

## Research Report – Update

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

**TRxADE Health, Inc.**

**Rating: Speculative Buy**

Howard Halpern

May 17, 2022

**MEDS \$1.27 — (NASDAQ)**

	2019 A	2020 A*	2021 A**	2022 E	2023 E
Revenue (in millions)	\$7.4	\$17.1	\$9.9	<b>\$11.2</b>	<b>\$13.0</b>
Earnings (loss) per share	(\$0.05)	(\$0.33)	(\$0.65)	<b>(\$0.40)</b>	<b>(\$0.15)</b>

52-Week range	\$10.82– \$1.16	Fiscal year ends:	December
Shares outstanding a/o 05/06/22	8.2 million	Revenue/shares (ttm)	\$1.24
Approximate float	3.3 million	Price/Sales (ttm)	1.0X
Market Capitalization	\$10.4 million	Price/Sales (2023) E	0.8X
Tangible Book value/shr	\$0.26	Price/Earnings (ttm)	NMF
Price/Book	4.8X	Price/Earnings (2023) E	NMF

\*Includes (\$0.25) per share from impairment charge and write-down of personal protective equipment inventory \*\* Includes (\$0.15) loss on inventory investment write-down

Trxade Health 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 but reducing our 12-month price target to \$3.75 per share from \$6.25 per share due primarily to a reduced sector valuation.**

**Trxade has an opportunity for sustained revenue and eventually earnings growth as independent pharmacies join its marketplace platform that matches buyers and sellers of generic and branded drugs. Entering 2Q22, approximately 13,475 pharmacies were on the company's platform, up from 10,000 in 2019.**

**Supply chain issues for generic drugs abated in 1Q22, which should provide a return to revenue growth for the company's TRxADE platform. We estimate platform revenue increasing 11.8% to \$5.5 million in 2022 with estimated growth of 11.5% to \$6.1 million in 2023. In 2021, the company had platform revenue of \$4.9 million. MEDS is focused on accelerating its platform growth through partnerships with group purchasing organizations and its SOSRx joint venture that is intended to provide an online platform for manufacturers and suppliers to sell and purchase pharmaceuticals.**

**In 1Q22, MEDS reported (on 05-9-22) a loss per share of (\$0.12) on revenue of \$3.2 million. In 1Q21, the loss per share was (\$0.08) on revenue of \$3.1 million. We projected a loss per share of (\$0.09) on revenue of \$2.3 million. The current period includes a \$225,000 legal settlement that is included in G&A expense.**

**In 2022, we project a loss per share of (\$0.40) on revenue of \$11.2 million. Our prior forecast was for a loss per share of (\$0.32) on revenue of \$10.1 million. Our revised revenue forecast reflects 1Q22 results.**

**In 2023, we project a loss per share of (\$0.15) on revenue growth of 15.9% to \$13 million. Our prior forecast was for a loss per share of (\$0.17) on revenue of \$11.5 million. Our forecast reflects TRxADE platform growth of 11.5% and a \$4.7 million contribution from the company's TRxADE Prime offering compared to \$4.4 million in 2022.**

**Please view our Disclosures pages 14 - 16**

## Appreciation Potential

**Maintaining Speculative Buy rating but reducing our 12-month price target to \$3.75 per share from \$6.25 per share due primarily to a reduced sector valuation.** Our price target should be supported by the 15.9% revenue growth forecast to \$13 million we anticipate for 2023 that reflects a growing number of independent pharmacies purchasing branded and generic prescription drugs on the TRxADE marketplace platform. We estimate nearly 15,000 independent pharmacies should be on the platform by the end of 2023, up from an estimated 14,000 at the end of 2022. The company had 13,100 and 11,800 independent pharmacies on the platform in 2021 and 2020, respectively. We also anticipate revenue contribution of \$4.7 million in 2023 from the company’s bulk order and delivery service called TRxADE Prime compared to \$4.4 million in 2022. In 2023, we estimate a revenue contribution of \$1.3 million (up from an estimated \$225,000 in 2022) from the company’s telehealth subsidiary, and new offerings from its group purchasing organization platform and SOSRx joint venture. Our forecasts reflect a return to more normal purchasing patterns on the TRxADE marketplace platforms as generic drug production and supply chain issues eased in 1Q22.

Our rating reflects the company integrating its subsidiaries and initiating new sales programs such as partnering with group purchasing organizations that allow for securing dozens of pharmacies at one time that will purchase drugs on the TRxADE marketplace platform. Additionally, the 1Q22 establishment of a joint venture (SOSRx) to provide an online platform for manufacturers and suppliers to sell and purchase pharmaceuticals should provide additional revenue opportunities by the end of 2022. The overall mission is to build an end-to-end healthcare services organization so a patient never has to leave their home.

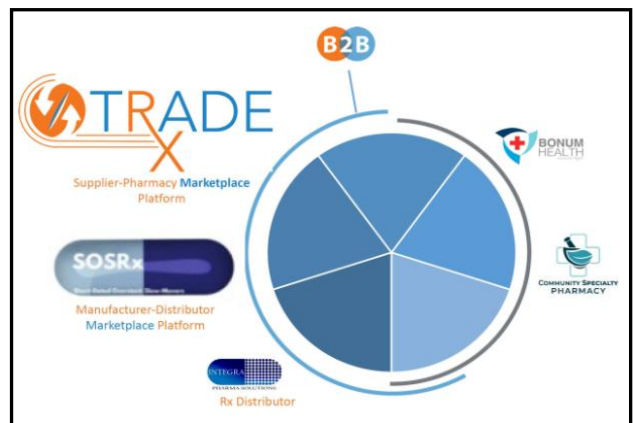
**Our 12-month price target of \$3.75 per share implies shares could triple over the next twelve months.** According to finviz (a/o 05/13/22), the average twelve month trailing price-to-sales multiple for companies in the Pharmaceutical – distribution and health information sectors is 2.9X (prior was 6.3X), compared to Trxade Health’s trailing P/S multiple of 1X (prior was 2X). We anticipate investors are likely to accord Trxade Health the sector multiple given our sale growth forecast of 15.9% compared to 8.2% for the sectors. We applied a P/S multiple of 2.9X (prior was 5X) to our 2023 sales per share forecast of \$1.58, discounted for execution risk, to obtain a year-ahead price target of approximately \$3.75 per share.

A higher valuation of Trxade Health, Inc., is likely to be supported by sustained revenue growth and a narrowing of operating losses to an estimated \$1.2 million in 2023 from an estimated \$3.3 million in 2022, as well as narrowing of the company’s cash burn. We estimate cash burn of \$483,000 in 2023 compared to an estimated cash burn of \$2.5 million in 2022. In 2021, cash burn was \$3.7 million.

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

## Overview

Trxade Health 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 March 2022 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 used this subsidiary and the TRxADE technology platform to source and sell personal protective equipment products such as masks, sanitizers, and gloves. The most recent addition (in February 2022) is the company's 51% owned SOSRx joint venture that will provide an online platform for manufacturers and suppliers to sell and purchase pharmaceuticals. The company anticipates that the joint venture should be able to collect up to a 20% administrative fee paid by the manufacturer of the purchase price on the pharmaceuticals that pass through the platform. If the offering gains acceptance among manufacturers and suppliers the administrative fee should enable the company to generate significant revenue with just a modest amount of transactions.

The company's Integra Pharma Solutions subsidiary, which is a licensed wholesaler of brand, generic, and non-drug products to customers is offering Trxade Prime to its pharmacy customer. This offering takes orders for products, creates invoices for each order and recognizes revenue at the time the customer receives the product. MEDS utilizes a just-in-time inventory and drop ship partnerships to ship orders to customers. The focus for the Prime offering is to be the pharmaceutical supplier of choice for healthcare organizations of all sizes including hospitals and medical facilities.

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.

### ***Recent Developments***

On March 31, 2022, the Board of Directors approved the appointment of Ms. Janet Huffman as the company's CFO and principal financial/accounting officer. This occurred after the company accepted the resignation of Howard Doss, the company's former CFO.

Ms. Huffman joined the company as Director of Finance in February 2022. She served in various finance roles within the healthcare industry. She served as director of finance and regional director of operations of Infinity Home Care, which was followed by service as director of finance for Internal Medicine Associates and as VP of finance for Family Home Health Services, Inc. She has also served as CFO for Signature Home Now, a Kentucky based healthcare company and then became one of the founders of Banyan Pediatric Care Centers, Inc., serving as its CFO. Earned a BA degree in accounting from the University of South Florida.

### ***Strategic Growth Platforms***

MEDS 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 its 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 meets the needs of independent pharmacies on the TRxADE 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. To enhance the growth potential of the TRxADE marketplace platform, the company announced it secured a group purchasing agreement with QualityCare Pharmacies, an independent pharmacy prescription drug buying group. This was the first agreement reached under the company's new marketing initiative to bring group purchasing organizations onto its TRxADE Marketplace platform.

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 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 April 2022, the company's board of directors authorized its CEO to explore strategic alternatives for the Bonum Health subsidiary. The process will include consideration of a potential sale, spin-off, fund raising, and/or a combination or other strategic transactions, which could include the winding down of the subsidiary's operations.

The company's other revenue generating subsidiaries include Integra Pharma Solutions, a logistic organization that offers customers it bulk order and delivery Prime offerings and Community Specialty Pharmacy (CSP) which is an accredited independent retail pharmacy that is licensed to provide specialty drugs in 34 states.

## ***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 15,000 in 4Q23, up from 13,100 in 2021.

In 2023, we anticipate TRxADE platform sales from its membership base of independent pharmacies of \$6.1 million (prior was \$5.7 million), up from an estimated \$5.5 million (prior was \$5.2 million) in 2022. Our increased 2022 forecast reflects 1Q22 results that showed a normalization of the production and distribution of generic drugs. Our 2023 forecast reflects increased activity by independent pharmacies that utilize the TRxADE platform.

In 2023 and 2022, we anticipate modest revenue contributions from group purchasing organizations, the SOSRx joint venture, and Bonum Health segment of approximately \$1.3 million and \$257,000 respectively. Also, we anticipate the company's prime bulk ordering offering should drive its Integra subsidiary revenue to approximately \$4.7 million in 2023, up from an estimated \$4.3 million in 2022.

### ***Operations – 2022***

We project 13.4% revenue growth to \$11.2 million (prior was \$10.1 million) compared to nearly \$9.9 million in 2021. Our revised forecast reflects 1Q22 results and higher than anticipated growth in the company's TRxADE platform and Integra subsidiary, partly offset by a reduced contribution in 2H22 from the company's telehealth subsidiary Bonum Health and group purchasing organization offering.

We anticipate gross profit flat at approximately \$4.7 million due primarily to revenue growth that is likely to be offset by gross margin contracting to 41.7% from 48% in 2021 due primarily to a sales mix shift to the company's low margin Integra subsidiary Prime offering (gross margin in the single digits), partly offset by higher margin TRxADE platform sales (gross margin close to 100%).

We project the operating loss narrowing to \$3.3 million compared to a loss of \$5.3 million in 2021 due primarily to revenue growth, and operating margin expense improving to 70.8% from 89.1% (excluding loss on inventory investment) in 2021. We forecast G&A expense decreasing to \$7.9 million from \$8.8 million in 2021 reflecting reduced information technology development costs related to the company's newest offerings. The current period includes a legal settlement of \$225,000.

We anticipate interest expense of \$21,000 compared to an expense of \$24,000 in 2021, as the reduction reflects no amortization of debt discount compared to the 1H21, partly offset by a higher debt balance. In February 2022, the company issued a new \$500,000 related party promissory note to complete a 51% investment in the SOSRx joint venture. We project a net loss of \$3.3 million or (\$0.40) per share. We previously projected a net loss of \$2.6 million or (\$0.32) per share.

#### Finances – 2022

We project cash burn of \$2.5 million and a \$588,000 decrease in working capital. Cash used in operations of \$1.9 million, capital expenses, and investment into the SOSRx joint venture should decrease cash by \$2.1 million to \$991,000 at December 31, 2022.

#### Operations – 2023

We project 15.9% revenue growth to \$13 million (prior was \$11.5 million) compared to an estimated \$11.2 million in 2022. Our forecast should be supported by growth in the company's TRxADE platform, Integra subsidiary, and a modest but growing contribution from the company's telehealth subsidiary Bonum Health, as well as the company's group purchasing organization offering and the SOSRx joint venture.

We anticipate gross profit increasing by 38.8% to \$6.5 million due primarily to revenue growth and gross margin improving to 49.9% from an estimated 41.7% in 2022 due primarily to a sales mix shift to the company's higher margin offerings (TRxADE platform, Bonum Health, group purchasing offering, and SOSRx) that should comprise 57.3% of total revenue compared to an estimated contribution of 51.4% in 2022.

We project the operating loss narrowing to \$1.2 million compared to an estimated loss of \$3.3 million in 2022 due primarily to revenue growth, gross margin improvement, and operating margin expense improving to 59.2% from an estimated 70.8% in 2022. We forecast G&A expense decreasing to \$7.7 million from an estimated \$7.9 million in 2022. The year-ago period includes a \$225,000 legal settlement. Excluding the legal segment, we estimate G&A expense to be flat at \$7.7 million as higher compensation and marketing initiatives should be offset by reduced technology development spending.

We anticipate interest expense of \$28,000 compared to an estimated \$21,000 in 2022. We project a net loss of \$1.2 million or (\$0.15) per share. We previously projected a net loss of \$1.4 million or (\$0.17) per share.

#### Finances – 2023

We project cash burn of \$483,000 and a \$142,000 decrease in working capital. Cash used in operations of \$341,000 and capital investments should reduce cash by \$326,000 to \$665,000 at December 31, 2023.

### **Industry Briefs**

#### Drug Market

IBISWorld projects branded pharmaceutical drug revenue to increase annually by 3.6% to \$237.3 billion in 2026, up from \$191.6 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.

### **Independent Pharmacy**

According to the National Community Pharmacists Association (NCPA), in June 2021 there were nearly 19,400 small business community pharmacies in the US compared to over 23,000 in 2011. In 2020, the NCPA estimates the average prescription volume was 57,648 per store, a slight increase from the 57,414 prescriptions dispensed in 2019. According to the 2020 NCPA Digest, the independent community pharmacy market (in 2020) generated revenue of nearly \$67.1 billion that represent 34% of all US retail pharmacies.

IBISWorld projects US pharmacy and drug store annualized revenue growth of approximately 3.7% to \$393.2 billion in 2026, up from \$315.8 billion in 2020. 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.

### **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.

In September 2021, Zion Market Research published data indicating that the US telemedicine market generated 2018 sales of approximately \$23.6 billion. Zion's forecast anticipates annualized revenue growth of 14.9% indicating the US telemedicine market reaching \$62.2 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.

### **Specialty Pharmacy**

In 2020, there were approximately 1,200 pharmacies with a specialty accreditation in the US according to the Accreditation Commission for Health Care, or Center for Pharmacy Practice Accreditation, up from 900 in 2018. 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 36 US states at December 31, 2021), 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.

## **1Q22 Results**

### **1Q22**

Revenues increased 6.1% to \$3.2 million from \$3.1 million in the year-ago period, reflecting increases of \$165,000 and \$145,000, respectively, from the company's Integra Pharma Prime offering and TRxADE marketplace platform. The latter increase reflects a normalization of supply chain issues for generic drugs that impacted 2H21 operations and the addition of 339 new independent pharmacies to its platform, bringing the total registered pharmacy members to over 13,475 at the end of 1Q22. Revenue at the company's Community Specialty Pharmacy operations decreased by \$129,000 to \$268,000 from \$398,000 in 1Q21.

Gross profit decreased \$47,000 to \$1.3 million due to a reduction in gross margin 41.2% from 45.3% in 1Q21, partly offset by revenue growth. Gross margin compression stems from increased revenue from the company's lower margin Integra Pharma Solutions subsidiary.

G&A expense increased to \$2.3 million from \$2 million in the year-ago period. The current period included a \$225,000 legal settlement that occurred in February 2022, in which the company settled a 2020 lawsuit that involves no admission of liability and a full and complete release of all actions after a lump-sum payment. Excluding the legal settlement, G&A expense increased \$52,000 to nearly \$2.1 million due primarily to increased compensation expense. The current period included warrant and stock option expense of \$65,000 compared to \$174,000 in 1Q21.

Non-operating interest expense was \$1,000 compared to \$7,000 in the year-ago period. The company recorded a gain on asset disposal of \$4,000 compared to no gain or loss in 1Q21.

The net loss was \$966,000 or (\$0.12) per share compared to a net loss of \$652,000 or (\$0.08) per share. We projected a loss per share of (\$0.09) on revenue of \$2.3 million.

### Finances

In 1Q22, cash burn of \$843,000 and a \$158,000 increase in working capital resulted in cash used in operations of \$1 million. Cash used in operations, capital expenditures, and distribution to non-controlling interest reduced cash by \$1.3 million to \$1.9 million at March 31, 2022.

### Capital Structure

At March 31, 2022 the company had total outstanding debt of \$500,000, of which \$167,000 was short-term in promissory notes. All of the promissory note debt was related party. In 1Q22, the interest rate on the promissory notes was 5.25% (prime plus 2%). The debt is expected to be repaid before the end of 2025.

On December 10, 2021, MEDS board of directors authorized the repurchase up to \$100,000 shares of common stock in open market transactions. As of March 31, 2022, no shares have been repurchased.

On March 1, 2022, the company entered into an informal understanding with Masters Drug Company, Inc. and its affiliated companies (owned by McKesson Pharmaceutical), under which Masters agreed to extend up to \$500,000 of monthly credit to MEDS in connection with monthly pharmaceutical purchases from Masters. The company also entered into a guaranty in favor of McKesson to guaranty the payment of the monthly credit, which includes customary terms, rights of McKesson and requirements for the guarantors to pay the costs and expenses of McKesson in enforcing the guaranty. The monthly credit will be paid to McKesson each month automatically, via an ACH debit from the MEDS bank account.

### ***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

We forecast the company is likely to experience quarterly operating losses through our forecast period ending December 31, 2023. In 1Q22, MEDS had a retained deficit of \$17.2 million, up from \$8.4 million in 2019. In February 2020, Trxade issued over 922,452 shares of its common stock at a public offering price of \$6.50 per share, from which Trxade received net proceeds of nearly \$5.2 million. If the company's operations do not meet our financial forecasts through 2023, additional capital is likely to be raised either through issuance of common stock or convertible debt in order to maintain and growth its revenue generating segments. The issuance of additional capital would dilute existing shareholders.

### Informal Monthly Credit Arrangement

On March 1, 2022, the company entered into an informal understanding with Masters Drug Company, Inc. Pursuant to the terms and conditions, and in order to secure the payment of the monthly credit, MEDS provided Masters Drug Company a security interest in all of its rights, titles and interests in and to the company's personal property. Past due amounts, if they occur, will accrue interest at the highest rate permitted by law. Masters Drug Company has the right to change a payment term to limit total credit and/or to suspend the provision of products or services to the company. If the company engages in this informal agreement and has issues in making payments, it could have an adverse impact on overall operations.

### 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 like the 2020 COVID-19 pandemic could negatively impact results.

### 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, 2021, Trxade had in excess of 13,100 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.

The company is in the process of conducting a strategic review and seeking alternatives for its Bonum Health subsidiary. The outcome of this process could result in the liquidation of the subsidiary's assets for significantly less than the company paid for them, the write-off of prior expenses incurred in connection with the development of such assets, which would likely have a material adverse effect on operating results and liquidity. However, the company's board of directors will seek to maximize the value of such assets and operations to the extent possible.

#### Legal Proceeding

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

In November 2021, the company's Integra subsidiary filed a complaint against GSG PPE, LLC and Gary Waxman alleging breach of contract for a purchase agreement, a promissory note, and a personal guaranty. Waxman's personal guaranty confirmed that GSG owed Integra \$630,000. Integra has propounded discovery and plans to file a motion for summary judgment. On September 30, 2021, the \$630,000 was recorded as bad debt expense.

#### Internal Controls

As of March 31, 2022, material weaknesses in internal controls were 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 53.8% of the outstanding voting stock (April 2022 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 May 16, 2022) average daily volume was approximately 452,400 million. MEDS has 8.2 million shares outstanding and a float of approximately 3.3 million. Investors should be aware that a thinly traded equity could experience price volatility.

Trxade Health, Inc.  
Consolidated Balance Sheets  
FY2019 – FY2023E  
(in thousands)

	FY19A	FY20A	FY21A	1Q22A	FY22E	FY23E
<b>ASSETS</b>						
Current assets:						
Cash	\$ 2,872	\$ 5,920	\$ 3,123	\$ 1,871	\$ 991	\$ 665
Accounts receivable, net	792	805	979	1,041	779	794
Inventory	57	1,258	56	274	262	217
Prepaid assets	82	151	216	400	393	390
Other - deposits and receivables	-	1,088	-	11	11	11
<b>Total current assets</b>	<b>3,803</b>	<b>9,221</b>	<b>4,374</b>	<b>3,597</b>	<b>2,435</b>	<b>2,077</b>
Property and equipment, net	175	162	99	74	75	75
Deposits	22	22	60	49	50	50
Intangible assets	-	-	-	793	750	700
Deferred offering costs	88	-	-	-	-	-
Right of use lease assets	758	387	1,233	1,179	1,179	1,000
Research and development	-	-	-	149	149	149
Goodwill	726	-	-	-	-	-
<b>Total assets</b>	<b>\$ 5,571</b>	<b>\$ 9,793</b>	<b>\$ 5,766</b>	<b>\$ 5,840</b>	<b>\$ 4,489</b>	<b>\$ 3,902</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	335	257	477	908	1,090	1,175
Accrued liabilities	99	219	270	345	500	525
Lease liabilities	87	131	179	175	175	175
Customer deposits	-	10	-	1	1	1
Convertible and notes payables - related party	-	225	-	167	167	167
<b>Total current liabilities</b>	<b>521</b>	<b>842</b>	<b>926</b>	<b>1,596</b>	<b>1,933</b>	<b>2,043</b>
Notes payable - related parties	225	-	-	333	333	333
Other liabilities - leases	685	271	1,070	1,023	1,111	1,042
<b>Stockholders' equity:</b>						
Common stock, \$.00001 par value; authorized 100,000 shares;	0	0	0	0	0	0
Paid-in capital	12,536	19,611	20,018	20,083	20,628	21,238
Retained earnings (deficit)	(8,396)	(10,932)	(16,247)	(17,213)	(19,533)	(20,771)
<b>Total TRxADE Health stockholders' equity</b>	<b>4,140</b>	<b>8,679</b>	<b>3,770</b>	<b>2,870</b>	<b>1,094</b>	<b>466</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>18</b>	<b>18</b>
<b>Total stockholders' equity</b>	<b>4,140</b>	<b>8,679</b>	<b>3,770</b>	<b>2,888</b>	<b>1,112</b>	<b>484</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,571</b>	<b>\$ 9,793</b>	<b>\$ 5,766</b>	<b>\$ 5,840</b>	<b>\$ 4,489</b>	<b>\$ 3,902</b>
SHARES OUT	6,539	8,093	8,166	8,181	8,185	8,190

Source: Company reports and Taglich Brothers estimates

Trxade Health, Inc.  
Annual Income Statement  
FY2019 – FY2023E  
(in thousands)

	<u>FY19 A</u>	<u>FY20 A</u>	<u>FY21 A</u>	<u>FY22 E</u>	<u>FY23 E</u>
Revenues, net	\$ 7,436	\$ 17,123	\$ 9,889	\$ <b>11,215</b>	\$ <b>13,000</b>
Cost of sales	<u>2,566</u>	<u>11,415</u>	<u>5,143</u>	<u><b>6,540</b></u>	<u><b>6,510</b></u>
<b>Gross Profit</b>	<u>4,871</u>	<u>5,707</u>	<u>4,746</u>	<u><b>4,676</b></u>	<u><b>6,490</b></u>
<b>Operating Expenses:</b>					
Loss on goodwill impairment & inventory investment	-	726	1,226	-	-
General and administrative	4,377	7,488	8,812	<b>7,944</b>	<b>7,700</b>
Total Operating Expenses	<u>4,746</u>	<u>8,214</u>	<u>10,038</u>	<u><b>7,944</b></u>	<u><b>7,700</b></u>
<b>Operating Income (loss)</b>	125	(2,507)	(5,292)	<b>(3,269)</b>	<b>(1,210)</b>
Disposal of asset gain (loss)	(250)	-	-	<b>4</b>	-
Interest expense, net	<u>(53)</u>	<u>(29)</u>	<u>(24)</u>	<u><b>(21)</b></u>	<u><b>(28)</b></u>
Total Other Income (expense)	<u>(410)</u>	<u>(29)</u>	<u>(24)</u>	<u><b>(17)</b></u>	<u><b>(28)</b></u>
<b>Pre-Tax Income (loss)</b>	(284)	(2,536)	(5,316)	<b>(3,286)</b>	<b>(1,238)</b>
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (284)</u>	<u>\$ (2,536)</u>	<u>\$ (5,316)</u>	<u>\$ <b>(3,286)</b></u>	<u>\$ <b>(1,238)</b></u>
<b>Net (loss) per share</b>	<u>\$ (0.05)</u>	<u>\$ (0.33)</u>	<u>\$ (0.65)</u>	<u>\$ <b>(0.40)</b></u>	<u>\$ <b>(0.15)</b></u>
Avg Shares Outstanding	5,929	7,706	8,129	<b>8,191</b>	<b>8,213</b>
Adjusted EBITDA	\$ 571	\$ 87	\$ (3,039)	\$ <b>(2,675)</b>	\$ <b>(610)</b>
<b>Margin Analysis</b>					
Gross margin	65.5%	33.3%	48.0%	<b>41.7%</b>	<b>49.9%</b>
Selling, general, and administrative	58.9%	43.7%	89.1%	<b>70.8%</b>	<b>59.2%</b>
Operating margin	1.7%	(14.6%)	(53.5%)	<b>(29.1%)</b>	<b>(9.3%)</b>
Pre-tax margin	(3.8%)	(14.8%)	(53.8%)	<b>(29.3%)</b>	<b>(9.5%)</b>
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	94.1%	130.3%	(42.2%)	<b>13.4%</b>	<b>15.9%</b>

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

2021 includes approximately (\$0.15) per share from loss on inventory investment

Source: Company reports and Taglich Brothers estimates

Trxade Health, Inc.  
Income Statement Model  
Quarters FY2021A – 2023E  
(in thousands)

	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 A	FY21 A	Q1 22 A	Q2 22 E	Q3 22 E	Q4 22 E	FY22 E	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	FY23 E
Revenues, net	\$ 3,053	\$ 1,898	\$ 2,550	\$ 2,388	\$ 9,889	\$ 3,240	\$ 2,900	\$ 2,675	\$ 2,400	\$ 11,215	\$ 3,400	\$ 3,200	\$ 3,500	\$ 2,900	\$ 13,000
Cost of sales	1,670	1,057	1,269	1,148	5,143	1,905	1,680	1,540	1,415	6,540	1,650	1,665	1,680	1,515	6,510
<b>Gross Profit</b>	<b>1,383</b>	<b>841</b>	<b>1,281</b>	<b>1,240</b>	<b>4,746</b>	<b>1,336</b>	<b>1,220</b>	<b>1,135</b>	<b>985</b>	<b>4,676</b>	<b>1,750</b>	<b>1,535</b>	<b>1,820</b>	<b>1,385</b>	<b>6,490</b>
<b>Operating Expenses:</b>															
Loss on goodwill impairment & inventory investment	-	1,225	1	-	1,226	-	-	-	-	-	-	-	-	-	-
General and administrative	2,028	2,186	2,576	2,023	8,812	2,304	1,975	1,875	1,790	7,944	1,925	1,900	2,000	1,875	7,700
Total Operating Expenses	2,028	3,411	2,577	2,023	10,038	2,304	1,975	1,875	1,790	7,944	1,925	1,900	2,000	1,875	7,700
<b>Operating Income (loss)</b>	<b>(644)</b>	<b>(2,570)</b>	<b>(1,296)</b>	<b>(782)</b>	<b>(5,292)</b>	<b>(969)</b>	<b>(755)</b>	<b>(740)</b>	<b>(805)</b>	<b>(3,269)</b>	<b>(175)</b>	<b>(365)</b>	<b>(180)</b>	<b>(490)</b>	<b>(1,210)</b>
Disposal of asset gain (loss)	-	-	-	-	-	4	-	-	-	4	-	-	-	-	-
Interest expense, net	(7)	(9)	(6)	(2)	(24)	(1)	(7)	(7)	(7)	(21)	(7)	(7)	(7)	(7)	(28)
Total Other Income (expense)	(7)	(9)	(6)	(2)	(24)	3	(7)	(7)	(7)	(17)	(7)	(7)	(7)	(7)	(28)
<b>Pre-Tax Income (loss)</b>	<b>(652)</b>	<b>(2,578)</b>	<b>(1,302)</b>	<b>(784)</b>	<b>(5,316)</b>	<b>(966)</b>	<b>(762)</b>	<b>(747)</b>	<b>(811)</b>	<b>(3,286)</b>	<b>(182)</b>	<b>(372)</b>	<b>(187)</b>	<b>(497)</b>	<b>(1,238)</b>
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	\$ (652)	\$ (2,578)	\$ (1,302)	\$ (784)	\$ (5,316)	\$ (966)	\$ (762)	\$ (747)	\$ (811)	\$ (3,286)	\$ (182)	\$ (372)	\$ (187)	\$ (497)	\$ (1,238)
<b>Net (loss) per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.32)</b>	<b>\$ (0.16)</b>	<b>\$ (0.10)</b>	<b>\$ (0.65)</b>	<b>\$ (0.12)</b>	<b>\$ (0.09)</b>	<b>\$ (0.09)</b>	<b>\$ (0.10)</b>	<b>\$ (0.40)</b>	<b>\$ (0.02)</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>	<b>\$ (0.15)</b>
Avg Shares Outstanding	8,093	8,122	8,164	8,137	8,129	8,178	8,190	8,195	8,200	8,191	8,205	8,210	8,215	8,220	8,213
Adjusted EBITDA	\$ (469)	\$ (1,181)	\$ (546)	\$ (843)	\$ (3,039)	\$ (900)	\$ (580)	\$ (565)	\$ (630)	\$ (2,675)	\$ (25)	\$ (215)	\$ (30)	\$ (340)	\$ (610)
Margin Analysis															
Gross margin	45.3%	44.3%	50.2%	51.9%	48.0%	41.2%	42.1%	42.4%	41.0%	41.7%	51.5%	48.0%	52.0%	47.8%	49.9%
Selling, general, and administrative	66.4%	115.1%	101.0%	84.7%	89.1%	71.1%	68.1%	70.1%	74.6%	70.8%	56.6%	59.4%	57.1%	64.7%	59.2%
Operating margin	(21.1%)	(135.4%)	(50.8%)	(32.8%)	(53.5%)	(29.9%)	(26.0%)	(27.7%)	(33.5%)	(29.1%)	(5.1%)	(11.4%)	(5.1%)	(16.9%)	(9.3%)
Pre-tax margin	(21.3%)	(135.8%)	(51.0%)	(32.8%)	(53.8%)	(29.8%)	(26.3%)	(27.9%)	(33.8%)	(29.3%)	(5.4%)	(11.6%)	(5.3%)	(17.1%)	(9.5%)
YEAR / YEAR GROWTH															
Total Revenues	38.6%	(71.2%)	(59.7%)	19.7%	(42.2%)	6.1%	52.8%	4.9%	0.5%	13.4%	4.9%	10.3%	30.8%	20.8%	15.9%

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

2021 includes approximately (\$0.15) per share from loss on inventory investment

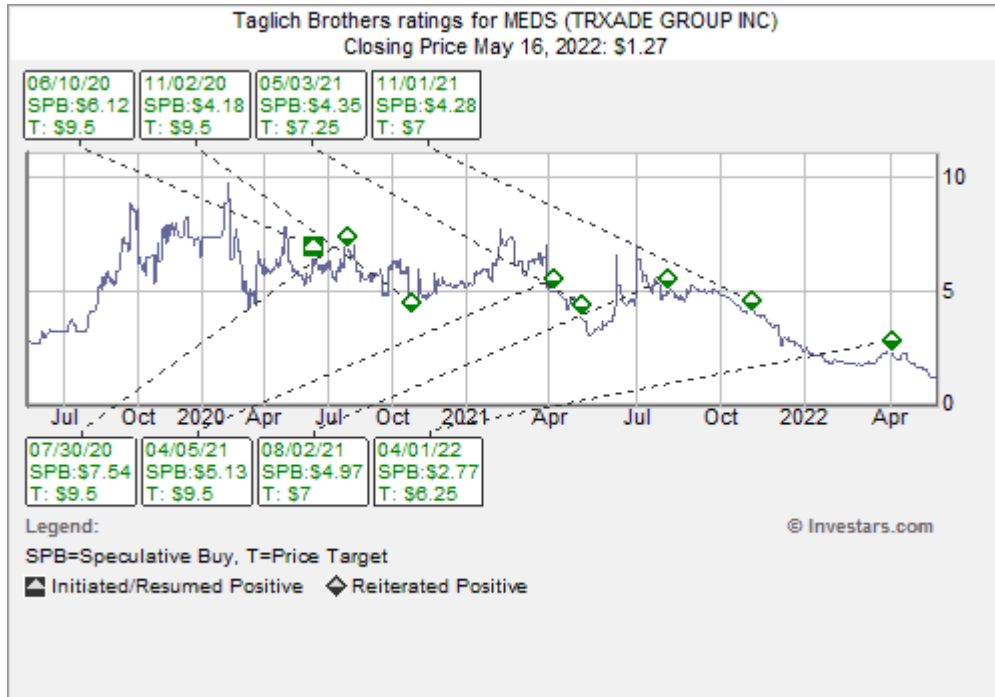
Source: Company reports and Taglich Brothers estimates

Trxade Health, Inc.  
Cash Flow Statement  
FY2019 – FY2023E  
(in thousands)

	<u>FY2019A</u>	<u>FY2020A</u>	<u>FY2021A</u>	<u>1Q22A</u>	<u>FY2022E</u>	<u>FY2023E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (284)	\$ (2,536)	\$ (5,316)	\$ (966)	\$ (3,286)	\$ (1,238)
Depreciation	5	6	7	4	15	15
Warrant expense	105	57	22	-	-	-
Stock issued for services	-	1,358	181	32	400	400
Options expense	176	448	187	33	185	185
Bad debt expense	12	11	616	1	5	5
Loss on debt extinguishment	179	-	-	-	-	-
Investment loss including Inventory investment	250	-	144	-	-	-
Loss on write off of software assets	278	-	-	-	-	-
Loss on impairment of goodwill	-	726	-	-	-	-
Gain on sale of assets	-	-	-	(2)	(2)	-
Inventory writedown	-	1,218	376	-	-	-
Amortization of right of use assets	90	97	132	54	200	150
Amortization of debt discount	-	-	-	-	-	-
Cash earnings (burn)	<u>810</u>	<u>1,384</u>	<u>(3,651)</u>	<u>(843)</u>	<u>(2,483)</u>	<u>(483)</u>
<i>Changes In:</i>						
Accounts receivable	(370)	(24)	(790)	(63)	200	(16)
Prepaid assets and other current assets	0	(69)	(104)	(173)	(176)	3
Other assets - includes deposits for inventory purchases	(89)	-	1,088	(149)	(11)	-
Inventory	23	(2,419)	825	(218)	(205)	45
Other receivables and undeposited customer funds	-	(1,088)	-	(11)	(12)	-
Lease liability	(75)	(97)	(131)	(50)	(50)	-
Accounts payable	(149)	(33)	220	431	613	85
Accrued liabilities, other liabilities, and customer deposits	(9)	130	(24)	75	230	25
(Increase)/decrease in Working Capital	<u>(668)</u>	<u>(3,599)</u>	<u>1,085</u>	<u>(158)</u>	<u>588</u>	<u>142</u>
<b>Net cash (used) provided by operations</b>	<u>142</u>	<u>(2,215)</u>	<u>(2,566)</u>	<u>(1,001)</u>	<u>(1,895)</u>	<u>(341)</u>
<i>Cash Flows from Investing Activities</i>						
Purchase of and development of assets	(82)	(38)	(23)	-	(10)	(10)
Sale of fixed assets	-	-	-	-	-	-
Purchase of equity method investment	(250)	-	-	23	23	-
<b>Cash Flows from Investing Activities</b>	<u>(332)</u>	<u>(38)</u>	<u>(23)</u>	<u>23</u>	<u>13</u>	<u>(10)</u>
<i>Cash Flows from Financing Activities</i>						
Repayments of promissory note - third parties	-	-	(225)	-	-	-
Distributions to non-controlling interest	-	-	-	(275)	(275)	-
Proceeds from exercise of warrants/options	0	38	17	1	25	25
Payment of stock issuance costs	-	(732)	-	-	-	-
Proceeds from issuance of common stock	2,455	5,994	-	-	-	-
<b>Net cash provided by (used in) Financing</b>	<u>2,193</u>	<u>5,300</u>	<u>(208)</u>	<u>(274)</u>	<u>(250)</u>	<u>25</u>
Net change in Cash	2,002	3,048	(2,797)	(1,252)	(2,132)	(326)
Cash Beginning of Period	<u>870</u>	<u>2,872</u>	<u>5,920</u>	<u>3,123</u>	<u>3,123</u>	<u>991</u>
Cash End of Period	<u>\$ 2,872</u>	<u>\$ 5,920</u>	<u>\$ 3,123</u>	<u>\$ 1,871</u>	<u>\$ 991</u>	<u>\$ 665</u>

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



56 % Buy | 44 % Hold

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	5	25
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.

All research issued by Taglich Brothers, Inc. is based on public information. In May 2020, the company paid Taglich Brothers a monetary fee of \$3,000 (USD) representing payment for the creation and dissemination of research reports for two months. In September 2020, the company began paying Taglich Brothers a monthly monetary fee of \$1,500 (USD) for the creation and dissemination of research reports.

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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.**

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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.