RESEARCH REPORT

September 28, 2020

Canadian Healthcare Mini Pitches

Finding Gems in Canada

For the first report of the year, the healthcare team evaluated two Canadian healthcare companies that had caught our eye over the summer. The aim of these overviews was to identify whether or not each company had a strong enough business model to warrant a full pitch. After completing a first pass on both Andlauer Healthcare Group (TSX:AND) and Hamilton Thorne (TSX:HTL), the team has decided to place both on the watchlist, with an eventual investment contingent on both valuation and a few outstanding diligence items.

Andlauer Healthcare is the largest healthcare-focused logistics and transportation company in Canada. This industry is growing quickly and heavily regulated, making AND's stellar reputation a strong competitive advantage. The two outstanding points for AND include: (1) valuation, and (2) a change to Canada's prescription drug pricing in 2021 that could negatively impact the company. While we think it is an incredibly strong business, we expect to wait for the new regulations to be implemented before making a final investment decision.

Hamilton Thorne designs, manufactures, and distributes precision laser devices and advanced image analysis systems for use in In Vitro Fertilization. HLT exists as a small part of a very fragmented market but differentiates themselves by acting as a one-stop-shop for customers. However, it remains unclear whether HLT's lasers are truly differentiated in terms of quality. While we like the business at first glance, we plan to reach out to industry experts in the coming weeks to help us gain a better understanding of HLT's product quality.

Healthcare

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Company Overview – Andlauer Healthcare Group

Andlauer Health Group's (TSX:AND) roots trace back to 1991 when the current CEO, Michael Andlauer, founded Andlauer Transportation Services (ATS). ATS was an industry agnostic air freight forwarding and ground transportation services company with a national footprint in Canada. Soon after, in 1994, Andlauer also founded Associated Logistics Services (ALS) to provide 3rd party logistics to ATS' clients.

The two entities had a small presence in the healthcare industry at the time. However, in 2004, the burden of regulatory compliance for Canadian pharmaceutical manufacturers reached a point where it was advantageous to outsource supply chain activities. ALS accordingly divested its non-healthcare businesses and focused solely on the healthcare industry. ATS followed suit in 2008 when it divested its entertainment and telecommunications lines of service and became a pureplay healthcare transportation services company.

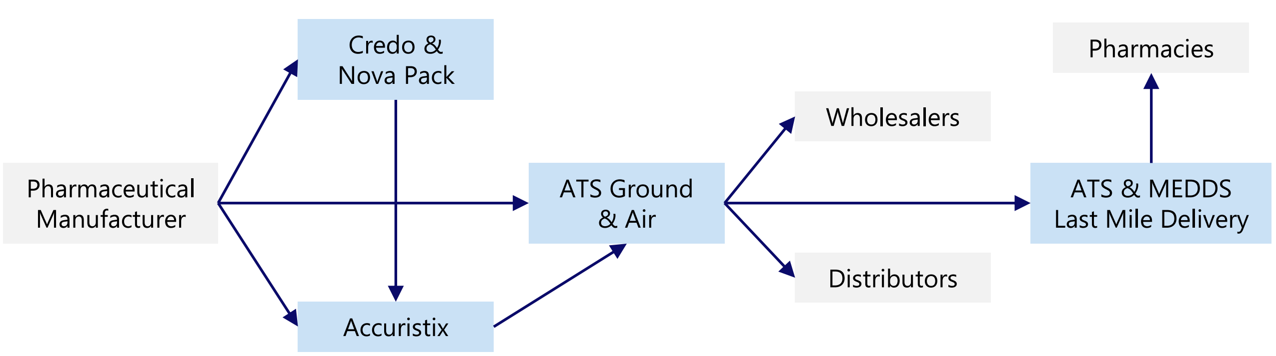
During the subsequent years, ATS and ALS made significant capital investments to build out their national footprint. This included the development of proprietary technology to maintain visibility of clients' orders through the supply chain, establishing 33 temperature-controlled facilities across Canada spanning ~1.8 million square feet, and acquisitions of packaging solutions companies (Nova Pack and Credo), another Canadian healthcare 3rd party logistics company (McKesson) and a last-mile delivery company (MEDDS). Through the McKesson acquisition, ALS rebranded and currently operates as Accuristix.

In 2018, Michael Andlauer, through Andlauer Management Group (AMG), acquired the outstanding minority interest in Accuristix, bringing ATS, Nova Pack, Credo, Medds, and Accuristix under one umbrella. The combined entity promptly filed for an IPO and has been trading on the Toronto Stock Exchange since December 2019.

Andlauer's shift to focus solely on healthcare logistics and transportation in 2008 and its subsequent growth investments resulted in a fully integrated suite of supply chain solutions across Canada. Today, AND is the national leader in healthcare logistics and specialized transportation markets.

EXHIBIT I

Visualization of AND's Offerings Across the Supply Chain



Source(s): Company Filings

Company Overview

Offerings

AND's offerings are segmented into (1) healthcare logistics and (2) specialized transportation.

The Company's healthcare logistics segment includes its logistics & distribution (Accuristix) and packaging solutions (Credo & Nova Pack) product offerings. Both divisions serve as an extension to pharmaceutical manufacturers through managing their supply chain activities. Services are provided under master agreements that range from three to five years, creating a recurring revenue profile. Additionally, Accuristix has managed distributions for over 30% of pharmaceutical manufacturers in Canada over many years, indicating stability but also room for growth.

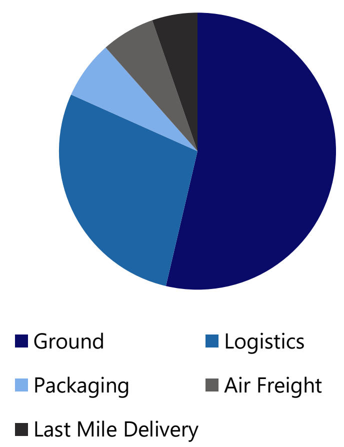
Specialized transportation is AND's core product offering. This segment includes ATS' core ground transportation and air freight forwarding businesses, as well as last mile delivery, which is handled through MEDDS and ATS. This segment is able to leverage its national infrastructure, including specialized facilities and multiple modes of transportation, to offer coast-to-coast delivery and effectively provide monitored movement of clients' temperature sensitive products through a closed-loop system. ATS and MEDDS interact with pharmaceutical manufacturers, wholesalers, distributors, 3rd party logistics providers (i.e. Accuristix), and pharmacies through a mix of fee-for-service and contracts lasting three to five years.

Management Team

AND shareholders benefit greatly from the company's management team. Currently, the average industry experience among AND executives is 30 years and the company operates as a founder-led organization. Michael Andlauer has been at the helm since its inception in 1991 and has strategically adapted the company in order to retain and grow its competitive advantage. Especially in recent years, Andlauer and other executives have proven to be able to efficiently utilize the company's assets and capital.

EXHIBIT II

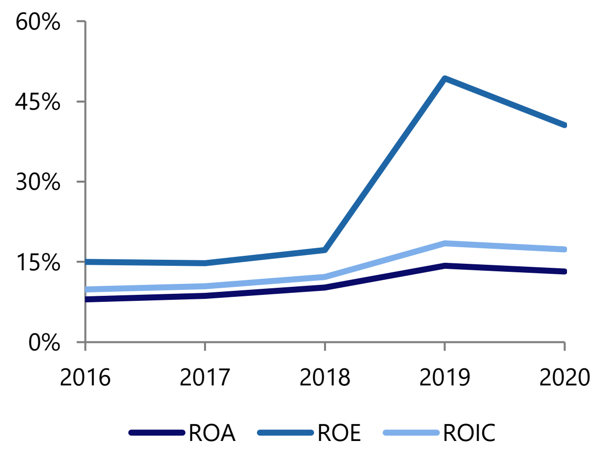
Revenue by Offering



Source(s): Annual Report

EXHIBIT III

Historical Capital Efficiency



Source(s): S&P Capital IQ

Company Overview

In addition to experience, expertise, and proven adaptability, Michael Andlauer also has a drastically high amount of insider ownership. Through Andlauer Management Group, he owns just under 70% of AND, representing a market value of over $1 billion. This level of skin in the game assuredly indicates that Andlauer is incentivized to improve the long-term outlook of the company. However, majority ownership through a single individual also has the potential to reduce diversity of thought among management.

Beyond Andlauer, other executives have a small amount of insider ownership. This could be cause for concern, however, each executive except for Andlauer has 100,000 stock options with an exercise price of $15 which do not expire until December 2029. Although stock options typically do not create full alignment with shareholder interests, this longer-term vesting period slightly offsets the concern associated with low levels of insider ownership.

EXHIBIT IV

Insider Ownership

Name	% of CSO	Market Value
Michael Andlauer	69.41%	$1.06B
Peter Bromley	0.02%	$267,300
Stephen Barr	0.01%	$222,750
Bob Brogan	0.04%	$675,014
Peter Jelley	0.27%	$4,050,000

Source(s): S&P Capital IQ

EXHIBIT V

Select Client Base

Source(s): Company Presentation

Industry Overview – Healthcare Logistics and Transportation

Regulatory Environment

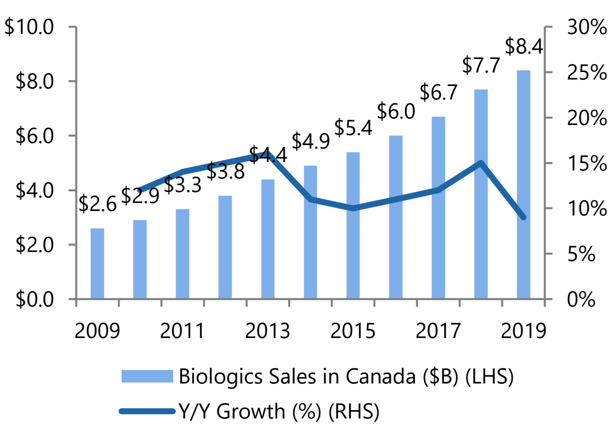
In Canada, the pharmaceutical, healthcare logistics and transportation industry must comply with strict Health Canada regulations. These regulations and requirements are based on the Canadian standard of Good Manufacturing Practices ("GMP") and are part of quality assurances aimed at maintaining the safety and efficacy of pharmaceutical products. Compliance with GMP requirements extends to all aspects of drug manufacturing and handling including fabrication, packaging, labeling, testing, imports, distribution, etc. Companies that must comply with such practices are subject to audits and inspections to ensure continuous compliance. This extends not only to the provider of services (Andlauer) but also to the supply chains of the provider's clients. During 2018, Andlauer had 62 audits (55 in 2017 and 52 in 2016) by Health Canada and its clients. Further inhibiting new entrants, healthcare logistics companies must be fully licensed before accepting new customers. This creates a significant upfront capital cost, as the new player must completely build out its infrastructure and have it licensed before they can earn a single dollar.

Industry Growth

There are three key trends driving the growth of the overall healthcare logistics and transportation business. The first is the increasing incentive to outsource the shipping and handling of drugs, which is being driven by increasingly strict regulations. The second is the aging of the Canadian population and the disproportionate amount of prescriptions used by those over 65 years of age. The demographic of Canadians aged 65+ is expected to increase from 18% of the total population in 2019 to 24% by 2021. This, in turn, will likely increase the demand for prescriptions, as ~83% of those 65+ use prescription medication compared to only ~55% in the next lowest age bracket. Finally, biologic drugs are increasing their prevalence as prescriptions, the majority of which require cold-chain handling. Biologics are more complex and delicate than traditional medicines (pills for example) and as such, require a much more hands-on handling process that often includes keeping the drug within a very tight temperature range. Of the 161 biologics products approved by Health Canada since 2000, ~88% require cold chain handling.

EXHIBIT VI

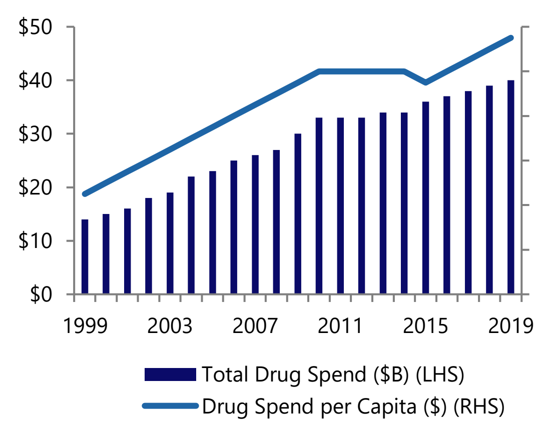
Biologics Sales in Canada



Source(s): PMPRB, ODPRN, National Bank

EXHIBIT VII

Total Drug Spend and Drug Spend Per Capita



Source(s): : CIHI, Statistics Canada, National Bank

Value Proposition – Brand Equity Creates Sticky Customer Base

AND's expertise and extensive capital investments since 1991 have developed the company's reputability and brand equity, which can not be immediately replicated by competitors and creates a sticky customer base. For example, AND's average client relationship of its top 20 clients is over 15 years and its specialized transportation segment serves 22 of the top 25 global pharmaceutical manufacturers in Canada. Diving deeper, AND's superior reputation, brand equity and resulting sticky customer base is driven by (1) Regulatory barriers (2) integrated suite of offerings, (3) expansion to win & retain clients, and (4) a positive feedback loop.

Regulatory Barriers

Since AND shifted its strategy to focus purely on healthcare transportation and logistics in 2008, it has solidified itself as the national leader. Through extensive capital investments to fully integrate various offerings and expand its infrastructure, AND is able to provide nationwide supply chain solutions while adhering to the rigorous regulatory environment surrounding drug distribution and transportation.

The pharmaceutical, healthcare logistics and transportation industry must comply with strict Health Canada regulations. However, both the owner of the drug and the transporter retain responsibility for regulatory compliance. Consequently, clients rely on Andlauer to maintain *their* compliance with Health Canada, essentially allowing them to continue doing business in the country. Increasing regulatory scrutiny creates barriers to entry as pharmaceutical manufacturers favour providers with a history of compliance and a strong reputation. Strict regulations also serve to increases the incentive to outsource transportation.

Integrated Suite of Offerings

AND's fully integrated solutions create attractive opportunities to cross-sell clients, encouraging customers to maintain their relationship with the company. For example, in 2005, AND secured a contract with a client to utilize Accuristix for cold vault storage. In 2012, the same client opted to outsource its entire supply chain and AND utilized Credo and ATS to provide temperature-controlled packaging and transportation. Finally, in 2015, AND secured a contract to provide further packaging solutions through Nova Pack. From the client perspective, since their supply chain operations are entirely managed through AND, the cost and complications to switch providers for one component of the supply chain outweighs the benefits, creating a high degree of client retention.

Expansion to Win & Retain Clients

Beyond cross-selling, AND's management has proven its adaptability when securing contracts with clients to accommodate their needs. For example, in 2016, AND added 51,000 of square feet to its Brampton facility to accommodate a new major client. Second, when securing new contracts with clients out West in 2019, invested in a more efficient facility, adding 23,000 square feet to its existing location while improving operational efficiency. Third, AND recently completed the construction of a new 200,000 square feet facility in the GTA to service a new client. Overall, the company's ability to accommodate and personalize their offerings to accommodate clients' needs greatly reduces the necessity of switching providers.

Positive Feedback Loop

As a complement to AND's brand equity being driven through a robust infrastructure and product portfolio, the company is able to consistently grow its reputation and credibility through a positive feedback loop. Back in 2004, AND was generally only able to secure contracts with small and mid-sized pharmaceutical manufacturers. Over the following years, as AND's credibility grew, it was able to win contracts with global pharmaceutical manufactures in Canada. Now, given that the company serves a wide variety of high-profile clients, AND's brand equity has drastically increased, which in turn acts as a value proposition to attract new customers, further bolstering their credibility.

Risk I – Competitive Threats

The Canadian healthcare logistics industry's high barriers to entry, characterized by stringent regulatory requirements, intensive capital requirements, and reputability, provides AND with assurance that current market share and profitability will not be eroded by new entrants. However, there remains the risk that AND's market position as a national leader will be diminished by regional and global players with an existing infrastructure and network in place.

Currently, a variety of regional and international players compete directly with Accuristix 3rd party logistics services and ATS' ground transportation business. These offerings represent ~90% of AND's revenues, therefore, any shifts in market share will drastically impact profitability.

Although AND's competition from regional players is focused purely in Ontario and Quebec, this still poses a significant threat since over 80% of Canada's R&D expenditures occur in these areas. Despite this, AND is well positioned for two reasons. First, it has a robust infrastructure of facilities and cross-docks in Ontario and Quebec; 13 of its 33 facilities are located in these provinces. Second, geographically focused R&D expenditures represents a catalyst for ATS' ground and air transportation offerings since these products need to travel to all parts of Canada. AND's competition from international companies, including DHL, UPS, and FedEx, pose a much more significant threat to AND's long-term outlook than the regional players. The former all have drastically greater capital resources available than AND, allowing them to invest in the various segments AND competes in. As well, their global footprint creates opportunities for them to easily import drugs to Canada and handle the entire supply chain operation from that point forward. Drug importation is much more difficult for AND to compete in since its brand equity and reputability only relates to Canada. On the other hand, across capital allocation and profitability metrics, AND appears to be in a much stronger position than these peers.

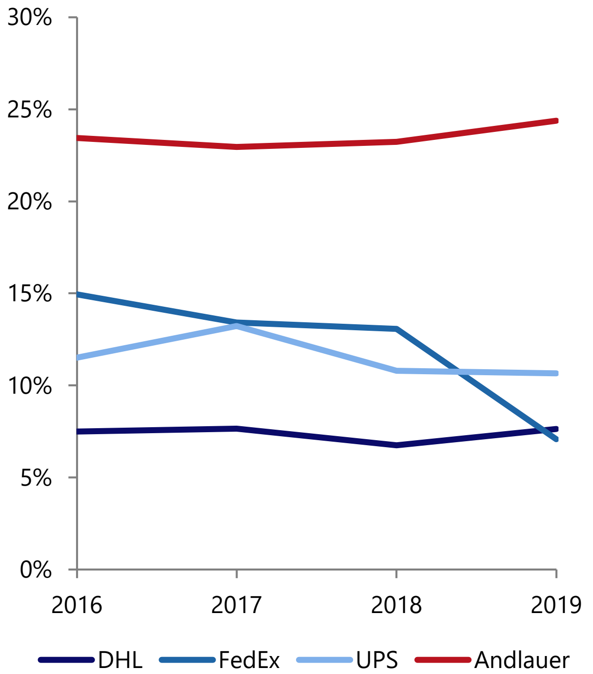
EXHIBIT VIII

Competitor Analysis

Company Name	3rd Party Logistics	Transportation	Geography
Regional Players			
Canadian Healthcare Logistics	✓	✓	Canada (primarily Ontario)
Skelton Trucking		✓	Canada (primarily Ontario)
Rogue Transportation Services	✓	✓	Ontario
Williams Pharma Logistics		✓	Quebec
International Players			
DHL	✓	✓	Canada
UPS	✓	✓	Canada
FedEx	✓	✓	Canada
Andlauer Health Group	✓	✓	Canada

EXHIBIT IX

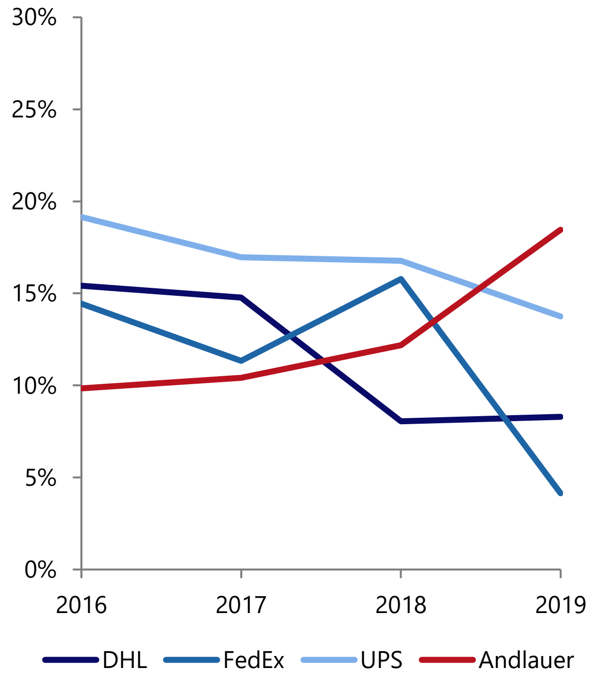
EBTIDA Margin Comparison



Source(s): S&P Capital IQ

EXHIBIT X

ROIC Comparison



Source(s): S&P Capital IQ

Risk I – Competitive Threats

Although this data may be unreliable as DHL, FedEx, and UPS compete in various geographies and segments, it provides some assurance that AND is more profitable and efficient than peers. As well, AND may benefit in the long-term operating as a local champion. Since these players operate internationally and offer a breadth of services, the company can utilize the fact it operates purely in the healthcare logistics space to offer more personalized services and accommodations, as they have proven to do historically.

Overall, the industry faces relatively high levels of incumbent competition, however, there is minimal opportunity for entrants to erode market share. Given the current competitive dynamics, it could be advantageous for AND to pursue a tuck-in acquisition of a regional player to expand and improve profitability. Since its IPO in December 2019, management has noted that they plan to pursue M&A, therefore, the team will closely monitor AND's acquisition activity and re-evaluate its relative positioning in the market should it pursue inorganic growth.

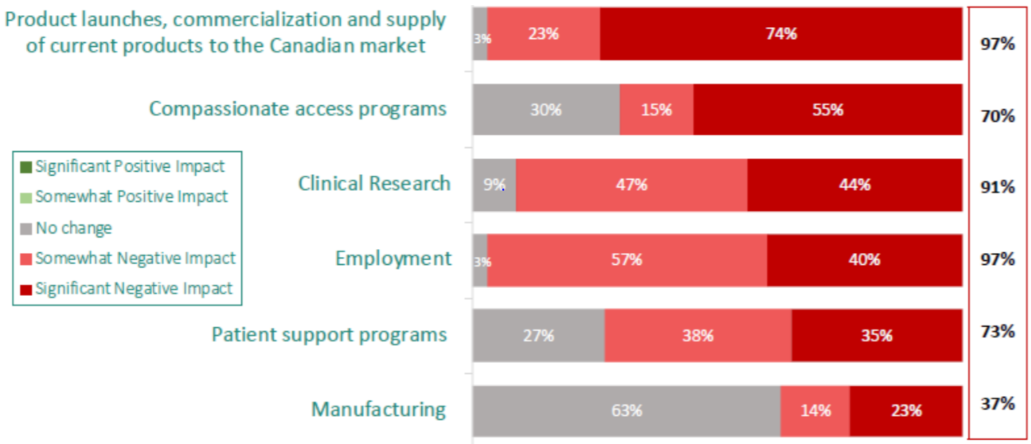
Risk II – Prescription Drug Pricing Reform

As part of its efforts to implement a National Pharmacare, the Government of Canada, through the Patented Medicine Prices Review Board (PMPRB), has introduced guidelines to reduce the price of prescription pharmaceuticals. Currently, Canada's prescription drugs are priced relative to an international index. The main purpose of the newly proposed guidelines is to reduce pricing by changing the reference countries used in this international index. According to the PMPRB, higher-priced markets like the U.S. and Switzerland will be removed because they differ from Canada regarding price controls, GDP per capita, population and new medicines. In lieu of these more expensive markets, Norway, Sweden and France will be subsequently added. Other primary areas of change within the new regulations include 1) the removal of provisions for price increases; and 2) introduction of price reduction mechanisms based on seemingly opaque criteria as well as levels of sales in previous years (potentially punishing companies for higher sales). According to industry consultants, the primary concern facing pharmaceutical manufacturers is significant uncertainty as to 1) what the pricing for new products will ultimately be, and 2) whether Canada will be an attractive/profitable country to even launch new products in the first place.

Although Canada currently represents ~2% of the global pharmaceutical market, it has historically gained rapid access to new medications due to its pricing structure (current pharmaceutical prices are ~23% higher than the OECD average, and U.S. prices, for reference, are ~296% higher). As a result, Canada has been considered a Tier 1 or Tier 2 country meaning products are usually launched either with or just after larger markets such as the U.S.. According to industry executives, the proposed guidelines are likely to move Canada into a Tier 3 or 4 product launch, meaning a significant delay in the receipt of new medication or a lack of receipt at all. Given the significant negative impact expected in the Canadian market (Exhibit X), AND may see 1) fewer pharmaceutical products to manage and 2) less profitable customers who in turn could push for pricing concessions. Given the company-specific impact is unknown but potentially quite negative, we prefer to wait for the 2021 implementation to make a final investment decision.

EXHIBIT XI

Expected Impact of the Proposed Pricing Changes on Pharmaceutical Business Plans



Source(s): : Life Sciences Ontario, National Bank

Company Overview: Hamilton Thorne Ltd

Hamilton Thorne Ltd (TSXV: HTL) was founded in 2007 and is currently headquartered in Beverly, Massachusetts. The company has production, sales, and laboratory facilities in the U.S., Germany, and the U.K., as well as sales/support personnel in France, Singapore, and Malaysia. The company's two wholly owned subsidiaries are Hamilton Thorne Inc. and Embryotech Laboratories Inc. HTL also has a German Limited Partnership with Gynemed & Co. GmbH KG, as well as a U.K. Limited company, Planer Ltd. HTL has a greater geographic coverage and creates greater scale by acquiring international companies.

HTL designs, manufactures, and distributes primarily precision laser devices and advanced image analysis systems. It is a global provider of laboratory instruments, consumables, and software - together referred to as assisted reproductive technology ("ART"). Recently, HTL has added lines of incubators, control-rate freezers, and monitoring products. The company develops and manufactures products and services under its own brand names, as well as distributing third-party complementary equipment to meet customer needs.

The lasers and advanced image analysis systems are used in the fertility, stem cell, development biology research, and regenerative medicine markets. The solutions reduce costs, increase productivity, and improve results in HTL's customer markets.

HTL currently sells five lasers, including clinical and research lasers, with more in development. Laser products are used as an attachment with standard inverted microscopes. The lasers work as robotic micro-surgeons, creating more efficient and accurate In Vitro Fertilization ("IVF") operations. The precision allows for a reduction in cell damage during micro-surgical procedures.

The Computer Assisted Sperm Analysis (CASA) is HTL's image analysis system. The system allows for the study of reproductive cells in various fields including human fertility, animal sciences, and reproductive toxicology fields. Researchers and clinicians use this technology to analyze sperm motility and other characteristics in toxicology and fertility. Moreover, this technology allows for a reduction in time when developing transgenic animal models.

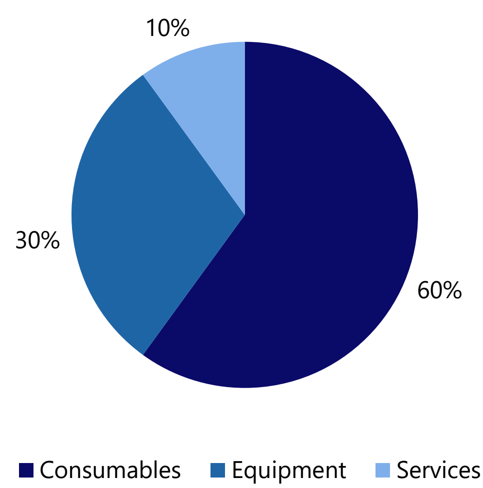
Within HTL's line of consumables, the company offers various complementary items that allow for researchers and clinicians to purchase the solutions to many of their needs from HTL.

HTL's customer base includes pharmaceutical companies, biotech companies, fertility clinics, and university research centers. Examples include Harvard, MIT, Yale, Oxford, Merck, Pfizer, Jackson Labs, and Charles River Labs. The company sells to over 1,000 research centers in over 75 countries.

Revenue has grown at a 40% CAGR from 2015-2019. In 2019, HTL had sales of $35.4 million and adjusted EBITDA of $7.1 million. Management attested much of their 15% YoY organic growth to the increased cross selling between U.S. and European operations and the development of direct sales and support infrastructure. For example, in early 2020, HTL made investments through additional hiring in Germany and the U.S. and established support infrastructure in France.

EXHIBIT XII

2019 Revenue Breakdown



Source(s): Company Filings

Industry Overview – Assisted Reproductive Technology (“ART”)

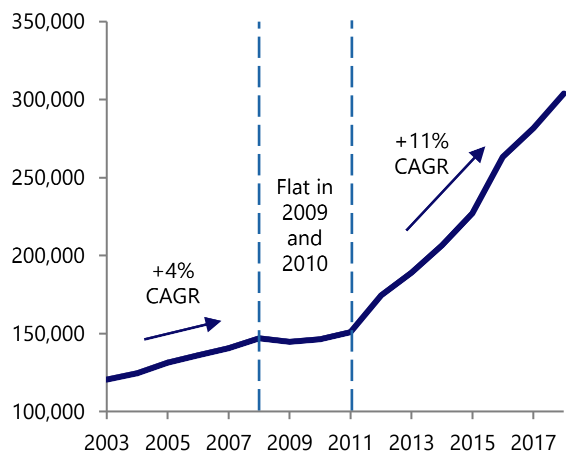
The global ART industry, valued at $26B in 2019, is expected to grow $6.31B from 2020 to 2024, representing a 4%+ CAGR. Historically, Europe drove market growth due to rising infertility rates and high awareness of successful fertility treatments. North America lags, but similar growth is expected as recent demand trends are positive. Compared to the 176,000 ART cycles in 2012, there were 260,000+ ART cycles in 2016 and 440+ clinics. Furthermore, the industry is very recession resilient. During 2008 to 2009, in vitro fertilization (IVF) cycles stayed flat instead of facing decline, and growth accelerated after.

There are three drivers of growth: rising infertility rates, technological advancement and favourable regulatory frameworks. First of all, infertility rates are rising, and 15% of couples are impacted due to stress, changing lifestyles, and obesity. Due to the financial difficulties of having children, a greater focus on career, and marriage delays, women are waiting longer to have children. Since infertility increases with age, the reliance on ART has increased to mitigate that. Moreover, obesity has doubled in the last 35 years, pushing infertility rates higher.

The second driver is technology improvement. The monetary costs of failure are high, and this has made people reluctant to use IVF. However, success rates for women between the ages of 35 to 37 (a key market for ART) increased from 27.9% in 2012 to 43% in 2017. As a result, the popularity of IVF and the usage of ART increased by 62%.

EXHIBIT XIII

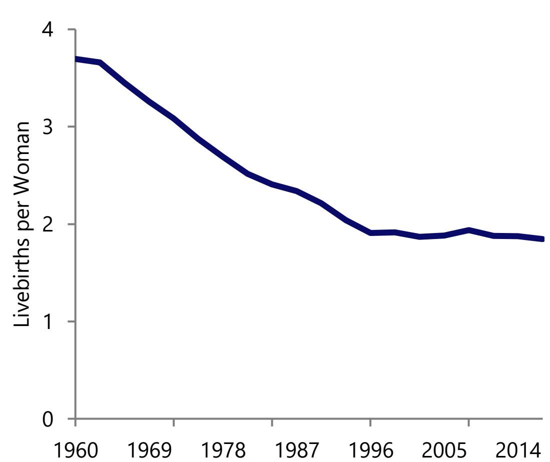
Number of ART Cycles in the U.S.



Source(s): National Center for Chronic Disease Prevention

EXHIBIT XIV

Global Fertility Rate 1960-2017



Source(s): OECD Family Database

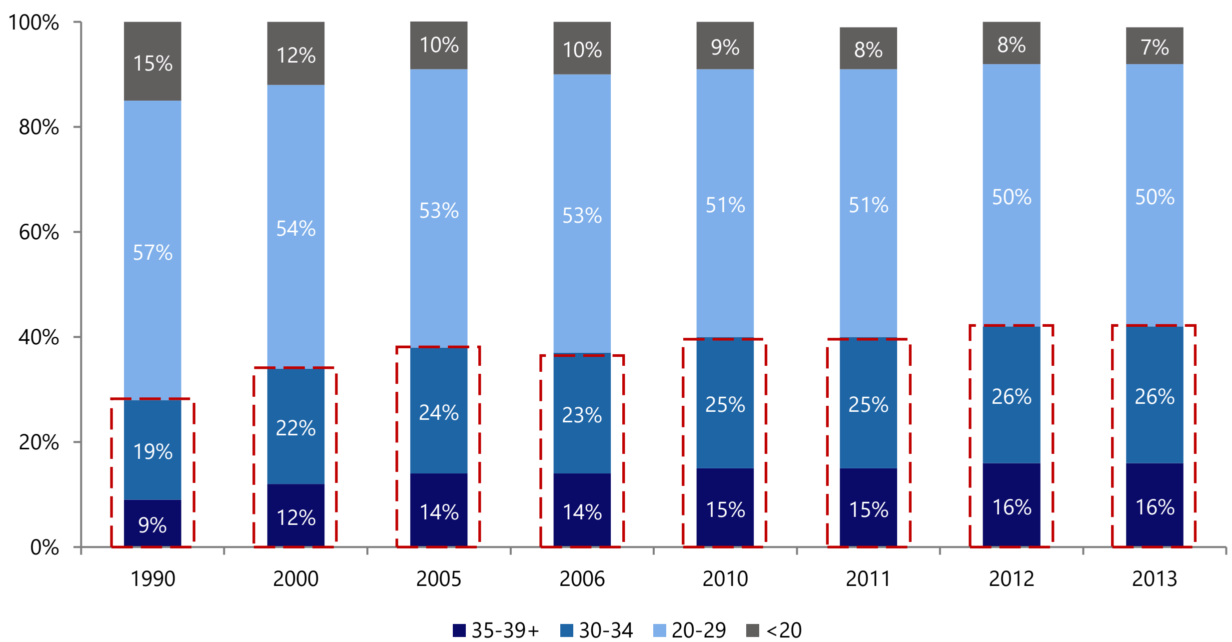
Industry Overview – Assisted Reproductive Technology ("ART")

The last driver is an improving regulatory framework in the United States. Currently 15 states have legislation requiring insurers to cover infertility treatment costs, leading to two main benefits. Mainly, patients pay less out of pocket, with ART procedures costing $10,000 to $20,000 per cycle, and multiple processes often required for success. Fees were initially paid entirely out-of-pocket, so any support would be a positive incentive to use IVF. Furthermore, the risk of multiple births is mitigated since patients are willing to transfer fewer embyros. Now that they have the coverage for multiple IVF cycles, the pressure to succeed on the first try is reduced.

A notable trend in the ART industry is increasing consolidation through M&A. The market is highly fragmented, where there are 150+ companies with less than $20M in sales. Vitrolife and Cooper Surgical are the two largest incumbents, with a notable gap between other companies in the industry. Hamilton Thorne is much smaller than the two market leaders, but still ranks top 10 in market share. Together, these leading 10 ART suppliers control 54% of the market. However, larger players continue to seek tuck-in acquisitions to increase their geographic presence and acquire technology while small players want to broaden their network. In the last five years, Hamilton Thorne has also made five acquisitions.

EXHIBIT XV

Birth rates by age of mother in the U.S. (% of total births)



Source(s): CDC

Value Proposition

To Customer & Investors

HTL is known for being a one stop shop for ART clinics by selling and sourcing equipment and consumables, as well as providing various services. One of its biggest competitors, Vitrolife, is dominant in consumables segment, however, HTL is a comprehensive suite for an IVF clinic.

For example, HTL sells glass micropipettes to complement the TrackJector micromanipulator system. The line of GM501 products help cell media solution, sperm processing, cryopreservation, and more. In addition, quality control assays are used in IVF labs for testing equipment toxicity.

This also creates a high switching cost. All of HTL's products are so imbedded into the operations of its customers that businesses are less inclined to switch to another brand. HTL also has strong brand recognition, as proven by having 40% of the global market share of lasers.

While this is an important value proposition, the Healthcare team does not think that this is impenetrable. Before HTL's acquisition of Gynemed in 2017, HTL was not a strong player in the consumables industry either. Seeing as it took just one acquisition for the company to create a selling point of being a one stop shop as a provider for fertility clinics, it may not be hard to replicate by other companies.

To Investor

HTL has made many strategic, accretive acquisitions, that allowed the business to broaden its scope. Management has developed a pipeline of 80 potential targets. The strategy has been outlined as finding a business with complementary product offerings. HTL sells products from acquired companies with existing sales force and sells products already in the suite of products through acquired salesforce. Like the idea of a one stop shop, however, this is a not a barrier to entry.

Looking Forward

Some sources have claimed that HTL's lasers are far superior to the rest of the industry in terms of quality. As we continue to assess this investment, we plan to conduct more research on HTL's value proposition by speaking to industry experts and research analysts regarding the core product and business differentiators.

EXHIBIT XVI

HTL Timeline of Acquisitions

Year	Acquisition	Description	Details
2015	Oosight	Specialized software	$300K implied purchase price, 2x sales multiple
2016	Embryotech	Test laboratory	$7.3M purchase price, <5x EBITDA purchase multiple, debt financing
2017	Gynemed	Consumables & equipment	$51M purchase price, 6.5x EBITDA purchase multiple, debt and equity financing
2018	Zandair	Air purification equipment	$640K purchase price, 4x EBITDA purchase multiple, cash on hand financing
2019	Planer	Incubators & freezers	$10.7M purchase price, 7.5x EBTIDA purchase multiple, cash on hand and debt financing

Sources: Hamilton Thorne Ltd. and PI Financial Corp.

Primary Risk to Hamilton Thorne

Despite being one of the larger players, HTL only has 3.5% of the global market share with little differentiation in their lasers. Therefore, due to their lack of scale, HTL faces several risks. As a smaller company, several ART products are in early-stage development, and R&D investment is limited due to lack of scale. If Vitrolife or Cooper Surgical pursue R&D in the same equipment category, their likelihood of a breakthrough is higher because they have more funds to invest. Although M&A is a mitigation strategy, the top two players are also making acquisitions, making the gap very difficult to bridge.

This disadvantage carries through in acquiring new customers. Fertility clinics dislike switching equipment providers because the risks of ART equipment failure is too high. If HTL cannot develop new technology, it is unlikely their other tools will win over new audiences, especially when entering new geographies. If a competitor makes a novelty breakthrough in technology, then HTL loses the opportunity to access that market.

The final risk to watch for is government regulation changes. Given the high costs of IVF in Canada and the United States, any funding decreases negatively impact fertility clinics and the demand for ART. When funding fell in Quebec in 2015, IVF cycles declined in the short-term. Since Europe has already seen meaningful growth in ART, the growth opportunity lies in the States, where getting insurance coverage has been low. Therefore, any reversals or deprioritizing of IVF coverage due to COVID is something to watch for.

EXHIBIT XVII

Comparison of Top 10 Global ART Companies

	Sales (US $ MM)	Mkt Share (ART)	Lasers	Incubators	Other Equip.	Consumables	Lab
Vitrolife	$157	15.7%	✓	✓		✓	
CooperSurgical Fertility and Genomic Solutions	$125	12.5%	✓	✓	✓	✓	✓
COOK MEDICAL	$45	4.5%		✓		✓	
IrvineScientific	$40	4.0%				✓	
KITAZATO	$35	3.5%				✓	
HAMILTON THORNE	$35	3.5%	✓	✓	✓	✓	✓
Nikon	$28	2.8%			✓		
OLYMPUS	$28	2.8%			✓		
illumina	$25	2.5%				✓	
ESCO	$22	2.2%		✓	✓		

Source(s): Fax Capital Corp.

References

1. Centers for Disease Control and Prevention (CDC)
2. CIHI
3. Fax Capital Corp.
4. Financial Post
5. Global Market Insights
6. Grand View Research
7. Harris Williams & Co.
8. Life Sciences Ontario
9. National Bank
10. National Center for Chronic Disease Prevention and Health Promotion
11. OECD Family Database
12. ODPRN
13. PI Financial Corp
14. PMPRB
15. RBC Capital Markets
16. State of Childhood Obesity
17. Statistics Canada