

**INITIATION REPORT: MEDEXUS PHARMACEUTICALS**

This is DIR's initial report about Medexus Pharmaceuticals (TSXV: MDP.V, OTCQB: PDDPD) whose stock trades on the TSX Venture Exchange and on the OTCQB market. Medexus, formerly PediaPharm Inc. (the company) has a history in pediatric care, distributing specialty pharmaceutical products into the Canadian market. These are medicines used to treat pathological conditions that mainly affect children from infancy to eighteen (18) years of age. However, due to two major and recent acquisitions, which closed Oct. 16<sup>th</sup>, 2018, the company has expanded its suite of specialty pharmaceutical products to include treatment for Rheumatoid Arthritis (RA), autoimmune diseases and pediatric arthritis, among other indications. See Appendix A for a detailed look at the acquisitions. Here is a brief quantitative overview of the transformed company:

RATING: SPECULATIVE BUY		INITIAL VALUE: \$7.65/share		
<b>DATE:</b>	March 11, 2019	<b>MARKET VALUE (000's):</b>	\$48.3 Mil	<b>NET CASH:</b> \$-7.8 MIL
<b>EXCHANGE:</b>	TSXV or OTCQB	<b>ENTERPRISE VALUE:</b>	\$56.1Mil	<b>EV/EBITDAS:</b> 11.4 (FY '20 EST)
<b>INDUSTRY:</b>	Specialty Pharma	<b>AVG. DAILY VOLUME:</b>	3,000 (EST)	<b>REVENUE:</b> \$ 56.1 MIL (FY '20 EST)
<b>BETA:</b>	0.49	<b>SHARES OUT (000's):</b>	14,746	<b>CFO:</b> \$3.0 MIL (FY '20 EST)
<b>SYMBOL:</b>	MDP.V or PDDPD	<b>FLOAT (000's):</b>	12,534	<b>CAP EX:</b> \$0.02 MIL (FY '20 EST)
<b>CURRENT PRICE:</b>	\$3.27	<b>INSIDER OWNERSHIP:</b>	15%*	<b>FCF:</b> \$2.8 MIL (FY '20 EST)
<b>52-WEEK RANGE:</b>	\$3.27-5.38	<b>INSTITUTIONAL OWNERSHIP:</b>	44%*	<b>DEBT/CAPITAL:</b> 35%

**NOTE: ALL DOLLAR AMOUNTS IN TABLE ARE IN USD. \*ASSUMES CONVERSION OF CONV. DEBT**

The basis for our initial rating on Medexus is as follows:

- Recent results lend further credibility to the transformation of the company from PediaPharm to Medexus. Buoyed by seasonally strong results from the Medac Pharma division, the company posted Adjusted EBITDA of \$2.2 million for FY Q3.
- The acquisition of Medac Pharma gives the company a signature product that is enjoying double-digit unit and revenue growth in a large U.S. Rheumatoid Arthritis market.
- The acquisition of Medexus Canada further expands the company's opportunity in the treatment of Rheumatoid Arthritis (which could include the U.S., pending FDA approval).
- Together with the Medexus Canada infrastructure, the company is well-positioned with over 40 sales reps in both Canada and the United States.
- The Medac purchase also gives the company the right of first refusal to market a pipeline of products that would enhance productivity of the above-noted salesforce.
- The pro forma income statement points to a company generating approx. \$56 million (CAD) in revenue and positive Adjusted EBITDA. Incremental revenue growth from here should flow to the EBITDA line at a much higher percentage.
- The pro forma balance sheet shows approx. \$28.9 mil of cash, with \$22.3 mil of convertible debt and a large contingent liability of \$17.0 mil. Dollar amounts in CAD.
- At current growth rates, the newly-combined entities could eclipse \$70 mil (CAD) in revenue in FY 2020.
- Given valuations easily above 4X EV/Revenue multiples for comparable companies, we believe the shares could easily double within the next year. Our initial price target is \$7.65/share (assumes full conversion of convertible debt). This is in USD.
- There are still many risks to be considered including regulatory risk, lack of liquidity, contingent liabilities and further dilution due to convertible securities.