

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

MEDS \$1.56 — (NASDAQ)

August 2, 2022

	2019 A	2020 A*	2021 A**	2022 E	2023 E
Revenue (in millions)	\$7.4	\$17.1	\$9.9	\$12.5	\$14.0
Earnings (loss) per share	(\$0.05)	(\$0.33)	(\$0.65)	(\$0.45)	(\$0.15)

52-Week range	\$5.48– \$1.16	Fiscal year ends:	December
Shares outstanding a/o 07/22/22	8.2 million	Revenue/shares (ttm)	\$1.40
Approximate float	3.3 million	Price/Sales (ttm)	1.1X
Market Capitalization	\$12.8 million	Price/Sales (2023) E	1.2X
Tangible Book value/shr	\$0.09	Price/Earnings (ttm)	NMF
Price/Book	17.3X	Price/Earnings (2023) E	NMF

*Includes (\$0.25) per share from impairment charge and write-down of personal protective equipment inventory ** Includes (\$0.15) per share 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 \$3.00 per share from \$3.75 per share due to a reduced 2023 sales per share forecast, partly offset by an increase in 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 2H22, approximately 13,815 pharmacies were on the company's platform, up from 10,000 in 2019.

While supply chain issues for generic drugs still remain a lingering issue, we estimate platform revenue increasing 7.9% to \$5.3 million in 2022 with estimated growth of 10.7% to \$5.9 million in 2023. In 2021, the company had platform revenue of \$4.9 million. MEDS aims to accelerate its platform growth in 2H23, 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 2Q22, MEDS reported (on 07-25-22) a loss per share of (\$0.13) on revenue of \$3.3 million. In 2Q21, the loss per share was (\$0.32) on revenue of \$1.9 million. We projected a loss per share of (\$0.09) on revenue of \$2.9 million. The year ago period included a \$1.2 million or (\$0.15) loss on inventory investment write-down.

In 2022, we project a loss per share of (\$0.45) on revenue of \$12.5 million. Our prior forecast called for a loss per share of (\$0.40) on revenue of \$11.2 million. Our revised forecasts reflect 2Q22 results and a shift to lower margin TRxADE Prime sales.

In 2023, we project a loss per share of (\$0.15) on revenue growth of 11.9% to \$14 million. Our prior forecast was for a loss per share of (\$0.15) on revenue of \$13 million. Our forecast reflects TRxADE platform growth of 10.7% and a \$6.5 million contribution from the company's TRxADE Prime offering compared to nearly \$6 million in 2022.

Please view our Disclosures pages 14 - 16

Appreciation Potential

Maintaining Speculative Buy rating but reducing our 12-month price target to \$3.00 per share from \$3.75 per share due to a reduced 2023 sales per share forecast, partly offset by an increase in sector valuation. Our price target should be supported by revenue reaching an estimated \$14 million in 2023, up from \$9.9 million in 2021, reflecting a growing number of independent pharmacies purchasing branded and generic prescription drugs on the TRxADE marketplace platform. We estimate nearly 15,300 independent pharmacies should be on the platform by the end of 2023, up from an estimated 14,300 at the end of 2022. The company had 13,815 and 13,100 independent pharmacies on the platform in 2Q22 and 2021, respectively. We also anticipate revenue contribution of \$6.5 million in 2023 from the company's bulk order and delivery service called TRxADE Prime compared to nearly \$6 million in 2022. In 2023, we estimate a revenue contribution of \$890,000 (up from an estimated \$163,000 in 2022) from the company's telehealth subsidiary, and new offerings from its group purchasing organization platform and SOSRx joint venture.

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 in 2H23.

Our 12-month price target of \$3.00 per share implies shares could nearly double over the next twelve months. According to finviz (a/o 08/1/22), the average twelve month trailing price-to-sales multiple for companies in the Pharmaceutical – distribution and health information sectors is 3.3X (prior was 2.9X), compared to Trxade Health's trailing P/S multiple of 1.1X (prior was 1X). We anticipate investors are likely to accord Trxade Health a multiple approaching that of the sector given our 2023 sales growth forecast of 11.9% compared to 8.2% for the sector's. We applied a P/S multiple of 3X (prior was 2.9X) to our 2023 sales per share forecast of \$1.26 (prior was \$1.58), discounted for execution and dilution risk, to obtain a year-ahead price target of approximately \$3.00 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 \$1.7 million in 2023 from an estimated \$4.1 million in 2022, as well as narrowing of the company's cash burn. We estimate cash burn of \$1.3 million in 2023 compared to an estimated cash burn of \$3.6 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 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 offerings 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

In July 2022, the company announced that its Integra Pharma Solutions subsidiary secured a preferred distribution agreement with GALT Pharmaceuticals. The first offering planned is Oravig (miconazole) buccal tablets which is the treatment for oral thrush to community pharmacies registered on the TRxADE platform.

In May 2022, the company's Bonum Health subsidiary announced it launched tele-veterinary services for pets. The addition of a digital veterinary clinic, will be staffed by veterinarians and cater to cats and dogs in limited markets.

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. The low gross margin Prime offerings are expected to generate sales of \$6.5 million in 2023, up from an estimated \$6 million in 2022. While gross margin is likely to be in the single digits, operating expenses are unlikely to be materially impacted as revenue ramps.

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 15,300 in 4Q23, up from 13,100 in 2021.

In 2023, we anticipate TRxADE platform sales from its membership base of independent pharmacies of \$5.9 million (prior was \$6.1 million), up from an estimated \$5.3 million (prior was \$5.5 million) in 2022. Our reduced 2022 forecast reflects 1H22 results that showed a normalization of the production and distribution of generic drugs at a slower pace than previously anticipated. 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 \$570,000 and \$45,000 respectively. Also, we anticipate the company's Prime bulk ordering offering should drive its Integra subsidiary revenue to approximately \$6.5 million in 2023, up from an estimated \$6 million in 2022.

Operations – 2022

We project 26.5% revenue growth to \$12.5 million (prior was \$11.2 million) compared to nearly \$9.9 million in 2021. Our revised forecast reflects 1H22 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 37.8% 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 low single digits), partly offset by higher margin TRxADE platform sales (gross margin close to 100%).

We project the operating loss narrowing to \$4.1 million compared to a loss of \$5.3 million in 2021 due primarily to revenue growth, and operating margin expense improving to 70.2% from 89.1% (excluding loss on inventory investment) in 2021. We forecast G&A expense flat at \$8.8 million as 1H22 spending is offset by reduced information technology development costs in 2H22.

We anticipate interest expense of \$38,000 compared to \$24,000 in 2021 due primarily to a higher debt balance and interest rates. In February 2022, the company issued a new \$500,000 related party promissory note to complete a 51% investment in the SOSRx joint venture (interest rate was 6.8% in 2Q22, up from 5.3% in 1Q22). We project a net loss to common shareholders of \$4 million or (\$0.45) per share. We previously projected a net loss of \$3.3 million or (\$0.40) per share.

Finances – 2022

We project cash burn of \$3.6 million and a \$599,000 decrease in working capital. We forecast the company should raise net equity capital of approximately \$4 million, which should cover cash used in operations of \$3 million, capital expenses, and investment into the SOSRx joint venture. We anticipate cash increasing by \$974,000 to nearly \$4.1 million at December 31, 2022.

Operations – 2023

We project 11.9% revenue growth to \$14 million (prior was \$13 million) compared to an estimated \$12.5 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 22.9% to \$5.8 million due primarily to revenue growth and gross margin improving to 41.5% from an estimated 37.8% 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 48.2% of total revenue compared to an estimated contribution of 43.6% in 2022.

We project the operating loss narrowing to \$1.7 million compared to an estimated loss of \$4.1 million in 2022 due primarily to revenue growth, gross margin improvement, and operating margin expense improving to 53.8% from an estimated 70.2% in 2022. We forecast G&A expense decreasing to \$7.5 million from an estimated \$8.8 million in 2022. The reduction reflects the 2H22 implementation of reduced salary and wages and offshore staffing expenses, as well as significantly reduced technology development costs.

We anticipate interest expense increasing to \$80,000 compared to an estimated \$38,000 in 2022 due primarily to higher interest rates. We project a net loss to common stockholders of \$1.7 million or (\$0.15) per share. We previously projected a net loss to common stockholders of \$1.2 million or (\$0.15) per share.

Finances – 2023

We project cash burn of \$1.3 million and a \$138,000 increase in working capital. Cash used in operations of \$1.4 million and capital investments should reduce cash by \$1.4 million to \$2.7 million 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 2021 there were 19,397 small business independent 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

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.

2Q22 and 1H22 Results

2Q22

Revenues increased 72.7% to nearly \$3.3 million from \$1.9 million in the year-ago period, reflecting increases of \$1.4 million and \$132,000, respectively, from the company's Integra Pharma Prime offering and TRxADE marketplace platform. The increase in Integra Pharma Prime was due to a 715% increase in the number of units sold. The latter increase reflects some normalization of supply chain issues for generic drugs that impacted 2021 operations and the addition of 319 new independent pharmacies to its platform, bringing the total registered pharmacy members to over 13,815 at the end of 2Q22. Revenue at the company's Community Specialty Pharmacy operations decreased by \$138,000 to \$296,000 from \$434,000 in 2Q21.

Gross profit increased 39.2% to nearly \$1.2 million due to revenue growth, partly offset by gross margin compression to 35.7% from 44.3% in 2Q21. Gross margin compression stems from the surge in revenue from the company's lower margin Integra Pharma Solutions subsidiary that temporarily resulted in negative gross margin of (4.8%), which is expected to return as price adjustments were made by the end of 2Q22.

Operating expenses decreased to nearly \$2.3 million from \$3.4 million in the year-ago period (which included a \$1.2 million loss on inventory investment write-down). G&A expense increased \$88,000 to nearly \$2.3 million from nearly \$2.2 million in 2Q21. The current period included warrant and stock option expense of \$29,000 compared to \$162,000 in 2Q21.

Non-operating interest expense was flat at \$9,000. The net loss was \$1.1 million or (\$0.13) per share compared to a net loss of \$2.6 million or (\$0.32) per share. The year-ago period included (\$0.15) per share loss on inventory investment write-down. We projected a loss per share of (\$0.09) on revenue of \$2.9 million.

1H22

Revenues increased to 31.7% to \$6.5 million compared nearly \$5 million, reflecting a \$1.5 million increase at the company's Integra Pharma Solutions logistic subsidiary stemming from its Prime offering and a \$277,000 increase in TRxADE marketplace platform sales, partly offset by a \$268,000 decrease in Community Specialty Pharmacy sales.

Gross profit increased 12.7% to \$2.5 million due to revenue growth, partly offset by gross margin contraction to 38.5% from 44.9% in the year-ago period. Gross margin compression stems from increased lower margin Integra Pharma segment sales. Total operating expenses decreased to \$4.6 million from \$5.4 million in 1H21. The year-ago period included a \$1.2 million loss related to inventory investments. G&A expense increased to \$4.6 million compared to \$4.2 million in the year-ago period to support revenue growth.

Non-operating interest expense was \$6,000 compared to \$16,000 in the year-ago period.

The net loss to common stockholders was \$2 million or (\$0.25) per share compared to \$3.2 million or (\$0.40) per share. Excluding the \$1.2 million loss on inventory investment in 1H21, we estimate the loss per share was (\$0.25).

Finances

In 1H22, cash burn of \$2 million and a \$202,000 increase in working capital resulted in cash used in operations of \$2.2 million. Cash used in operations, capital expenditures, and distribution to non-controlling interest, partly offset by proceeds from sale of future revenue reduced cash by \$2.2 million to \$962,000 at June 30, 2022.

Capital Structure

At June 30, 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 6.75% (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 of up to \$100,000 shares of common stock in open market transactions. As of June 30, 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

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Revenues in the us ands	\$ 6,519	\$ 4,951	31.7%
Cost of Sales	4,012	2,727	47.1%
Gross Profit	<u>\$ 2,507</u>	<u>\$ 2,225</u>	12.7%
Total Operating Expenses	4,578	5,439	(15.8%)
Operating Income	(2,072)	(3,214)	(36%)
Total Other Income (Expense)	(6)	(16)	NMF
Pre-Tax Income	(2,078)	(3,230)	NMF
Income Tax Expense (Benefit)	-	-	
Non-controlling interest	(34)	-	
Net income (loss) available to common Stockholders	<u>\$ (2,044)</u>	<u>\$ (3,230)</u>	
Net (loss) per share	<u>\$ (0.25)</u>	<u>\$ (0.40)</u>	
Avg Shares Outstanding	8,180	8,108	
Margins			
Gross margin	38.5%	44.9%	
Operating Margin	(31.8%)	(64.9%)	
Pre-Tax Margins	(31.9%)	(65.2%)	
Source: company reports			

company also faces competition from 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.

Risks

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

Going Concern

We forecast the company is likely to experience quarterly operating losses through our forecast period ending December 31, 2023. The company has limited financial resources and will need to raise additional capital or secure debt funding to support on-going operations. If such funding does not occur the company will likely need to curtail its operations.

Financing/Dilution

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. We anticipate and have forecasted that the company will raise additional capital by the end of 2022. On July 29, 2022, the company filed with SEC a mixed shelf registration statement for the potential sales of up to \$100 million in debt or equity securities. Our forecast calls for the issuance of approximately 2.9 million common shares that will provide net proceeds of approximately \$4 million. If our forecast occurs, current shareholders will face dilution.

Delisting Risk

The company's shares could be delisted if it fails to maintain \$2.5 million in stockholders' equity. As of June 30, 2022, the company's stockholders' equity was \$1.8 million. If the company fails obtain additional equity capital, like we forecast, the company's shares could be delisted by the NASDAQ markets.

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.

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.

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, and 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.

Cybersecurity

In May 2022, the company's computer systems were breached. Following the breach, MEDS performed clean up procedures and instituted additional security measures to mitigate the risk of this type of incident from occurring in the future. However, any future breaches could negatively impact the company's finances and ongoing operations.

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.

Internal Controls

As of June 30, 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 August 1, 2022) average daily volume was approximately 30,500 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	2Q22A	FY22E	FY23E
ASSETS						
Current assets:						
Cash	\$ 2,872	\$ 5,920	\$ 3,123	\$ 962	\$ 4,096	\$ 2,689
Accounts receivable, net	792	805	979	1,019	869	933
Inventory	57	1,258	56	127	130	126
Prepaid assets	82	151	216	364	375	420
Other - deposits and receivables	-	1,088	-	875	-	-
Total current assets	3,803	9,221	4,374	3,347	5,470	4,169
Property and equipment, net	175	162	99	71	70	70
Deposits	22	22	60	49	50	50
Intangible assets	-	-	-	1,058	1,025	975
Deferred offering costs	88	-	-	-	-	-
Right of use lease assets	758	387	1,233	1,147	1,147	1,147
Total assets	\$ 5,571	\$ 9,793	\$ 5,766	\$ 5,672	\$ 7,762	\$ 6,411
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	335	257	477	1,195	1,081	1,024
Accrued liabilities	99	219	270	437	450	475
Lease liabilities	87	131	179	183	183	183
Customer deposits	-	10	-	-	-	-
Other current liabilities	-	-	-	14	14	14
Contingent funding liabilities	-	-	-	550	550	550
Convertible and notes payables - related party	-	225	-	167	167	167
Total current liabilities	521	842	926	2,546	2,445	2,413
Notes payable - related parties	225	-	-	333	333	333
Other liabilities - leases	685	271	1,070	988	654	690
Stockholders' equity:						
Common stock, \$.00001 par value; authorized 100,000 shares;	0	0	0	0	0	0
Paid-in capital	12,536	19,611	20,018	20,112	24,603	24,953
Retained earnings (deficit)	(8,396)	(10,932)	(16,247)	(18,291)	(20,238)	(21,943)
Total TRxADE Health stockholders' equity	4,140	8,679	3,770	1,821	4,364	3,009
Non-controlling interest	-	-	-	(17)	(34)	(34)
Total stockholders' equity	4,140	8,679	3,770	1,805	4,330	2,975
Total liabilities and stockholders' equity	\$ 5,571	\$ 9,793	\$ 5,766	\$ 5,672	\$ 7,762	\$ 6,411
SHARES OUT	6,539	8,093	8,166	8,181	11,081	11,190

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	\$ 12,509	\$ 14,000
Cost of sales	<u>2,566</u>	<u>11,415</u>	<u>5,143</u>	<u>7,782</u>	<u>8,190</u>
Gross Profit	<u>4,871</u>	<u>5,707</u>	<u>4,746</u>	<u>4,727</u>	<u>5,810</u>
Operating Expenses:					
Loss on goodwill impairment & inventory investment	-	726	1,226	-	-
General and administrative	4,377	7,488	8,812	8,778	7,535
Total Operating Expenses	<u>4,746</u>	<u>8,214</u>	<u>10,038</u>	<u>8,778</u>	<u>7,535</u>
Operating Income (loss)	125	(2,507)	(5,292)	(4,052)	(1,725)
Disposal of asset gain (loss)	(250)	-	-	4	-
Interest expense, net	<u>(53)</u>	<u>(29)</u>	<u>(24)</u>	<u>(38)</u>	<u>(80)</u>
Total Other Income (expense)	<u>(410)</u>	<u>(29)</u>	<u>(24)</u>	<u>(33)</u>	<u>(80)</u>
Pre-Tax Income (loss)	(284)	(2,536)	(5,316)	(4,085)	(1,805)
Income Tax Expense (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-controlling interest	-	-	-	(94)	(100)
Net income (loss) available to common Stockholders	<u>\$ (284)</u>	<u>\$ (2,536)</u>	<u>\$ (5,316)</u>	<u>\$ (3,991)</u>	<u>\$ (1,705)</u>
Net (loss) per share	<u>\$ (0.05)</u>	<u>\$ (0.33)</u>	<u>\$ (0.65)</u>	<u>\$ (0.45)</u>	<u>\$ (0.15)</u>
Avg Shares Outstanding	5,929	7,706	8,129	8,906	11,098
Adjusted EBITDA	\$ 571	\$ 87	\$ (3,039)	\$ (3,864)	\$ (1,525)
Margin Analysis					
Gross margin	65.5%	33.3%	48.0%	37.8%	41.5%
Selling, general, and administrative	58.9%	43.7%	89.1%	70.2%	53.8%
Operating margin	1.7%	(14.6%)	(53.5%)	(32.4%)	(12.3%)
Pre-tax margin	(3.8%)	(14.8%)	(53.8%)	(32.7%)	(12.9%)
YEAR / YEAR GROWTH					
Total Revenues	94.1%	130.3%	(42.2%)	26.5%	11.9%

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.
Income Statement Model
Quarters FY2021A – 2023E
(in thousands)

	<u>Q1 21 A</u>	<u>Q2 21 A</u>	<u>Q3 21 A</u>	<u>Q4 21 A</u>	<u>FY21 A</u>	<u>Q1 22 A</u>	<u>Q2 22 A</u>	<u>Q3 22 E</u>	<u>Q4 22 E</u>	<u>FY22 E</u>	<u>Q1 23 E</u>	<u>Q2 23 E</u>	<u>Q3 23 E</u>	<u>Q4 23 E</u>	<u>FY23 E</u>
Revenues, net	\$ 3,053	\$ 1,898	\$ 2,550	\$ 2,388	\$ 9,889	\$ 3,240	\$ 3,279	\$ 3,290	\$ 2,700	\$ 12,509	\$ 3,400	\$ 3,800	\$ 3,750	\$ 3,050	\$ 14,000
Cost of sales	1,670	1,057	1,269	1,148	5,143	1,905	2,108	2,075	1,695	7,782	2,000	2,165	2,200	1,825	8,190
Gross Profit	1,383	841	1,281	1,240	4,746	1,336	1,171	1,215	1,005	4,727	1,400	1,635	1,550	1,225	5,810
Operating Expenses:															
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	2,274	2,225	1,975	8,778	1,875	1,900	1,925	1,835	7,535
Total Operating Expenses	2,028	3,411	2,577	2,023	10,038	2,304	2,274	2,225	1,975	8,778	1,875	1,900	1,925	1,835	7,535
Operating Income (loss)	(644)	(2,570)	(1,296)	(782)	(5,292)	(969)	(1,103)	(1,010)	(970)	(4,052)	(475)	(265)	(375)	(610)	(1,725)
Disposal of asset gain (loss)	-	-	-	-	-	4	-	-	-	4	-	-	-	-	-
Interest expense, net	(7)	(9)	(6)	(2)	(24)	(1)	(9)	(12)	(15)	(38)	(20)	(20)	(20)	(20)	(80)
Total Other Income (expense)	(7)	(9)	(6)	(2)	(24)	3	(9)	(12)	(15)	(33)	(20)	(20)	(20)	(20)	(80)
Pre-Tax Income (loss)	(652)	(2,578)	(1,302)	(784)	(5,316)	(966)	(1,112)	(1,022)	(985)	(4,085)	(495)	(285)	(395)	(630)	(1,805)
Income Tax Expense (Benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	-	-	-	-	-	(6)	(28)	(30)	(30)	(94)	(25)	(25)	(25)	(25)	(100)
Net income (loss) available to common Stockholders	\$ (652)	\$ (2,578)	\$ (1,302)	\$ (784)	\$ (5,316)	\$ (960)	\$ (1,084)	\$ (992)	\$ (955)	\$ (3,991)	\$ (470)	\$ (260)	\$ (370)	\$ (605)	\$ (1,705)
Net (loss) per share	\$ (0.08)	\$ (0.32)	\$ (0.16)	\$ (0.10)	\$ (0.65)	\$ (0.12)	\$ (0.13)	\$ (0.12)	\$ (0.09)	\$ (0.45)	\$ (0.04)	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.15)
Avg Shares Outstanding	8,093	8,122	8,164	8,137	8,129	8,178	8,181	8,181	11,085	8,906	11,090	11,095	11,100	11,105	11,098
Adjusted EBITDA	\$ (469)	\$ (1,181)	\$ (546)	\$ (843)	\$ (3,039)	\$ (900)	\$ (1,064)	\$ (970)	\$ (930)	\$ (3,864)	\$ (425)	\$ (215)	\$ (325)	\$ (560)	\$ (1,525)
Margin Analysis															
Gross margin	45.3%	44.3%	50.2%	51.9%	48.0%	41.2%	35.7%	36.9%	37.2%	37.8%	41.2%	43.0%	41.3%	40.2%	41.5%
Selling, general, and administrative	66.4%	115.1%	101.0%	84.7%	89.1%	71.1%	69.4%	67.6%	73.1%	70.2%	55.1%	50.0%	51.3%	60.2%	53.8%
Operating margin	(21.1%)	(135.4%)	(50.8%)	(32.8%)	(53.5%)	(29.9%)	(33.6%)	(30.7%)	(35.9%)	(32.4%)	(14.0%)	(7.0%)	(10.0%)	(20.0%)	(12.3%)
Pre-tax margin	(21.3%)	(135.8%)	(51.0%)	(32.8%)	(53.8%)	(29.8%)	(33.9%)	(31.1%)	(36.5%)	(32.7%)	(14.6%)	(7.5%)	(10.5%)	(20.7%)	(12.9%)
YEAR / YEAR GROWTH															
Total Revenues	38.6%	(71.2%)	(59.7%)	19.7%	(42.2%)	6.1%	72.7%	29.0%	13.1%	26.5%	4.9%	15.9%	14.0%	13.0%	11.9%

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

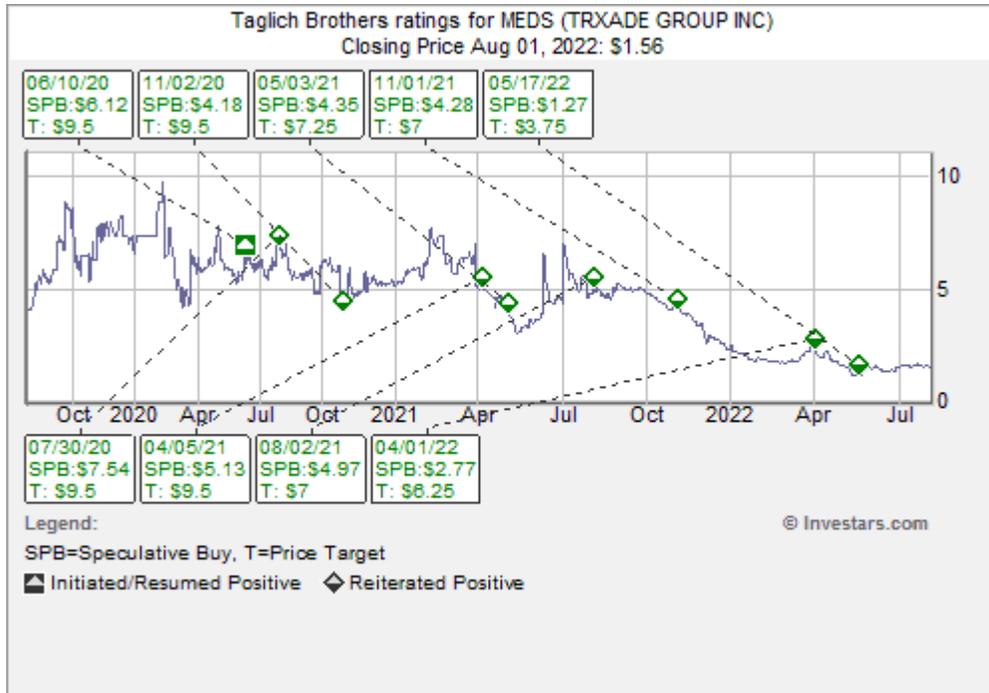
Trxade Health, Inc.
Cash Flow Statement
FY2019 – FY2023E
(in thousands)

	<u>FY2019A</u>	<u>FY2020A</u>	<u>FY2021A</u>	<u>6 Mos. 22A</u>	<u>FY2022E</u>	<u>FY2023E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (284)	\$ (2,536)	\$ (5,316)	\$ (2,078)	\$ (3,991)	\$ (1,705)
Depreciation	5	6	7	9	15	15
Warrant expense	105	57	22	-	-	-
Stock issued for services	-	1,358	181	44	125	200
Options expense	176	448	187	50	100	125
Bad debt expense	12	11	616	(99)	(99)	(99)
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	-	-	-	(4)	(4)	-
Inventory writedown	-	1,218	376	-	-	-
Amortization of right of use assets	90	97	132	86	175	175
Amortization of intangible assets	-	-	-	15	30	-
Cash earnings (burn)	810	1,384	(3,651)	(1,977)	(3,649)	(1,289)
<i>Changes In:</i>						
Accounts receivable	(370)	(24)	(790)	59	110	(65)
Prepaid assets and other current assets	0	(69)	(104)	84	(159)	(45)
Other assets - includes deposits for inventory purchases	(89)	-	1,088	-	-	-
Inventory	23	(2,419)	825	(71)	(73)	4
Other receivables and undeposited customer funds	-	(1,088)	-	(875)	(12)	-
Lease liability	(75)	(97)	(131)	(77)	(50)	-
Accounts payable	(149)	(33)	220	718	604	(57)
Accrued liabilities, other liabilities, and customer deposits	(9)	130	(24)	(39)	180	25
(Increase)/decrease in Working Capital	(668)	(3,599)	1,085	(202)	599	(138)
Net cash (used) provided by operations	<u>142</u>	<u>(2,215)</u>	<u>(2,566)</u>	<u>(2,179)</u>	<u>(3,049)</u>	<u>(1,427)</u>
<i>Cash Flows from Investing Activities</i>						
Purchase of and development of assets	(82)	(38)	(23)	-	(5)	(5)
Investment in capitalized software	-	-	-	(280)	(280)	-
Sale of fixed assets	-	-	-	23	23	-
Purchase of equity method investment	(250)	-	-	-	-	-
Cash Flows from Investing Activities	<u>(332)</u>	<u>(38)</u>	<u>(23)</u>	<u>(257)</u>	<u>(262)</u>	<u>(5)</u>
<i>Cash Flows from Financing Activities</i>						
Repayments of promissory note - third parties	-	-	(225)	-	-	-
Repayments of short-term debt - related parties	(263)	-	-	-	-	-
Proceeds from sale of future revenue	-	-	-	550	550	-
Distributions to non-controlling interest	-	-	-	(275)	(275)	-
Proceeds from exercise of warrants/options	0	38	17	1	10	25
Payment of stock issuance costs	-	(732)	-	-	(350)	-
Proceeds from issuance of common stock	2,455	5,994	-	-	4,350	-
Net cash provided by (used in) Financing	<u>2,193</u>	<u>5,300</u>	<u>(208)</u>	<u>276</u>	<u>4,285</u>	<u>25</u>
Net change in Cash	2,002	3,048	(2,797)	(2,160)	974	(1,407)
Cash Beginning of Period	870	2,872	5,920	3,123	3,123	4,096
Cash End of Period	<u>\$ 2,872</u>	<u>\$ 5,920</u>	<u>\$ 3,123</u>	<u>\$ 962</u>	<u>\$ 4,096</u>	<u>\$ 2,689</u>

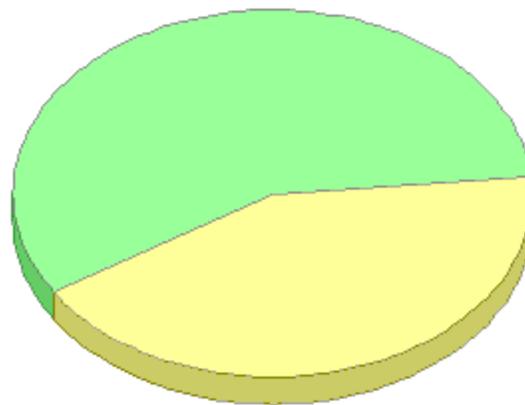
Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Price Chart



Taglich Brothers Current Ratings Distribution



57.69 % Buy | 42.31 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	5	26
Hold		
Sell		
Not Rated		

Important Disclosures

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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.