

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

TRxADE Group, Inc.

Rating: Speculative Buy

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April 5, 2021

MEDS \$5.13 — (NASDAQ)

	2018 A	2019 A	2020 A*	2021 E	2022 E
Revenue (in millions)	\$3.8	\$7.4	\$17.1	\$10.3	\$14.2
Earnings (loss) per share	\$0.00	(\$0.05)	(\$0.33)	(\$0.08)	\$0.30

52-Week range	\$8.25 – \$4.02	Fiscal year ends:	December
Shares outstanding a/o 03/26/21	8.1 million	Revenue/shares (ttm)	\$2.22
Approximate float	3.1 million	Price/Sales (ttm)	2.3X
Market Capitalization	\$41.6 million	Price/Sales (2022) E	3.0X
Tangible Book value/shr	\$1.07	Price/Earnings (ttm)	NMF
Price/Book	4.8X	Price/Earnings (2022) E	17.1X

**Includes approximately (\$0.25) per share from one-time impairment charge and write-down of personal protective equipment inventory Trxade Group Inc., headquartered in Tampa, Florida, is an integrated technology and services company focused on delivering an effective process for purchasing and delivering prescription drugs and medical products to independent pharmacies and consumers in the US. MEDS is developing a complete platform to make healthcare services affordable and accessible in the US without the patient leaving their home.*

Key Investment Considerations:

Maintaining Speculative Buy rating and 12-month price target of \$9.50 per share.

Trxade has an opportunity for sustained revenue and earnings growth as independent pharmacies join its marketplace platform that matches buyers and sellers of generic and branded drugs. Entering 1Q21, more than 11,800 pharmacies were on the company's platform, up from 8,835 in 1Q18.

As COVID-19 pandemic conditions ease, the company will focus its efforts on continuing to build and market its high margin technology offerings through the TRxADE marketplace and Bonum Health telehealth network. MEDS expects to complete the development and launch of an electronic health passport through its MedCheks subsidiary in 2H21.

MEDS' Bonum Health subsidiary partnered with SingleCare (a prescription savings service with millions of registered users) and 100 Kinney Drug retail pharmacies in NY and VT, as well as more than 2 million Rx and discount card members of Kinney's sister company ProAct. The partnerships should accelerate customer acceptance and drive growth in Bonum Health's subscriber base starting in 2H21.

In 2020, MEDS reported (on 3-29-21) a loss per share of (\$0.33) on 130.3% sales growth to \$17.1 million. We projected a loss per share of (\$0.02) on sales of \$16.9 million. In 2019, the loss per share was (\$0.05) on sales of \$7.4 million. 2020 includes (\$0.25) per share from an impairment charge and inventory write-down.

For 2021, we project a loss per share of (\$0.08) on sales of \$10.3 million. We previously projected EPS of \$0.30 on sales of \$15.9 million. Our reduced forecast reflects no PPE sales, lower than anticipated revenue contribution of its mobile telehealth network, and unanticipated costs to develop its health passport offering.

For 2022, we project EPS of \$0.30 on sales of \$14.2 million. Our forecast reflects transaction growth on the TRxADE platform, subscriber growth on Bonum's mobile telehealth network, and a modest contribution from its health passport offering. We anticipate operating margin expense of 55.4% compare to 71.3% in 2021.

Please view our Disclosures pages 14 - 16

Appreciation Potential

Maintaining Trxade Group, Inc., with a Speculative Buy rating and 12-month price target of \$9.50 per share. Our price target should be supported by a growing number of independent pharmacies purchasing branded and generic prescription drugs on the TRxADE marketplace platform. We estimate at least 14,000 independent pharmacies on the platform by 4Q22, up from 11,800 in 4Q20 and 8,835 in 1Q18. We also anticipate a two year revenue contribution (FY21 and FY22) of at least \$6 million from its high margin Bonum Health subsidiary as people begin utilizing the telehealth mobile app offering and associated drug delivery service.

Our rating reflects the company integrating its subsidiaries to build an end-to-end healthcare services organization so a patient never has to leave their home along with the likelihood that its Bonum Health subsidiary will gain consumer acceptance and grow the number of monthly subscribers. The company has virtually no debt and cash of \$5.9 million at December 31, 2020.

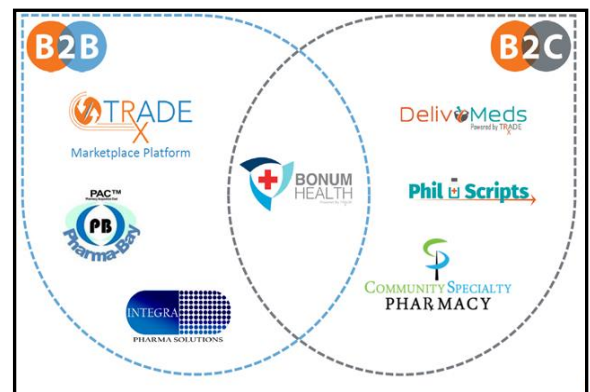
Our 12-month price target of \$9.50 per share implies shares could appreciate approximately 85% over the next twelve months. According to finviz (a/o 03/31/21), the average forward price-to-earnings multiple for companies in the Medical – distribution, retail, and health information sectors is 35.4X (prior was 32X), compared to Trxade Group’s 2022 P/E multiple of 17.1X (prior was 13.9X). We anticipate investors are likely to accord Trxade Group the sector multiple given our forecast of net income in 2022. We applied the current industry P/E multiple of 35.4X (prior was 32X) to our 2022 EPS forecast of \$0.30, discounted for execution risk, to obtain a year-ahead price target of approximately \$9.50 per share.

A higher valuation of Trxade Group, Inc., is likely to be supported by quarterly sequential sales, narrowing of operating losses, and profitability by 1Q22, as well as the generation of cash earnings. We estimate cash earnings of nearly \$3.3 million in 2022, up from \$1.4 million in 2020.

We believe Trxade Group, Inc. is most suitable for risk tolerant investors seeking exposure to a micro cap company providing integrated prescription drug delivery and mobile healthcare services to its customers.

Overview

Trxade Group Inc., headquartered in Tampa, Florida, is an integrated technology and services company focused on delivering an effective process for purchasing and delivering prescription drugs to independent pharmacies and consumers in the US. The company has developed offerings that once integrated (see chart on the right – from company’s presentation), should make healthcare services affordable and accessible in the US. The offerings start with the company’s business-to-business (B2B) operations that include the TRxADE marketplace platform that is a procurement technology delivering a lower cost, more transparent fulfillment process for independent pharmacies and pharmacists compared to industry norms. The company operates Integra Pharma Solutions, a pharmaceutical supplier with expertise in the distribution of products to healthcare markets including government organizations, hospitals, clinics, and independent pharmacies in the US. In 2Q/3Q 2020, the company was able to use this subsidiary and the TRxADE technology platform to include the sourcing and sale of personal protective equipment products such as masks, sanitizers, and gloves.



The company’s business-to-consumer (B2C) operations provide a turnkey service through a retail mail order specialty pharmacy (Community Specialty Pharmacy acquired in October 2018), as well as wholesale operations and delivery services. DelivMeds is a same day delivery service, as drugs are increasingly ordered and delivered directly to consumers. DelivMeds mobile app was developed to leverage the company’s registered network of independent pharmacies who have purchased and dispensed prescriptions to over 12 million consumers, as well as other channel partners including physicians and clinics who write patient prescriptions. Medications are delivered free to consumers by a local pharmacy.

The company's Web-based telehealth services portal seeks to provide affordable healthcare through its Bonum Health app. This offering crosses both the company's B2B and B2C organizations by providing same day or mail order pharmacy delivery capabilities that can be delivered by a local independent pharmacy registered on the TRxADE platform and through services offered via its wholesaler Integra Pharma Solutions.

MEDS mission is to provide its independent community pharmacy members, along with pharmaceutical suppliers, wholesalers, and buying groups, a competitive advantage over their competition since the TRxADE marketplace platform was developed to provide fair market value for drug transactions, as well as providing access to certain supply houses in the US. The acquisitions of Community Specialty Pharmacy and Bonum Health (a telehealth services provider), as well as the developing a national logistical delivery system should enhance the company's opportunity to provide all the necessary end-to-end healthcare services so a patient never has to leave their home.

Strategic Growth Platforms

The company aims to create an end-to-end telemedicine platform that not only provides remote healthcare services, but also supplies the medicines and medical equipment prescribed and/or recommended by a doctor without the patient leaving their home. The primary strategic growth platforms that should enable the company to achieve its mission is the TRxADE marketplace platform and telehealth services through its Bonum Health subsidiary, as well as revenue support from its logistics subsidiary Integra Pharma Solutions and Community Specialty Pharmacy subsidiary.

The TRxADE marketplace platform operates a pharmaceuticals B2B e-commerce marketplace between independent pharmacies and large pharmaceutical suppliers in the US that provides independent pharmacies a platform that utilizes a proprietary database and algorithms to identify pharmaceutical products that are likely to be in short supply and delivers them to independent pharmacies. The solution helps independent pharmacies manage costs and maximize savings (historically reduces a pharmacy's total annual drug purchasing costs by approximately 7% to 10%), and complete purchase orders across suppliers while providing real-time industry pricing trends.

The organizations that are registered on the company's marketplace platform have access to the company's proprietary pharmaceutical database, data analytics that include medication pricing, and manufacturer return policies. Revenue is generated by charging a transaction fee to the seller of the products for sale conducted via the TRxADE marketplace platform. Typically the transaction fee is up to 6% on generic pharmaceuticals and up to 1% on brand pharmaceuticals. There are no membership or transaction fees for the independent pharmacies registered on the platform. MEDS intends to grow its marketplace platform in order to have a strong foundation to achieve its goal of creating an integrated technology and services company that can meet the needs of independent pharmacies on the TRxADE marketplace platform, as well as the medical needs of an individual without them having to leave their home.

Three keys driving the company's future growth will be increasing the number of pharmacies on the TRxADE marketplace platform, the number of average purchases made per pharmacy, and the average amount spent per pharmacy.

The company's Bonum Health subsidiary is a provider of telehealth services. The subsidiary can individually or through an employer sponsored program provide patients access to board certified medical providers nationwide using the Bonum Health mobile app and/or via its Website. The mobile app enables patients to have access to telehealth services such as an online doctor visit, and obtain, when deemed necessary, an electronic prescription and online health education information. This subsidiary should see incremental revenue growth driven by its subscription based model since it provides patients with 24/7/365 healthcare availability, with no insurance and no need for long term contracts. The company will market the offering through its network of independent pharmacies registered on the TRxADE marketplace platform. Partnerships will also be a key growth driver.

In 4Q20, the company announced partnerships with SingleCare, a prescription savings service with millions of registered users, 100 Kinney Drug retail pharmacies in NY and VT, as well as more than 2 million Rx and discount

card members of Kinney's sister company ProAct. We anticipate a slow recurring revenue growth ramp in 2H21 with accelerated growth in 2022.

In January 2021, the company formed its newest subsidiary, MedCheks, which is developing a patient-centered, digital platform that lets patients consolidate and control their health data via a digital health passport. The offering will allow users to share their health profile, tests and vaccinations simply and safely as it will be powered by encryption and blockchain technologies. The health passport will include both health and vaccination status verification via a two-dimensional machine-readable optical label that will be useful for travel, entry into stadiums, concert venues, events, offices, industrial plants, warehouses, and other physical access points. In February 2021, the company hired James Ram to lead the development of MedCheks' health passport offering. Mr. Ram has over 25 years of experience in the travel, tourism and location-based entertainment industry.

Integra Pharma Solutions aims to be the pharmaceutical supply solution to independent pharmacies, hospitals and clinics, and government organizations. Integra will be used as the conduit that tests new product offerings such as Trxade Prime. The Prime offering is a service enabling TRxADE platform members to process, consolidate, and ship purchase orders that are placed directly with Trxade suppliers. This offering provides a single tool with one low order minimum, one invoice, one package, and one delivery from multiple wholesalers and distributors.

The company's Community Specialty Pharmacy, founded in 2010, is an accredited independent retail pharmacy with a focus on specialty medications. Since its founding, it has been providing and meeting the specialty medical drug needs for the Tampa/St. Petersburg area of Florida. It is licensed to provide specialty drugs in 34 US states. Through CSP's state licenses, the company is able to fill prescriptions through its network of independent pharmacies and deliver the medications to the patient.

Projections

Basis of Forecast

The company's core revenue growth should be driven primarily by an increasing number of independent pharmacies purchasing branded and generic prescription drugs on the TRxADE marketplace platform to at least 14,000 in 4Q22, up from 10,000 in 2019. Also, the number of transactions and dollar amounts purchased should grow due to new offerings launched by the company for its members on the marketplace platform. Our revenue growth forecast anticipates 2021 and 2022 sales of nearly \$1.5 million and \$4.5 million, respectively from its Bonum Health telehealth subsidiary, with an associated increase in prescriptions filled by independent pharmacies on the company's platform. We estimate no low margin personal protective equipment sales over our forecast period compared to an estimated \$8.3 million in 2Q/3Q 2020 (combined).

Operations – 2021

We project revenue of \$10.3 million (prior was \$15.9 million) compared to \$17.1 million in 2020. Our 2021 sales forecast does not include any of the estimated \$8.3 million of personal protective equipment (PPE) sales that occurred in 2020. The reduction of our sales forecast compared to our prior forecast is due to elimination of PPE, and less than anticipated sales (approximately \$3 million reduction) from the Bonum Health subsidiary due primarily to a shift in sales ramping in 2H21 instead of 1Q21. Our forecast does anticipate 13.7% sales growth in the company's TRxADE platform to \$6.3 million from \$5.5 million in 2020.

Gross profit should increase 18.1% to \$6.7 million due primarily to gross margin improving to 65.3% from 33.3% in 2020 due primarily to a sales mix shift away from low margin PPE sales and the 4Q20 write-off of obsolete PPE inventory that will not reoccur in 2021.

We project the operating loss narrowing to \$610,000 compared to \$2.5 million in 2020 due primarily to higher margin sales growth and gross margin improvement, partly offset by operating margin expense increasing to 71.3% from 43.7% in 2020. We forecast operating expenses (consisting of SG&A) of \$7.4 million compared \$8.2 million in 2020 (includes \$726,000 goodwill impairment). Our 2021 SG&A forecast reflects a normalization of sales and marketing initiatives to support its subsidiaries, as well as developmental expenses for its health passport offering. In 2020, SG&A included expenses related to PPE procurement and shipping that will not reoccur in 2021.

Non-operating expense should consist of interest expense of \$15,000 compared to \$29,000 in 2020 due primarily to lower debt balances. We project a net loss of \$625,000 or (\$0.08) per share. We previously projected net income of \$2.5 million or \$0.30 per share. Our reduced forecast is due primarily to lower than anticipated sales and unanticipated costs to develop a health passport offering.

Finances – 2021

We project cash earnings of \$190,000 and a decrease in working capital of \$232,000. The decrease in working capital is due primarily to decreases in inventory. Cash from operations of \$422,000 is unlikely to cover capital expenditures, reducing cash by \$78,000 to \$5.8 million at December 31, 2021.

Operations – 2022

We project 37.3% revenue growth to nearly \$14.2 million compared to an estimated \$10.3 million in 2021. Our forecast should be supported by 20.9% sales growth in the company's TRxADE platform to \$7.6 million from an estimated \$6.3 million in 2021. In addition, we anticipate an estimated \$4.7 million contribution from the company's telehealth subsidiary Bonum Health as people begin to embrace its mobile health network. We anticipate revenue directly generated from Bonum Health is likely to enhance revenue at the company's Integra Pharma Solutions logistic wholesaler subsidiary and Community Specialty Pharmacy operations. We anticipate nominal revenue from the MedChek's subsidiary.

Gross profit should increase 53% to \$10.3 million due primarily to sales growth and gross margin improving to 72.8% from an estimated 65.3% in 2021 due primarily to a sales mix shift to the company's higher margin offerings.

We project operating income of \$2.5 million compared to a loss of \$610,000 in 2021 due primarily to sales growth, gross margin improvement, and operating margin expense improving to 55.4% from an estimated 71.3% in 2021. We forecast operating expenses (consisting of SG&A) increasing to nearly \$7.8 million compared to nearly \$7.4 million in 2021 reflecting sales and marketing initiatives to support sales growth and further development costs related to the company's newest health passport offering, as well as the integration of sales opportunities within its revenue generating segments.

We anticipate no non-operating expense or gain compared to an expense of \$15,000 in 2021, due to the elimination of debt. We project net income of \$2.5 million or \$0.30 per share.

Finances – 2022

We project cash earnings of nearly \$3.3 million and a decrease in working capital of \$415,000. The decrease in working capital is due primarily to decreases in inventory and receivables. Cash from operations of \$3.7 million should cover capital expenditures, increasing cash by \$3.2 million to \$9.1 million at December 31, 2022.

Industry Briefs

Telehealth Market

The company's acquisition of Bonum Health in October 2019 launched its entry into the US telehealth market. The advantage of its Bonum Health mobile app, which has a network of board certified doctors, should be the ability to have prescriptions sent to a patients' local independent pharmacy. If prescriptions are sent to independent pharmacies already on the TRxADE marketplace platform, transaction growth on the platform should increase. Prescription growth is also likely to occur at the company's own Community Specialty Pharmacy.

Data from a 2020 research report published by Arizton (a provider of market research reports, advisory and consulting services) on the US Telehealth Market indicated that in 2020, the US telehealth market should reach \$10 billion with an anticipated 20.1% annual growth rate to \$25 billion in 2025. Sustained growth through 2025 for the US telehealth market should be supported by favorable private and public reimbursement coverage for telehealth services and the inclusion of remote patient monitoring under federal reimbursement coverage. Growth in mobile health should be driven by increasing investments to provide internet connectivity in remote rural areas of the US.

Independent Pharmacy

According to the National Community Pharmacists Association (NCPA), there are in excess of 21,000 small business community pharmacies in the US compared to over 23,000 in 2011. The NCPA estimates in the US there are approximately 1,800 rural independent pharmacies that serve as the only pharmacy provider in their community. According to the 2019 NCPA Digest, the independent community pharmacy market (in 2018) generated revenue of nearly \$76 billion with 93% of sales coming from prescription drugs.

IBISWorld projects US pharmacy and drug store annualized revenue growth of approximately 2.7% to \$355.6 billion in 2024, up from \$311.9 billion in 2019. Growth is likely to be driven by expanded service offerings that include preventive care options and additional front of the store non pharmaceutical offerings. IBISWorld also predicts that the number of insured individuals should remain relatively stagnant and individuals will continue to experience low out-of-pocket costs and easier access to prescription medications.

Drug Market

IBISWorld projects branded pharmaceutical drug revenue to increase annually by 3% to \$230.5 billion in 2025, up from an estimated \$198.7 billion in 2020. Growth should be supported by increasing sales volumes from biologic drugs, while also raising prices on widely used specialty drugs.

Growth in the generic drugs market should be supported by manufacturers lobbying for policies to encourage cost savings and access to affordable medicines. In 2019, according to the Biosimilar Council, there were more than 350 biologics targeting an estimated 100 diseases under development in the US. IBISWorld projects annual revenue growth of 2.6% reaching \$70.1 billion in 2025, up from an estimated \$61.6 billion in 2020.

Specialty Pharmacy

The 2019 State of the Specialty Pharmacy Report (latest data) indicated that as of 2018, there were more than 900 pharmacies with a specialty accreditation in the US, according to the Accreditation Commission for Health Care, or Center for Pharmacy Practice Accreditation. The company's 2018 acquisition of Community Specialty Pharmacy, a Florida based independent retail specialty pharmacy with a focus on specialty medications (authorized to operate in 28 US states at December 31, 2019), places the company in a position to grow its operations within the specialty pharmacy market. Growth for the company's Community Specialty Pharmacy segment should be driven by new patients accessing the services of its telehealth subsidiary, Bonum Health. A percentage of patients that use the mobile health app are likely to need specialty pharmaceutical prescriptions filled and delivered to their homes.

2020 and 4Q20 Results

2020

Revenues increased 130.3% to \$17.1 million compared to \$7.4 million in the year-ago period, reflecting an \$8.9 million increase at the company's Integra Pharma Solutions logistic subsidiary stemming primarily from personal protective equipment sales (such as N95 masks and sanitizer products) to its network of independent pharmacies, as well as sales of its new Prime offering. TRxADE marketplace platform sales increased 22.5% to \$5.5 million from \$4.5 million in 2019 due primarily to a net increase of 400 new independent pharmacies to its platform, bringing the total registered pharmacy members to over 11,800 at the end of 4Q20. The increases were partly offset by a \$234,000 decrease in the company's Community Specialty Pharmacy operation to nearly \$1.7 million. Of note, the company's Bohum Health subsidiary contributed revenue of \$45,000 compared to none in 2019.

Gross profit increased 17.2% to \$5.7 million due to low margin sales growth, partly offset by gross margin contraction to 33.3% from 65.5% in 2019. Gross margin contraction stems from lower margin sales for personal protective equipment within the company's Integra Pharma Solutions logistic subsidiary and a 4Q20 \$1.2 million inventory write-down, which drove gross margin for this subsidiary to nearly zero from 13.5% in 2020. Operating expenses (SG&A and \$726,000 goodwill impairment) increased 73.1% to \$8.2 million from \$4.7 million in 2020. The increase in SG&A expense (\$7.5 million vs. \$4.7 million) reflects higher employee compensation, legal expenses, filing fees, and marketing expenses stemming from expanding and developing existing and new business units. The current period included non-cash stock-based compensation expense of nearly \$1.9 million compared to \$281,000 in 2020.

Non-operating expense was \$29,000 (all interest expense) compared to \$410,000 in the year-ago period. The year-ago period included a share in equity loss investment of \$250,000, loss of \$179,000 on extinguishment/conversion of debt, and other income gains of \$72,000 compared to none in the current period. In 2019, interest expense was \$53,000.

Net loss was \$2.5 million or (\$0.33) per share compared to a net loss of \$284,000 or (\$0.05) per share. We projected a net loss of \$171,000 or (\$0.02) per share on sales of \$16.9 million. We estimate excluding inventory write-down and goodwill impairment the loss per share was (\$0.08).

4Q20

Revenues increased 17.6% to nearly \$2 million compared to \$1.7 million in the year-ago period, reflecting the company's Integra Pharma Solutions logistic subsidiary generating sales of \$329,000, up from \$28,000 in 4Q19. TRxADE marketplace platform sales increased 7.2% to \$1.3 million due primarily to the addition of 328 new registered independent pharmacies to its platform. The increases were partly offset by a \$109,000 decrease in the company's Community Specialty Pharmacy operation to \$366,000. Of note, the company's Bohum Health subsidiary contributed revenue of approximately \$21,000 compared to none in the year-ago period.

Gross profit was \$133,000, down from \$1.3 million in the year-ago period. The decrease in gross profit reflects gross margin contraction to 6.7% from 73.7% in the year-ago period. Gross margin contraction is due primarily to a \$1.2 million write-down of personal protective equipment inventory. Operating expenses were \$2.4 million, an increase from \$1.6 million in 4Q19. The increase in SG&A to \$1.7 million from \$1.2 million reflects spending on information technology development and sales and marketing initiatives. The current period includes a \$726,000 goodwill impairment charge compared to a \$369,000 loss on the write-off of software assets.

Non-operating expense was \$7,000 compared to \$138,000 in the year-ago period. The year-ago period included a loss on debt extinguishment/conversion of \$179,000 and other income of \$47,000, compared to none in the current period.

Net loss was \$2.3 million or (\$0.29) per share on 8 million outstanding average shares compared to a net loss of \$495,000 or (\$0.08) per share on nearly 6 million outstanding average shares. Excluding goodwill impairment and inventory write-down, we estimate the loss per share could approximate (\$0.04).

Finances

In 2020, cash earnings of \$1.4 million and a \$3.6 million increase in working capital resulted in cash used in operations of \$2.2 million. The increase in working capital was due primarily to increases in inventory and other receivables. The issuance of \$5.3 million (net of issuance costs) of common stock covered cash used in operations and capital expenditures. Cash increased \$3 million to \$5.9 million at December 31, 2020.

Capital Structure

At December 31, 2020 the company had total outstanding debt of \$225,000 in a related party convertible note. The note is expected to be converted into approximately 75,000 common shares by October 15, 2021.

Competitive Landscape

The company's competition comes from three large authorized distributors of record (ADR distributors), McKesson, Cardinal Health, and AmerisourceBergen, as well as other pharmaceutical distributors, buying groups, and software products. Compared to Trxade, those companies have greater financial and manufacturer backed resources, longer operating histories, greater name recognition and more established relationships in the industry.

Small private companies that provide supplier-pharmacy trading platforms include MatchRx, RxCherrypick, PharmSaver and Generic Bid. The TRxADE marketplace platform attempts to differentiate itself from these exchanges by providing pharmacies with both brand and generic pharmaceutical products.

The competitive landscape includes buying groups that provide discounted prices to their members by negotiating pricing with one primary wholesaler while charging administration fees generally ranging from 3% to 5%. The company also faces competition from a company like SureCost, which provides inventory management software that allows pharmacies to comply with primary supplier contracts.

Given the competitive landscape of pharmacy-to-pharmacy retail wholesaling, Trxade's advantage in the marketplace is its ability to be flexible and fast moving in adjusting its business model to address the needs of customers. To that end, the TRxADE marketplace platform, which started with a reverse auction model, now provides a buy now format and pharmacy-to-pharmacy trading capability for all overstock pharmaceuticals.

The company's Bonum Health subsidiary will face competition within the telehealth industry primarily from established participants such as Teladoc Health, Inc., MDLive, Inc., American Well Corporation and Grand Rounds, Inc., as well as potential new companies entering the industry.

Risks

In our view, these are the principal risks underlying the stock.

Financing/Dilution

Historically, the company had experienced small operating losses. Its 2020 retained deficit was \$10.9 million, up from \$8.4 million in 2019. In February 2020, Trxade issued 806,452 shares of its common stock to the underwriters, and the representative exercised its overallotment option and purchased an additional 115,767 shares of common stock. The shares were sold at a public offering price of \$6.50 per share, from which Trxade received net proceeds of nearly \$5.2 million. If MEDS needs additional capital to operate, make acquisitions, or create a new line of business, it may require additional financing, and there can be no assurance that any such commitments can be obtained.

Regulation

Five states (California, Florida, Nevada, New Mexico, and Indiana) have enacted laws that prohibit lateral movement of pharmaceuticals within the distribution channel. These laws prohibit wholesalers from selling pharmaceuticals directly from or to other wholesalers where they maintain inventory. Other states may enact similar laws that place restrictions in pharmaceutical trading within the TRxADE marketplace platforms. Some states have laws that utilize the Federal Model Pharmacy Act allowing for the addition and changes in rules that restrict pharmacy-to-pharmacy trading in the future. The current law permits pharmacies to trade 5% of their annual inventory with other pharmacies while most state laws allow for retail pharmacies to be able to trade a product in national shortage status.

At the federal level, track and trace legislation, which went into effect in 2018, requires the use of pharmaceutical pedigree that may restrict and disrupt the movement of pharmaceuticals along the supply chain. The cost of complying with this new legislation could be too burdensome for smaller suppliers.

In addition to the above, regulatory mandates in response to certain unexpected events, such as viral outbreaks such as the 2020 COVID-19 pandemic could negatively impact results.

Potential Regulation

The company has identified price gouging that could be an issue in the coming months due to the COVID-19 pandemic. In 2020, in response to the COVID-19 pandemic, 34 states have enacted some type of price gouging laws. The laws vary from state to state, but one constant is a prohibition to charge excessive or unconscionable prices for consumer goods. MEDS will need to comply with the excessive price statutes. The company believes it is in compliance such laws in those 34 states.

Regulatory Requirements

Trxade is required to obtain and hold permits, product registrations, licenses and other regulatory approvals from, and to comply with operating and security standards of, numerous governmental bodies. Being a wholesale distributor of controlled substances, the company must hold valid DEA registrations and state-level licenses, meet various security and operating standards, and comply with the Controlled Substances Act. Failure to maintain or renew necessary

permits, product registrations, licenses or approvals, or to comply with required standards, could have an adverse effect on the company's results of operations and financial condition.

Customers

At December 31, 2020, Trxade had in excess of 11,800 pharmacies and 30 pharmaceutical suppliers as customers, as well as a working relationship with over 25 wholesalers and the nation's largest buying group. If the company were to lose a buying group and/or a few wholesalers, the resulting supplier void would adversely affect its competitiveness in the marketplace.

Telemedicine

The company's ability to conduct telehealth services within a US state is dependent upon the applicable laws governing remote healthcare and the practice of medicine and healthcare delivery, which is often subject to changing political, regulatory and other influences. Also, the definition of practicing medicine is subject to change and open to evolving interpretations by medical boards and state attorney generals. The company must continually monitor its compliance with laws in the jurisdictions in which they operate. If a successful legal challenge or an adverse change in the relevant laws were to occur, and Trxade was unable to adapt its business model accordingly, operations in the affected jurisdictions would be disrupted.

The market for telehealth services is relatively new and unproven, and it is uncertain whether it can achieve consumer acceptance and market adoption.

Legal Proceeding

In September 2020, a lawsuit against the company's former subsidiary, Westminster Pharmaceuticals, and company officials, was filed in the state of Florida. The company is not currently accused of any direct misconduct. MEDS could incur liability if some or all of the defendants were found liable to plaintiffs and the company is found to be jointly liable for the actions of such defendants. The lawsuit claims approximately \$450,000 in damages.

The company has filed claims against two different companies for the return of nearly \$1.1 million (combined) listed as other receivables (on the balance) for the return of deposit made for PPE gloves that were never delivered.

Internal Controls

As of December 31, 2020, material weaknesses in internal controls was identified due to the formative stage of the company's development. MEDS has committed to improving its financial organization by creating a position to segregate duties consistent with control objectives and plans to increase its personnel resources and technical accounting expertise within the accounting function.

Shareholder Control

Officers and directors collectively own approximately 58.7% of the outstanding voting stock (April 2020 SEC Filing). Officers could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Liquidity is a potential concern. Over the last three months (ending April 1, 2021) average daily volume was approximately 104,000. MEDS has 8.1 million shares outstanding and a float of approximately 3.1 million. Investors should be aware that a thinly traded equity could experience price volatility.

Trxade Group, Inc.
Consolidated Balance Sheets
FY2018 – FY2022E
(in thousands)

	FY18A	FY19A	FY20A	FY21E	FY22E
ASSETS					
Current assets:					
Cash	\$ 870	\$ 2,872	\$ 5,920	\$ 5,841	\$ 9,051
Accounts receivable, net	434	792	805	860	590
Inventory	80	57	1,258	715	513
Prepaid assets	83	82	151	181	248
Other - deposits and receivables	-	-	1,088	1,088	1,088
Total current assets	1,466	3,803	9,221	8,684	11,491
Property and equipment, net	15	175	162	165	200
Deposits	21	22	22	22	22
Deferred offering costs	-	88	-	-	-
Right of use lease assets	-	758	387	393	692
Goodwill	726	726	-	-	-
Total assets	\$ 2,228	\$ 5,571	\$ 9,793	\$ 9,264	\$ 12,405
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	401	335	257	149	160
Accrued liabilities	138	99	219	100	100
Lease liabilities	-	87	131	131	80
Customer deposits	-	-	10	10	10
Convertible payable, net	182	-	-	-	-
Convertible and notes payables - related party	140	-	225	-	-
Total current liabilities	860	521	842	390	350
Convertible note, net - long term	523	-	-	-	-
Notes payable - related parties	-	225	-	-	-
Other liabilities - leases	-	685	271	100	35
Stockholders' equity:					
Common stock, \$.00001 par value; authorized 100,000 shares;	0	0	0	0	0
Paid-in capital	8,956	12,536	19,611	20,331	21,111
Retained earnings (deficit)	(8,111)	(8,396)	(10,932)	(11,557)	(9,092)
Total stockholders' equity	845	4,140	8,679	8,774	12,019
Total liabilities and stockholders' equity	\$ 2,228	\$ 5,571	\$ 9,793	\$ 9,264	\$ 12,405
SHARES OUT	5,548	6,539	8,093	8,175	8,180

Source: Company reports and Taglich Brothers estimates

Trxade Group, Inc.
Annual Income Statement
FY2018 – FY2022E
(in thousands)

	<u>FY18 A</u>	<u>FY19 A</u>	<u>FY20 A</u>	<u>FY21 E</u>	<u>FY22 E</u>
Revenues, net	\$ 3,832	\$ 7,436	\$ 17,123	\$ 10,315	\$ 14,160
Cost of sales	<u>449</u>	<u>2,566</u>	<u>11,415</u>	<u>3,575</u>	<u>3,850</u>
Gross Profit	<u>3,383</u>	<u>4,871</u>	<u>5,707</u>	<u>6,740</u>	<u>10,310</u>
Operating Expenses:					
Loss on write-off of software assets	-	369	-	-	-
Loss on impairment of goodwill	-	-	726	-	-
Selling, general, and administrative	3,470	4,377	7,488	7,350	7,845
Total Operating Expenses	<u>3,470</u>	<u>4,746</u>	<u>8,214</u>	<u>7,350</u>	<u>7,845</u>
Operating Income (loss)	(88)	125	(2,507)	(610)	2,465
Loss on debt extinguishment/conversion	(7)	(179)	-	-	-
Investment gain (loss)	-	(250)	-	-	-
Other income includes equity loss investment	162	72	-	-	-
Interest expense, net	<u>(58)</u>	<u>(53)</u>	<u>(29)</u>	<u>(15)</u>	<u>-</u>
Total Other Income (expense)	<u>97</u>	<u>(410)</u>	<u>(29)</u>	<u>(15)</u>	<u>-</u>
Pre-Tax Income (loss)	9	(284)	(2,536)	(625)	2,465
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 9</u>	<u>\$ (284)</u>	<u>\$ (2,536)</u>	<u>\$ (625)</u>	<u>\$ 2,465</u>
Net (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.05)</u>	<u>\$ (0.33)</u>	<u>\$ (0.08)</u>	<u>\$ 0.30</u>
Avg Shares Outstanding	5,826	5,929	7,706	8,231	8,275
Adjusted EBITDA	\$ 82	\$ 571	\$ 87	\$ 110	\$ 3,245
Margin Analysis					
Gross margin	88.3%	65.5%	33.3%	65.3%	72.8%
Selling, general, and administrative	90.6%	58.9%	43.7%	71.3%	55.4%
Operating margin	(2.3%)	1.7%	(14.6%)	(5.9%)	17.4%
Pre-tax margin	0.2%	(3.8%)	(14.8%)	(6.1%)	17.4%
YEAR / YEAR GROWTH					
Total Revenues	30.7%	94.1%	130.3%	(39.8%)	37.3%

2020 Includes approximately (\$0.25) per share from one-time impairment charge and write-down of personal protective equipment inventory

Source: Company reports and Taglich Brothers estimates

Trxade Group, Inc.
Income Statement Model
Quarters FY2020A – 2022E
(in thousands)

	<u>Q1 20 A</u>	<u>Q2 20 A</u>	<u>Q3 20 A</u>	<u>Q4 20 A</u>	<u>FY20 A</u>	<u>Q1 21 E</u>	<u>Q2 21 E</u>	<u>Q3 21 E</u>	<u>Q4 21 E</u>	<u>FY21 E</u>	<u>Q1 22 E</u>	<u>Q2 22 E</u>	<u>Q3 22 E</u>	<u>Q4 22 E</u>	<u>FY22 E</u>
Revenues, net	\$ 2,203	\$ 6,593	\$ 6,332	\$ 1,994	\$ 17,123	\$ 2,100	\$ 2,425	\$ 2,955	\$ 2,835	\$ 10,315	\$ 2,910	\$ 3,615	\$ 3,950	\$ 3,685	\$ 14,160
Cost of sales	563	4,588	4,403	1,861	11,415	725	850	1,025	975	3,575	925	950	1,000	975	3,850
Gross Profit	<u>1,640</u>	<u>2,005</u>	<u>1,929</u>	<u>133</u>	<u>5,707</u>	<u>1,375</u>	<u>1,575</u>	<u>1,930</u>	<u>1,860</u>	<u>6,740</u>	<u>1,985</u>	<u>2,665</u>	<u>2,950</u>	<u>2,710</u>	<u>10,310</u>
Operating Expenses:															
Loss on impairment of goodwill	-	-	-	726	726										
Selling, general, and administrative	1,452	2,540	1,783	1,713	7,488	1,650	1,750	2,000	1,950	7,350	1,850	1,900	1,995	2,100	7,845
Total Operating Expenses	<u>1,452</u>	<u>2,540</u>	<u>1,783</u>	<u>2,439</u>	<u>8,214</u>	<u>1,650</u>	<u>1,750</u>	<u>2,000</u>	<u>1,950</u>	<u>7,350</u>	<u>1,850</u>	<u>1,900</u>	<u>1,995</u>	<u>2,100</u>	<u>7,845</u>
Operating Income (loss)	<u>188</u>	<u>(535)</u>	<u>146</u>	<u>(2,305)</u>	<u>(2,507)</u>	<u>(275)</u>	<u>(175)</u>	<u>(70)</u>	<u>(90)</u>	<u>(610)</u>	<u>135</u>	<u>765</u>	<u>955</u>	<u>610</u>	<u>2,465</u>
Interest expense, net	(8)	(7)	(7)	(7)	(29)	(5)	(5)	(5)	-	(15)	-	-	-	-	-
Total Other Income (expense)	<u>(8)</u>	<u>(7)</u>	<u>(7)</u>	<u>(7)</u>	<u>(29)</u>	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pre-Tax Income (loss)	<u>180</u>	<u>(543)</u>	<u>138</u>	<u>(2,312)</u>	<u>(2,536)</u>	<u>(280)</u>	<u>(180)</u>	<u>(75)</u>	<u>(90)</u>	<u>(625)</u>	<u>135</u>	<u>765</u>	<u>955</u>	<u>610</u>	<u>2,465</u>
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	<u>\$ 180</u>	<u>\$ (543)</u>	<u>\$ 138</u>	<u>\$ (2,312)</u>	<u>\$ (2,536)</u>	<u>\$ (280)</u>	<u>\$ (180)</u>	<u>\$ (75)</u>	<u>\$ (90)</u>	<u>\$ (625)</u>	<u>\$ 135</u>	<u>\$ 765</u>	<u>\$ 955</u>	<u>\$ 610</u>	<u>\$ 2,465</u>
Net (loss) per share	<u>\$ 0.02</u>	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ (0.29)</u>	<u>\$ (0.33)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.07</u>	<u>\$ 0.30</u>
Avg Shares Outstanding	7,424	7,581	8,215	7,973	7,706	8,220	8,225	8,230	8,250	8,231	8,260	8,270	8,280	8,290	8,275
Adjusted EBITDA	\$ 331	\$ 500	\$ 671	\$ (1,415)	\$ 87	\$ (95)	\$ 5	\$ 110	\$ 90	\$ 110	\$ 330	\$ 960	\$ 1,150	\$ 805	\$ 3,245
Margin Analysis															
Gross margin	74.4%	30.4%	30.5%	6.7%	33.3%	65.5%	64.9%	65.3%	65.6%	65.3%	68.2%	73.7%	74.7%	73.5%	72.8%
Selling, general, and administrative	65.9%	38.5%	28.2%	85.9%	43.7%	78.6%	72.2%	67.7%	68.8%	71.3%	63.6%	52.6%	50.5%	57.0%	55.4%
Operating margin	8.5%	(8.1%)	2.3%	(115.6%)	(14.6%)	(13.1%)	(7.2%)	(2.4%)	(3.2%)	(5.9%)	4.6%	21.2%	24.2%	16.6%	17.4%
Pre-tax margin	8.2%	(8.2%)	2.2%	(115.9%)	(14.8%)	(13.3%)	(7.4%)	(2.5%)	(3.2%)	(6.1%)	4.6%	21.2%	24.2%	16.6%	17.4%
YEAR / YEAR GROWTH															
Total Revenues	45.7%	244.0%	174.0%	17.6%	130.3%	(4.7%)	(63.2%)	(53.3%)	42.2%	(39.8%)	38.6%	49.1%	33.7%	30.0%	37.3%

2020 Includes approximately (\$0.25) per share from one-time impairment charge and write-down of personal protective equipment inventory

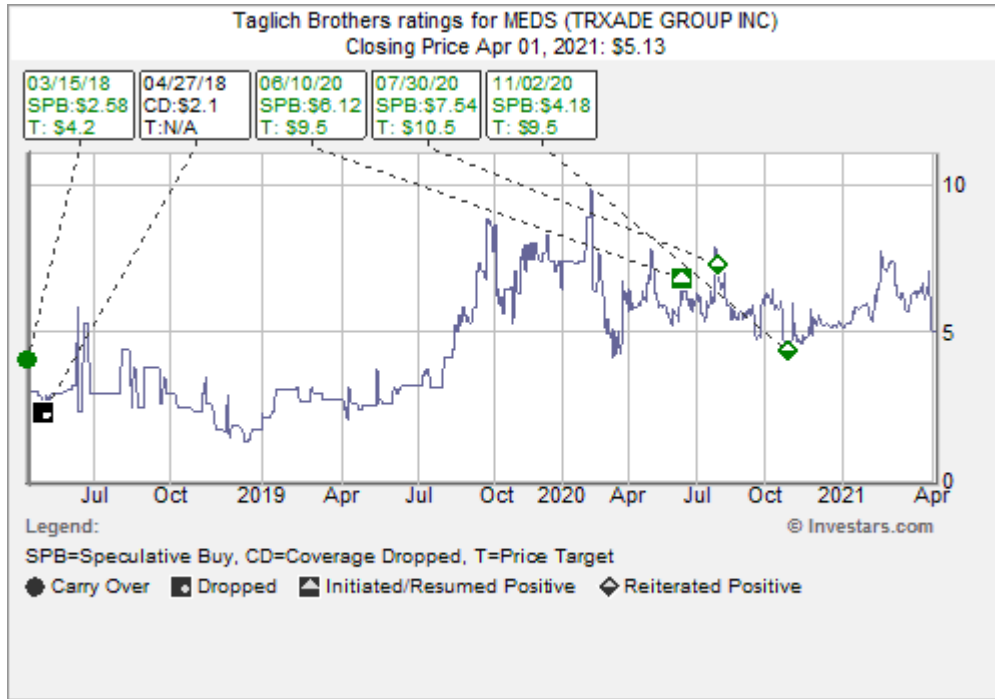
Source: Company reports and Taglich Brothers estimates

Trxade Group, Inc.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

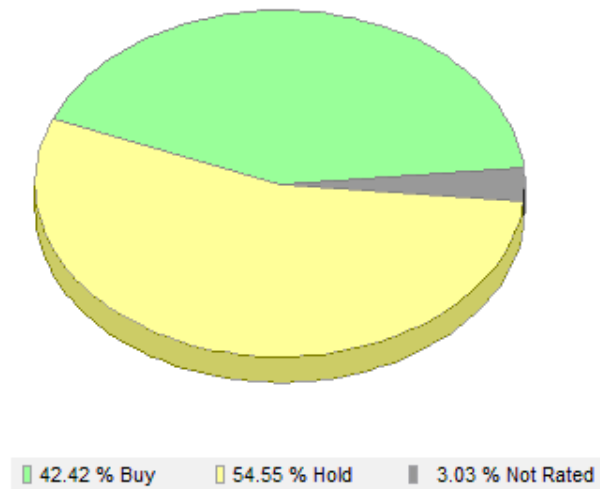
	<u>FY2018A</u>	<u>FY2019A</u>	<u>FY2020A</u>	<u>FY2021E</u>	<u>FY2022E</u>
<i>Cash Flows from Operating Activities</i>					
Net Income (loss)	\$ 9	\$ (284)	\$ (2,536)	\$ (625)	\$ 2,465
Depreciation	-	5	6	-	-
Warrant expense	-	105	57	-	-
Stock issued for services	-	-	1,358	720	780
Options expense	170	176	448	-	-
Bad debt expense	2	12	11	-	-
Loss on debt extinguishment	7	179	-	-	-
Investment loss	-	250	-	-	-
Loss on write off of software assets	-	278	-	-	-
Loss on impairment of goodwill	-	-	726	-	-
Inventory writedown	-	-	1,218	-	-
Amortization of right of use assets	-	90	97	95	50
Amortization of debt discount	0	-	-	-	-
Cash earnings (burn)	<u>189</u>	<u>810</u>	<u>1,384</u>	<u>190</u>	<u>3,295</u>
<i>Changes In:</i>					
Accounts receivable	(2)	(370)	(24)	(55)	270
Prepaid assets and other current assets	14	0	(69)	(29)	(67)
Other assets - includes deposits for inventory purchases	-	(89)	-	-	(0)
Inventory	(4)	23	(2,419)	543	202
Other receivables	-	-	(1,088)	-	-
Lease liability	-	(75)	(97)	-	-
Accounts payable	95	(149)	(33)	(108)	11
Accrued liabilities, other liabilities, and customer deposits	(19)	(9)	130	(119)	-
(Increase)/decrease in Working Capital	<u>85</u>	<u>(668)</u>	<u>(3,599)</u>	<u>232</u>	<u>415</u>
Net cash (used) provided by operations	<u>273</u>	<u>142</u>	<u>(2,215)</u>	<u>422</u>	<u>3,710</u>
<i>Cash Flows from Investing Activities</i>					
Purchase of and development of assets	(15)	(82)	(38)	(500)	(500)
Cash paid for acquisition, net	(250)	-	-	-	-
Purchase of equity method investment	-	(250)	-	-	-
Cash Flows from Investing Activities	<u>(265)</u>	<u>(332)</u>	<u>(38)</u>	<u>(500)</u>	<u>(500)</u>
<i>Cash Flows from Financing Activities</i>					
Repayments of promissory note - third parties	(11)	-	-	-	-
Proceeds from exercise of warrants/options	-	0	38	-	-
Payment of stock issuance costs	-	-	(732)	-	-
Proceeds from issuance of common stock	800	2,455	5,994	-	-
Net cash provided by (used in) Financing	<u>678</u>	<u>2,193</u>	<u>5,300</u>	<u>-</u>	<u>-</u>
Net change in Cash	686	2,002	3,048	(78)	3,210
Cash Beginning of Period	<u>184</u>	<u>870</u>	<u>2,872</u>	<u>5,920</u>	<u>5,841</u>
Cash End of Period	<u>\$ 870</u>	<u>\$ 2,872</u>	<u>\$ 5,920</u>	<u>\$ 5,841</u>	<u>\$ 9,051</u>

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	16
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

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Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

AmerisourceBergen Corporation	(NYSE: ABC)	Cardinal Health, Inc.	(NYSE: CAH)
McKesson Corporation	(NYSE: MCK)	Teladoc Health, Inc.	(NYSE: TDOC)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.