.8x</i>

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

Modest positive impact on our F2021-to-F2023 revenue/EBITDA forecasts from SmartMeds acquisition. So the arithmetic on SmartMeds' impact on our CareRx forecasts is straightforward based on rudimentary income statement data provided by CareRx on the transaction, which is expected to close by end-of-FQ121. Accordingly, SmartMeds will not impact our FQ121 projections but should fully impact future quarters incorporated into our forecast period. Based on data provided, our F2021 revenue/EBITDA projections are now augmented by \$9.8M/\$1.13M and by \$13M/\$1.5M in F2022, thus lifting our prior forecasts in the respective years to \$211.7M/\$21.7M in F2021 and to \$220.5M/\$23.0M in F2022, with the latter period still the reference year in our EBITDA-based valuation methodology.

We stand by our view that top-line growth with parallel cost synergies is a prudent way to push back on ON-based funding pressures on the horizon. As we described in our last research comment, we believe that sustained top-line growth through new contract wins and selective acquisitions, followed by achieving administrative cost synergies thereafter, is a prudent way for CareRx to mitigate funding pressures on the horizon. This includes Ontario specifically, where the newly-passed Ontario Drug Benefit Act is on pace to reduce the industry's per-patient annual funding thresholds in a linear fashion, beginning next year, from \$1,500 per bed annually down to \$1,200 by F2023/24. A previously-announced funding formula shift away from a per-

prescription model to a per-patient capitation model has already been factored into our forecasts. Additionally, the Ontario government’s decision to delay implementation of its ODBA-mandated reduction in LTC Rx funding until next year, presumably for pandemic reasons, has also been incorporated into our model, as we described in our last CRRX note.

Exhibit 2. Valuation Summary for CareRx

EV/EBITDA multiple, F2022	4x	6x	8x	10x	12x	14x
Implied share price ¹	\$1.32	\$3.15	\$4.99	\$6.82	\$8.65	\$10.48
One-year CRRX target price^{1,2}	\$6.82					

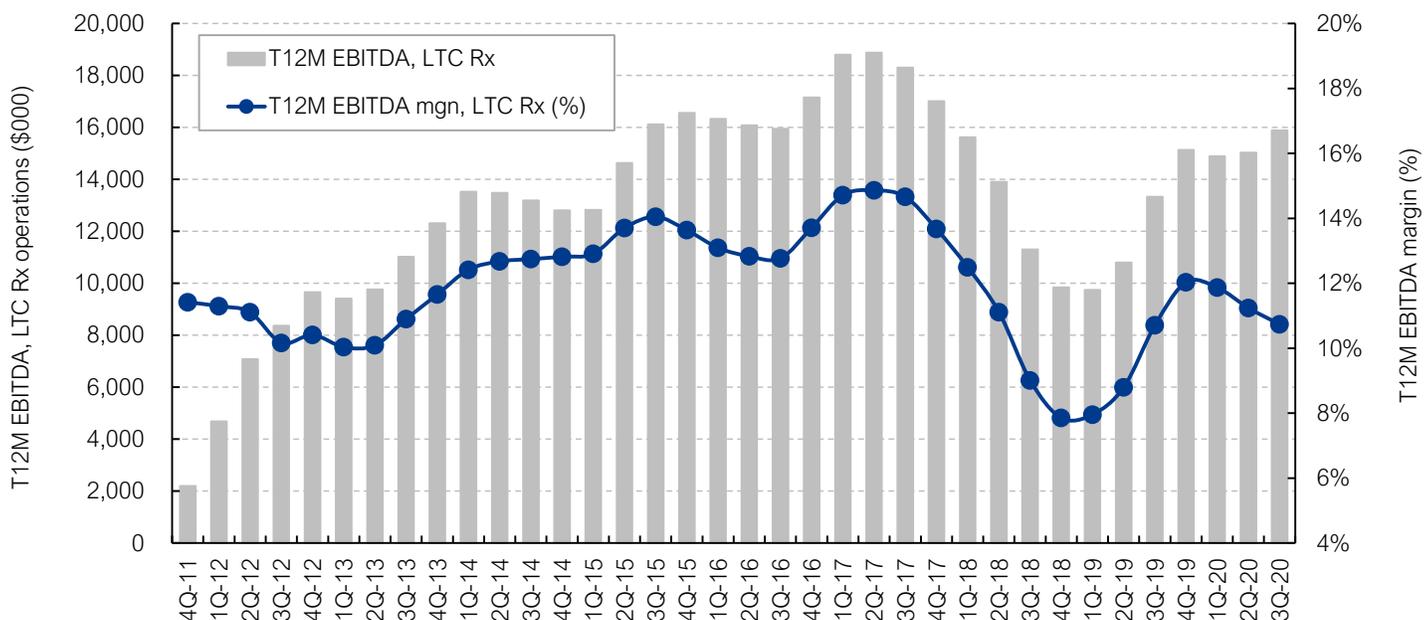
¹ Based on F2022 EBITDA of \$23.0M; 24.9M pro forma basic S/O post-consolidation (inc shares issued to Remedy's Rx & Q220 equity issue), 25.1M S/O (fd), 38.3M S/O (fd, fully-converted)

² Pro forma cash of \$16.6M (Q320 cash & equivalents of \$20.6M, less \$4.0M to fund SmartMeds acquisition), FQ320 LT debt of \$75.5M (\$41.5M excluding convertible debt)

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

This scheduled funding reduction has been made clear by CareRx in its investor presentations and in recent MD&As. The firm believes it can double its LTC Rx beds under management over the next three years to 100,000 from 53,400 currently (including SmartMeds). Today’s acquisition and the sizable contract win back in Dec/20 both serve as solid evidence that this target is well within reach. As before, we remind investors that our model does not overtly assume any acquisitive growth (at least, not until specific transactions are announced) though we do assume modest sequential revenue/EBITDA organic growth based on foundational expectations for new contract wins to periodically augment bed count embedded in our model.

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



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

Summary and valuation. We are encouraged by CareRx’s ability to consummate prudent regional LTC Rx acquisitions on increasingly attractive terms, and our model now incorporates new economics from the SmartMeds transaction just announced. SmartMed was already generating LTC Rx EBITDA margin that will fit smartly (no pun intended) into CareRx’s existing framework, especially with CareRx already poised to achieve \$3.2M in new operating cost reductions through Rx fulfillment center consolidation post-Remedy’sRx acquisition.

Exhibit 4. Comparable Healthcare Services Firms for CareRx

Company	Curr.	Sym	Shares	Share	Mkt	Ent.	EV/EBITDA			Price/Earnings			Description
			Out (M)	Price 26-Jan	Cap (\$M)	Value (\$M)	(T12)	(FY1)	(FY2)	(T12)	(FY1)	(FY2)	
Canada-based healthcare services firms													
Akumin	CAD	AKU	70.2	\$3.85	\$270	\$689	8.2x	10.0x	8.5x	NA	NA	17.9x	US -based medical imaging clinic consolidator
Assure Holdings	CAD	IOM	51.4	\$1.54	\$79	\$74	NA	NA	NA	25.4x	NA	NA	US-based neuromonitoring services firm
Chartwell REIT	CAD	CSH.UN	215.6	\$9.36	\$2,018	\$4,934	18.3x	19.0x	17.6x	NA	NA	NA	Nursing care and retirement residences operator
CRH Medical	CAD	CRH	71.4	\$2.86	\$204	\$283	9.2x	10.7x	7.6x	NA	NA	NA	US-based GI anesthesiology/ endoscopy services
Extendicare	CAD	EXE	89.5	\$6.22	\$557	\$958	8.3x	7.9x	10.1x	17.5x	36.6x	21.8x	Nursing care and home healthcare operator
K-Bro Linen	CAD	KBL	10.7	\$37.61	\$402	\$504	NA	12.9x	11.8x	NA	NA	37.0x	Linen & laundry processing for hospital & hospitality sectors
Medical Facilities	CAD	DR	31.1	\$6.80	\$212	\$352	4.3x	3.7x	4.0x	8.3x	16.6x	19.7x	US-based physician-owned surgical services
Northwest Healthcare Properties	CAD	NWH.UN	176.0	\$13.19	\$2,321	\$5,865	22.6x	21.1x	19.1x	15.5x	15.2x	20.6x	REIT, with substantial client base of healthcare services vendors
Protech Home Medical	CAD	PTQ	112.5	\$2.19	\$246	\$231	12.7x	11.2x	8.1x	NA	NA	37.3x	OH-based post-acute care respiratory equipment distribution
Savaria Corp	CAD	SIS	51.0	\$15.99	\$816	\$844	14.7x	14.4x	13.3x	28.9x	29.7x	26.3x	QC-based patient mobility device manufacturer
Sienna Senior Living	CAD	SIA	67.0	\$13.67	\$916	\$1,897	18.5x	19.1x	16.4x	NA	NA	NA	Nursing care and retirement residences operator
Viemed Healthcare	CAD	VMD	39.1	\$11.33	\$443	\$329	11.0x	8.8x	11.3x	16.4x	17.8x	31.7x	LA-based post-acute respiratory services & disease mgmt
Average							12.8x	12.6x	11.6x	18.7x	23.2x	26.5x	
Hospice, home health services, rehabilitation therapy													
Amedisys	USD	AMED	32.8	\$314.16	\$10,308	\$10,508	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	\$1.13	\$184	\$1,623	6.2x	7.2x	8.3x	NA	NA	NA	CA-based rehabilitation therapy and nursing services firm; 77 facilities mostly in western U.S.
HealthSouth	CAD	HLS	31.8	\$18.07	\$575	\$538	NA	24.5x	14.3x	NA	NA	NA	AL-based inpatient rehab services (LT care/acute care hospitals)
LHC Group	USD	LHCG	31.6	\$219.03	\$6,920	\$6,780	NA	NA	24.3x	NA	NA	37.1x	LA-based post-acute healthcare services, nursing agencies, hospices; 264 homecare service, 230 nursing services
National HealthCare	USD	NHC	15.4	\$72.19	\$1,109	\$832	6.9x	NA	NA	39.7x	NA	NA	TN-based operator of LT care & assisted living facilities, home care and hospice care services
Select Medical Holdings	USD	SEM	134.8	\$28.55	\$3,847	\$7,332	11.0x	9.7x	9.7x	17.9x	17.6x	17.4x	PA-based specialty hospitals; 89 LT acute care hospitals, 6 inpatient rehab clinics, 961 outpatient rehab clinics
Average							8.0x	13.8x	14.1x	28.8x	17.6x	27.2x	
Hospital management													
Community Health Systems	USD	CYH	119.6	\$10.75	\$1,286	\$12,883	10.9x	7.7x	7.9x	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	\$1,320.00	\$1,908,179	\$30,549	12.1x	8.3x	6.7x	NA	NA	NA	Acute care hospital provider in UK/South Africa
Ramsay Health Care	AUD	RHC	228.9	\$63.33	\$14,495	\$23,244	12.5x	12.1x	10.7x	NA	32.5x	24.1x	Private hospital and day surgery service provider in Australia, France, Indonesia, UK
Tenet Healthcare	USD	THC	105.5	\$50.06	\$5,282	\$20,073	9.7x	7.3x	7.0x	NA	10.6x	16.1x	TX-based hospital operator; 53 hospitals with 14,352 beds
Universal Health Services	USD	UHS	84.3	\$127.56	\$10,756	\$13,340	7.5x	7.5x	7.2x	12.5x	12.3x	11.9x	PA-based operator of acute care hospitals, ASCs, radiation oncology centers, surgical hospitals
Average							10.5x	8.6x	7.9x	12.5x	18.5x	17.4x	
Specialty health services													
Bioscrip	USD	BIOS	186.8	\$19.64	\$3,668	\$4,700	NA	21.6x	19.2x	NA	NA	NA	NY-based PBM; specialty pharmacies, focuses on chronic conditions, infusion therapies, mail service drug distrib
Chemed	USD	CHE	16.0	\$556.02	\$8,870	\$8,757	22.1x	19.7x	20.4x	33.7x	30.8x	31.5x	OH-based hospice care (Vitas division), plumbing repair-maintenance (Roto-Rooter division)
Cryolife	USD	CRY	38.9	\$24.96	\$970	\$1,202	NA	NA	NA	NA	NA	NA	GA-based surgery services; processing of human tissues in CV surgery; CryoValve SG, CryoPatch SG, Bioglue
CVS Caremark	USD	CVS	1,308.9	\$73.21	\$95,826	\$151,039	7.9x	8.3x	8.3x	12.1x	9.8x	9.7x	RI-based retail pharmacy, mail service drug distrib, formulary mgmt, claims processing
Davita	USD	DVA	112.0	\$118.56	\$13,279	\$22,062	9.2x	9.3x	9.1x	18.0x	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	\$22.90	\$873	\$1,247	11.8x	14.6x	9.4x	21.7x	NA	21.3x	Texas-based owner/operator of orthotic and prosthetic patient-care centers; 677 centers in 45 states
Healthcare Services Group	USD	HCSG	74.4	\$31.93	\$2,376	\$2,172	17.2x	16.6x	16.5x	26.6x	25.7x	26.4x	Cleaning, maintenance, food services for nursing homes and rehab facilities
Tivity Health	USD	TVTY	48.6	\$22.02	\$1,071	\$1,990	9.2x	9.2x	13.4x	NA	13.3x	16.2x	TN-based alternative medicine and fitness center network
Magellan Health Services	USD	MGLN	25.9	\$94.72	\$2,452	\$2,975	14.6x	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	\$24.65	\$2,110	\$3,479	11.6x	13.6x	13.8x	NA	18.1x	15.3x	FL-based neonatal and pediatric anesthesia services
Average							12.9x	14.7x	13.7x	22.4x	18.9x	20.5x	
CareRx	CAD	CRRX	24.9	\$4.22	\$105	\$161	NA	12.4x	7.4x	NA	NA	NA	ON-based healthcare services firm, focused on LTC pharmacy operations in Ontario & western Canada

Source: Refinitiv

As CareRx describes in its Jan/21 investor presentation, it is on pace to consolidate its Rx dispensing activities into eighteen fulfillment centers from 25 previously, of which about six are ON-based. We believe that SmartMeds could integrate its current Rx fulfillment activities into those centers as well, and if achieved, could provide supplemental EBITDA/margin upside to that already projected by us in F2021/22. But for now, we will incorporate historic SmartMeds revenue/EBITDA data into our F2021-to-F2023 projections as a baseline assumption.

We will continue to value CRRX based on 10x EV/EBITDA, using F2022 as the reference year in our valuation and thus using our revised F2022 EBITDA forecast of \$23.0M in that calculation. We separately incorporate pro forma cash of \$16.6M (FQ320 cash of \$20.6M, less \$4.0M to fund SmartMeds) and total debt (including convertible debt) of \$75.5M. We base our share-based projections on fully-diluted (but not fully-converted) S/O of 25.1M, trivially higher than previously calculated by us based on our assumed proportion of new CRRX shares issued to partially fund the SmartMeds transaction.

Taking these parameters into consideration, and as summarized in Exhibit 2, **we now derive a new one-year PT for CRRX of \$6.82, which we will round to \$7.00, while maintaining our BUY rating** on the stock. Our revised PT corresponds to a one-year return of 66%, with the stock already achieving 17.2% return since we initiated coverage in mid-Dec/20. As indicated in Exhibit 3 above, we have long been impressed by CareRx's historic ability to respond to prior funding pressures it has encountered both in Ontario and Alberta (EBITDA margin dips in FH116 and FH118 were from reductions in dispensation fees in preceding quarters, and of course more recently from the funding formula shift to a capitation-based model in Ontario last year), doing so through acquisitions (and encouragingly, without overpaying for the revenue/EBITDA it was acquiring) and subsequent cost synergies. We expect CareRx to lather-rinse-repeat on this strategy throughout our forecast period.

Disclosures none

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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	-	-

