RESEARCH REPORT

November 23, 2020

Stock Rating	HOLD
Price Target	CAD $36.56
Current Price	CAD $41.00

Ticker	AND
Market Cap (MM)	$1,545
P/E	50.0x
EV/EBITDA	27.8x

52 Week Performance

Andlauer Healthcare Group Inc.

Trucks AND Drugs

After looking at Andlauer Healthcare Group Inc. with the Canadian mini-pitches in September, the healthcare team continued analyzing the company, given the recent news that COVID drugs were ready to distribute in Canada. As one of the few logistics and transportation company with the capabilities and network to support these deliveries, the opportunity was attractive. In addition, we furthered analysis on the competitive landscape, growth opportunities and the risk from prescription drug pricing reform.

Despite reaffirming Andlauer's strength in the competitive landscape and the numerous growth opportunities available, the COVID opportunity and pricing reform risk were difficult to quantify. Furthermore, valuation suggests we would need to believe in a 10.5% CAGR over the next ten years to buy Andlauer with a 30% margin of safety. While Andlauer's fundamentals are strong, the valuation presents an unattractive entry point. As a result, the team will add Andlauer to the watch list.

Healthcare

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Competitive Analysis

When analyzing competitive risks for Andlauer, there are three avenues to consider: (1) new entrants, (2) regional incumbents, and (3) international incumbents.

As discussed in the previous report, the Canadian healthcare logistics industry holds robust barriers to entry, characterized by a stringent regulatory environment, intensive upfront capital investments, and reputability/brand equity. Resultingly, it is very unlikely that AND's current market share and profitability will be eroded by new entrants in the short and long-term.

Second, the report analyzed various regional incumbents, including Canadian Healthcare Logistics, Skelton Trucking, Rogue Transportation Services, and Williams Pharmalogistics. Initially, this was a cause for concern since these companies' presence is primarily in Ontario and Quebec, where over of 80% of Canada's R&D expenditures are allocated. However, AND proves to be well-positioned against regional incumbents for two reasons. First, AND 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 acts as a catalyst for ATS' ground and air transportation offerings since these products need to travel to all parts of Canada. Essentially, AND is able to bridge the gap between wholesalers, distributors, and pharmacies nationwide and pharmaceutical manufacturers which are concentrated in Ontario and Quebec given their robust infrastructure.

Third, the most significant competitive threat, which was not thoroughly analyzed in the previous report, comes from international incumbents. Although there are many international players within Canada, the only considerable competition is through UPS and Kuehne + Nagel. Both of these companies have a robust global infrastructure and service almost all industries, as well as an existing presence in Canada for healthcare logistics & distribution. The following table summarizes the international incumbents' services provided for healthcare logistics in Canada.

<u>Imports and Exports</u>

Directly, AND competes with international players in many of the same segments, but the primary strategic difference lies in AND's lack of global infrastructure to import and export pharmaceuticals and other medical products. For international players, their robust international footprint lends them an entrenched position to handle international supply chain solutions in Canada. Since 2004, an average of just over $21 billion of pharmaceutical products was exported and imported annually. Many pharmaceutical companies continue to insource supply chain solutions when dealing with international trade. However, the remainder outsourced is predominantly handled

EXHIBIT I

Service Offering Comparison

	Logistics & Distribution	Packaging	Ground & Air Transportation	Last Mile Delivery	Ocean Freight	Imports & Exports
UPS						
Kuehne + Nagel						
Andlauer						

Source(s): Company Websites

Competitive Analysis (cont.)

through the international incumbents listed. As well, global players are able to offer additional services for logistics and distribution within Canada once products have been imported.

For AND, the international market, in regards to imports and exports in Canada, is largely impenetrable and therefore an unviable growth opportunity. AND's market opportunity lies within providing logistics, distribution, and transportation services to domestic pharmaceutical manufacturers and other medical products manufacturers selling in Canada. Similar to the international market, Canadian pharmaceutical manufacturers' domestic sales have been steadily growing, and this trend is bound to continue as a result of the aging Canadian population. 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.

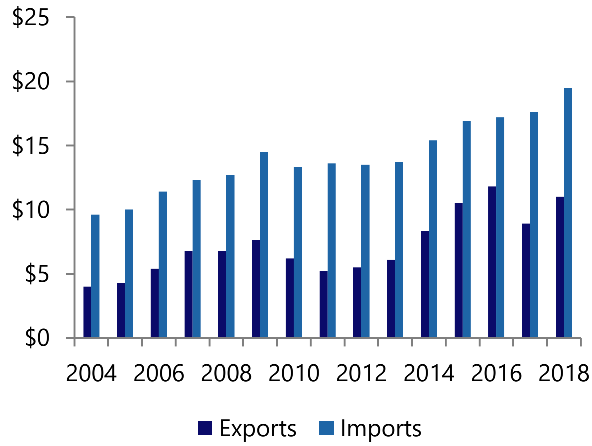
Understanding that international players have an entrenched position dealing with international trade in Canada, and AND's market opportunity lies domestically, it is imperative to analyze competition among international players within Canada.

Logistics & Distribution

Logistics & Distribution, which is predominantly driven by Accuristix (3PL Logistics arm of AND), but also AND's packaging solutions with Credo and Nova Pack, faces significant competition by UPS and Kuehne + Nagel. Combined, these three companies hold over 80% of market share in the Canadian healthcare logistics & distribution industry, with AND holding a stable position as the leader. With these three players dominating the large majority of the market, it essentially acts as an oligopoly, further fortifying barriers to entry. Essentially, although AND faces competition from UPS and Kuehne + Nagel in their 3PL segment, the industry's barriers to entry ensures

EXHIBIT II

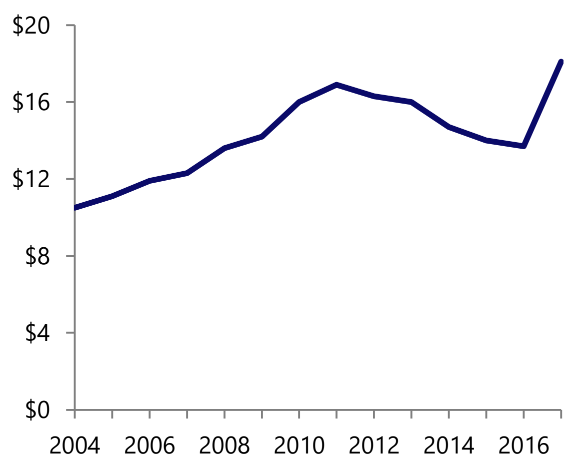
Canadian Pharmaceutical Trade ($B)



Source(s): Government of Canada

EXHIBIT III

Canadian Pharmaceutical Manufacturers Sales, Net Exports ($B)



Source(s): Government of Canada

Competitive Analysis (cont.)

that market share and profitability is not likely to erode in the short or long-term. As well, since AND is dedicated to healthcare compared to its competitors who operate in several industries, they have a much more focused strategy.

Transportation

Against international incumbents, AND has a drastically stronger market position for two reasons.

First, the transportation networks and facilities of large international couriers including UPS, Kuehne + Nagel, FedEx, DHL and Purolator, their transportation networks and facilities are designed for B2C shipments. On the other hand, AND has a robust distribution network which it has developed since 2004 for B2B routes specifically in healthcare. Efficient transportation networks lends AND a much more attractive cost profile and the knowledge-base it has developed is superior to competition, indicating a robust supply-side competitive advantage.

Second, all of AND's warehouses and fleets are temperature controlled with a high degree of maintenance for precision, and international players do not have the same infrastructure in place. These players use the same fleet of trucks for transporting pharmaceuticals and other healthcare products, which are not temperature-controlled. Therefore, they must place the products in a temperature-controlled box/package. This limits global players' ability to build out their transportation network. In fact, many of these companies, including UPS and Kuehne + Nagel are large customers of AND for its transportation services.

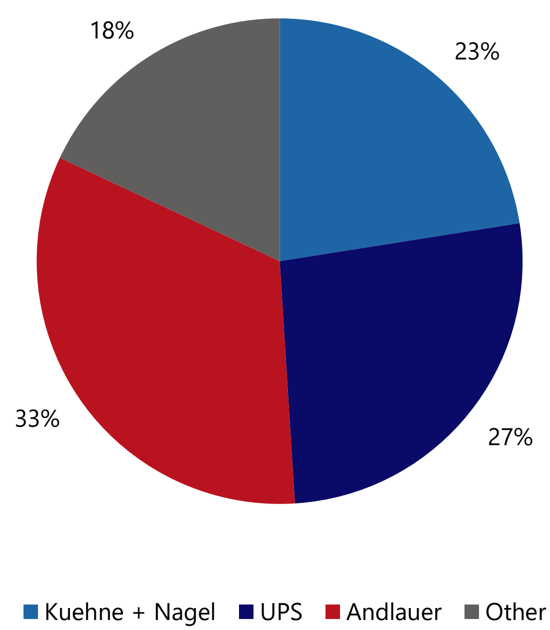
Andlauer Healthcare Group is a Local Champion

Since global players have drastically larger scale than AND, it can be argued that global players will be able to offer cheaper prices than AND and erode market share. However, given pharmaceuticals and other medical products are very sensitive, reputability and brand equity are a much more significant differentiating factor. The global players are not able to offer as personalized services AND – the latter's commitment to this was outlined in the previous report. Quantitatively, brand equity and reputability has translated into a sticky customer base, and AND's average client of its top 20 clients is over 15 years.

Additionally, its specialized transportation segments serves 22 of the top 25 global pharmaceutical manufacturers in Canada. AND's commitment to healthcare since 2004 and its geographic focus in Canada has made the company a local champion, in terms of offerings and geography.

EXHIBIT IV

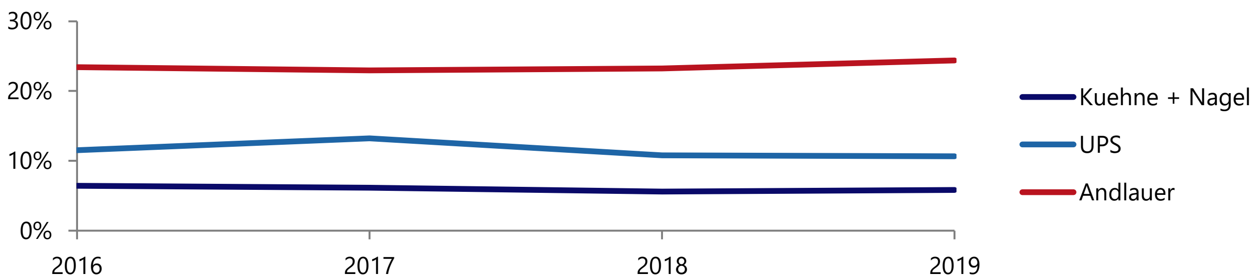
Healthcare Logistics & Distribution Market Share



Source(s): Expert Calls

EXHIBIT V

EBITDA Margin Comparison



Source(s): S&P Capital IQ

EXHIBIT VI

2019 Profitability & Capital Allocation Metrics

	ROIC	ROA	Total D/E	EBITDA Margin
Kuehne + Nagel	15.57%	8.12%	1.91x	5.85%
UPS	13.74%	7.67%	3.57x	10.66%
Andlauer	18.46%	14.25%	1.66x	24.38%

Source(s): S&P Capital IQ

Competitive Analysis (cont.)

Lastly, although profitability and capital allocation metrics may be unreliable as UPS and Kuehne + Nagel compete in various geographies and segments, it provides some assurance that AND is more profitable and efficient than peers. The difference in EBITDA margins is especially notable. Since AND's scale is miniscule compared to UPS and Kuehne + Nagel, margin expansion is very unlikely to occur as a result of cost savings. Rather, AND's efficiency and expertise lends it to pricing power and AND customers are willing to pay premiums for services, indicating demand inelasticity.

Economically, this is a very attractive market for AND, which raises the concern that international players will be incentivized to enter the space. However, given the aforementioned barriers to entry, with an emphasis on the necessary upfront capital investments and expertise required to develop domestic brand equity, it will take significant capital but also many years to be able to legitimately compete with AND. Ultimately, the net present value from international players developing infrastructure and expertise to compete with AND likely will result in an unattractive growth avenue.

Growth Strategy and Pipeline

Given Andlauer's extensive national footprint and presence in an oligopolistic industry, secular industry trends are expected to be the primary driver of Andlauer's upcoming growth, while other variable factors are less predictable. From 2013 to 2018, the North American Outsourced Healthcare Logistics and Transportation Market grew at a 4.1% CAGR, which is expected to accelerate to 5.8% CAGR through 2023. The several industry factors fuelling the growth, including increasingly strict regulatory requirements, the ageing population, and biologics' growth, offers stable, predictable growth for Andlauer.

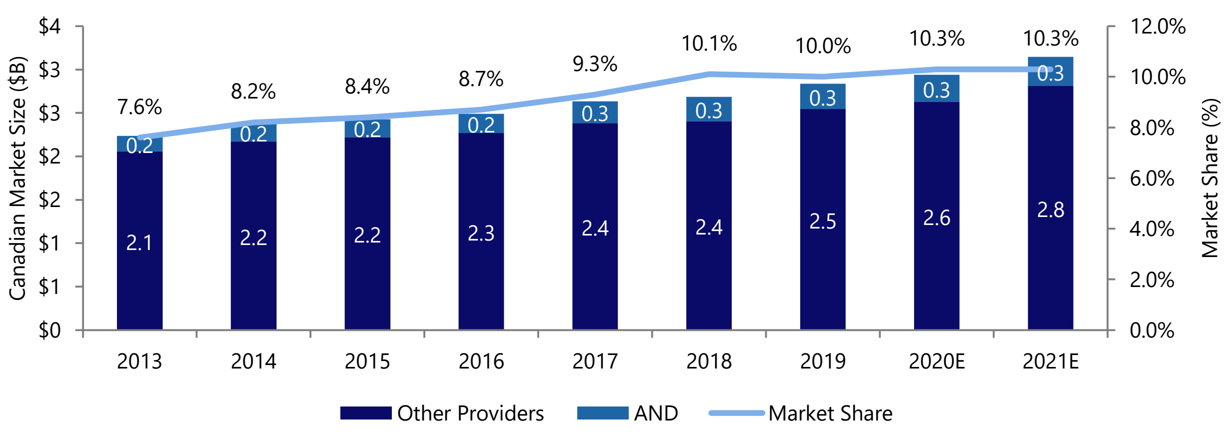
Looking beyond the industry, there are three primary growth variables: 1) Cross-selling and extracting value from existing clients, 2) Organic domestic expansion through new client acquisition and 3) M&A.

Increasingly strict regulation is expected to benefit Andlauer favourably among their existing pharmaceutical clients. Currently, Andlauer only handles ~33% of the market based on the top 30 pharma manufacturers and has ~10% market share of the overall outsourced healthcare logistics and transport market. Since pharma manufacturers in Canada insource 20% of their product sales distribution, there is an opportunity for Andlauer to convince them to switch due to Andlauer’s ability to meet Health Canada's requirements.

Organically, there are new geographies and industries for Andlauer to acquire clients. The most immediate opportunity is expanding Andlauer's Dedicated and Last-Mile Delivery segment (brands include ATS and MEDDS) nationally, as the company only operates in Winnipeg. To grow, Andlauer has built a mobile app to support its strategy and is approaching new clients to propose a Canada-wide expansion. In pharmaceuticals, Andlauer has yet to capture 3 of the top 25 pharmaceutical brands, such as Johnson & Johnson, Sanofi, or AstraZeneca (only 20 clients are disclosed). When looking at new sectors, Andlauer could approach clients in medical devices or nutraceuticals, where Health Canada regulations are becoming more stringent. In addition, the growth of medical cannabis also represents an opportunity for Andlauer.

EXHIBIT VII

Andlauer’s Market Share by End-Product Value and Revenue (CAD $B)

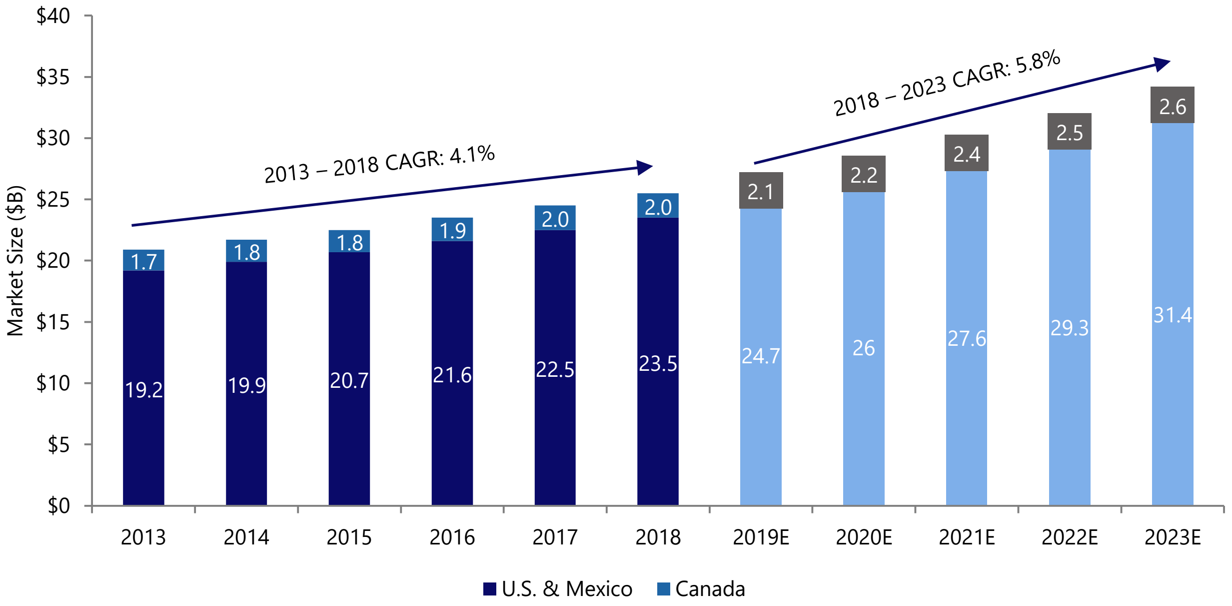


Source(s): Company Filings, IQVIA Solutions, Technavio, NBF

Growth Strategy and Pipeline

EXHIBIT VIII

North American Outsourced Healthcare Logistics and Transportation Market (USD $B)



Source(s): Company Filings

The final driver of Andlauer's growth is M&A, which has historically played a minor part in their organic growth strategy. Observing Andlauer's timeline, there are only four transactions in the past three decades. The first was when Andlauer acquired MEDDS in 2007, which offers pharmacy home-delivery services through their Dedicated and Last-Mile Delivery segment. Other minor transactions include consolidating the equity stake in their joint venture with McKesson in 2009 and acquiring the Canadian distribution rights for Pelican BioThermal products under Credo in 2012. Andlauer's next full acquisition was completed in two parts, where Accuristix under Andlauer acquired a majority interest in Nova Pack in 2011 and took 100% ownership in 2017. Nova Pack was a co-packaging provider in the healthcare market with several Health Canada drug establishment licenses.

After the IPO, Michael Andlauer stated his intentions to be more active in M&A. In October 2020, Andlauer acquired their remaining stake in TDS Logistics Ltd. ("TDS") and McAllister Courier Inc. ("MCI"), paying $15.9M in cash (funded from cash flow from operations) for 0.72x sales multiple. Both companies are regional temperature-controlled transportation businesses with net revenue of $22M. By adding their airfreight, ground transport and last-mile capabilities, Andlauer can build their presence across multiple Southwestern Ontario segments and add more touchpoints to every pharmacy.

Growth Strategy and Pipeline

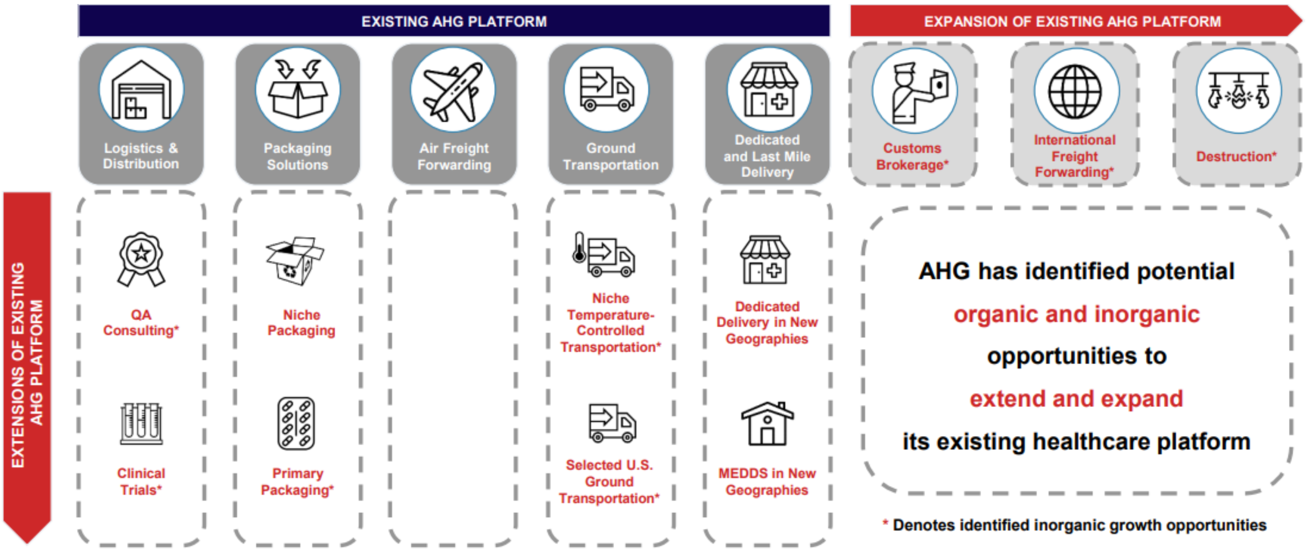
Moving forward, there are three directions M&A can go. The first is more complementary, domestic tuck-ins, similar to the TDS/MCI acquisitions. It will likely be in the ground transportation segment, where Andlauer is looking at regional players in rural areas to be more compliant with Health Canada. Another outcome with M&A is to add new services, such as clinical trial logistics, RA/QA Consulting, Customs Brokerage and several more. Illustrated in Exhibit IX, certain new services would complement the existing platform while others, such as Customs Brokerage, would create a new segment. However, the success of these strategies is dependent on the drug pricing reform next year. New clinical trials under Health Canada declined ~54% at the mention of reform, so several inorganic opportunities may be blocked.

Finally, Andlauer can look to the United States, although management has mentioned they do not plan to evaluate the U.S. for the next 1-3 years. This is because the U.S. regulatory requirements are not strict enough, and Andlauer is unlikely to have a competitive advantage over local providers. However, the U.S. market is very fragmented since the top four players account for less than 15% of the market share. If regulations tighten, there could be an opportunity for Andlauer via a regional acquisition. Even so, entering the U.S. market will likely be a client-driven decision.

Near-term, management's M&A strategy is to focus on tuck-ins acquisitions in Canada. Currently, they have a list of 40 potential targets, many of which are small, regional players. These deals will likely be funded by cash flow from operations as done historically. However, with Andlauer's 1.3x net debt/EBITDA, they have the capacity to borrow up to $75M more on top of the $48M cash on hand to fund their growth.

EXHIBIT IX

Growth Opportunities in New Services within and beyond the AND Platform



Source(s): Company Filings

COVID-19 Vaccine Distribution Opportunity

Canada's Current Vaccine Agreements

As of 2020-11-19, Prime Minister Trudeau has committed $1B to buy up to 72 million doses of the COVID-19 vaccine. Deals have been made with Moderna, Pfizer, Novavax, Johnson & Johnson, Sanofi, and GlaxoSmithKline to create and manufacture vaccines for Canadians. Pfizer and Moderna recently stated that they have 95% and 94.5% effective vaccines, respectively. This news makes them front-runners to mass produce their vaccines for Canadians.

Canada's Vaccine Distribution Method

Efficiently distributing a vaccine to the entire population of Canada will require a herculean logistical effort. Beyond the straightforward challenge of administering over 37 million deliveries, Pfizer's potential vaccine must be kept at a temperature of negative 70°C throughout transport and storage. To address this logistical issue, the government of Canada has begun to prepare by engaging in talks with potential vaccine manufacturers, as well as releasing an invitation to qualify (ITQ) to provide logistic services for COVID-19 vaccines.

Canada's vaccine logistics ITQ outlined strict requirements for the authorization of pre-qualified bidders (PQBs). Applicants were considered based upon mandatory and rated evaluation criteria. Selected PQBs will bargain with each other as well as the government, and the contract will ultimately be awarded to one or more companies. After signing the contract, companies will begin work immediately; the ITQ states delivery of the COVID-19 vaccine is expected to commence as soon as Q1 of 2021.

Though undisclosed, the scale of this task indicates that a premium may be paid from the government that incentivizes top-level logistics handlers to compete or even collaborate over the contract. The ITQ opened on 2020-11-05 and the PQBs announced 2020-11-16 included FedEx, Kuehn + Nagel, McKesson and UPS.

EXHIBIT X

Canada ITQ for Vaccine Logistic Services Evaluation Criteria

Rated Criteria	Points Distribution
Multiple temperature-controlled storage locations in the cold (2°C to 8°C) and frozen (below -20°C) environments	5 points for each province or territory 2 points per 100m^3 of cold storage 1 point per 100m^3 of frozen storage
Experience with the cold-chain controlled (2°C to 8°C and below -20°C) distribution of pharmaceutical products	0 points for <6 months 2 points for 6 months-1 year 5 points for 1-2 years 8 points for 2-3 years 11 points for 3-4 years 14 points for 4-5 years 17 points for >5 years
Experience importing pharmaceutical products by air and road in the cold chain-controlled environment	5 points for <5 importations/year 10 points for 5-10 importations/year 15 points for 10+ importations/year
Inventory management system that tracks, traces and data-logs temperature and location of transport	5 points for a simple system 10 points for a comprehensive system

Source(s): Government of Canada

COVID-19 Vaccine Distribution Opportunity

Andlauer's Role

Although not listed as a PQB of the government vaccine logistics contract, Andlauer will be deeply involved with vaccine distribution. Andlauer has the largest market share in Canadian healthcare 3PL and a track record of regulatory compliance, passing 62 Health Canada audits in 2018. These factors have allowed Andlauer to begin work behind the scenes on Canadian COVID-19 vaccine logistics. CFO Peter Bromley mentioned they have been in contact with Gilead, Pfizer, Astra Zeneca and the government of Canada regarding distribution solutions. Andlauer is also indirectly tied to each PQB. International couriers have built out logistics arms, but contract Andlauer for transport due to its industry leading 530 vehicle fleet, all of which have temperature control. Specialized vehicles are far superior to the alternative of instituting dry ice and gel packs into existing transport vehicles.

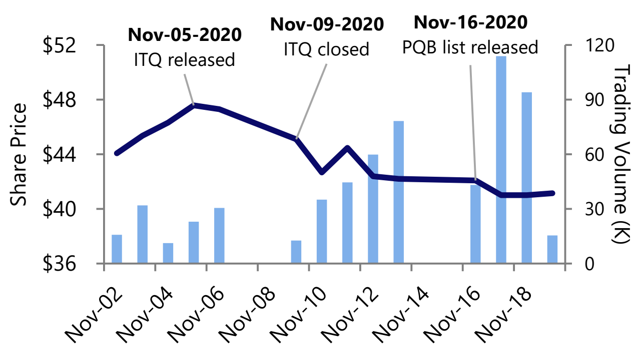
Whether FedEx, Kuehn + Nagel, McKesson, or UPS secure the contract, Andlauer will be involved in some capacity. Andlauer has done business with each of these PQBs before, and its 29% market share by end-product value demonstrates how essential they are to Canadian healthcare logistics. Despite its inevitable involvement, the market is not pricing in this opportunity; when PQB news was released, AND's share price dropped ~5%. This is attributable to i) lack of public cognizance of government contracts; the list of PQBs received a total of 475 unique views as of 2020/11/19 and, ii) potentially limited profit; some pharma manufacturers intend to provide the vaccine at no profit, and roughly ~$31 million total industry revenues are estimated to stem from COVID-19 distribution (just ~9.9% of Andlauer's 2019 revenue). Additionally, high net margins are not typically retained in government-funded projects.

Intricacies of COVID-19 Vaccine Distribution

In Andlauer's 3Q earnings call, executives suggested that delivery of the COVID-19 vaccine will not be an issue of exorbitant volume, but of safety and security. High-level logistical ability as well as tough-to-get licensing are compulsory to deliver the vaccine. The Canadian government is set on hiring a single corporation for distribution; however, collaboration between wholesalers, 3PLs, couriers and manufacturers will be necessary for coast-to-coast delivery. Andlauer is bound to be involved because they are designed to deliver vaccines; ~83% of it's end-product revenues come from patented medicines, which include biopharmaceuticals. Of 161 biopharmaceuticals approved by Health Canada since 2000, ~88% require cold chain handling, which is likely to be the case with the COVID-19 vaccine as well.

EXHIBIT XI

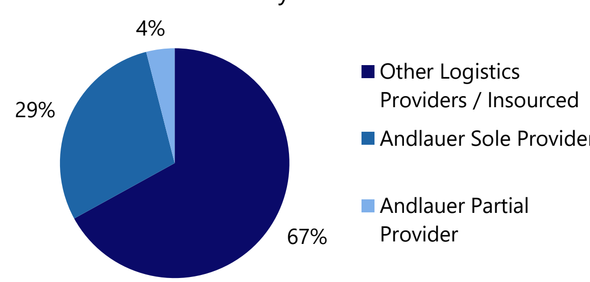
Andlauer November 2020 Share Price



Source(s): S&P Capital IQ

EXHIBIT XII

Canadian Market Share by End-Product Value



Source(s): National Bank of Canada

Prescription Drug Pricing Reform Risk

As outlined in the previous report, the federal government is expanding the regulatory power that the Patented Medicine Prices Review Board (PMPRB) holds. The Canadian government argues that this change is required because the price of patented drugs is too high. The guidelines will be implemented by January 2021. Price reduction on a per-production basis is likely to be around 15% to 90%. This will be Canada's biggest drug price reform since 1987 and would save Canadians $13.2 billion over a decade.

The old mandate for the board was to ensure the prices were not "excessive" but was only very loosely defined. The old outline was tailored around prices relative to other drugs in the market, prices at which the medicine and others in the same therapeutic class have been sold in countries other than Canada, changes in the Consumer Price Index, and other factors. The proposed changes are bucketed into the following categories: reference countries, additional economics-based price review factors, reporting requirements, and third-party price rebates.

According to PMPRB, the new objective is to "identify a national ceiling price above which it would be unreasonable for any consumer in Canada to pay, as opposed to an ideal price for different types of consumers having regard to their individual ability and willingness to pay."

The PMPRB will now regulate prices using "pharmacoeconomics", which is a method to calculate a threshold for the upper limit of the public healthcare system's willingness to pay for a new drug. This threshold is the cost per "Quality Adjusted Life Year" that is gained through the use of the drug. This is a subjective valuation on the price of human life. While this metric is usually used in Canada for reimbursement negotiations, it will now lend its hand to the new pricing regulations because of the data that backs it.

As discussed in the previous report, the two main concerns are what the new prices of products will be, and whether pharmaceutical companies will still find Canada an attractive market to launch new products. If Canada is not a profitable market, it is unlikely that pharmaceutical companies will continue to launch new products.

The review board argues that this will not impact the availability of new drugs. However, many investors point to the idea that this is not realistic. Depressed drug prices would discourage pharmaceutical manufacturers from launching new drugs in Canada. In fact, one study of 31 OECD countries showed that the only variable that that led to a statistically significantly different number of new drugs launched was price of drug sold; that is, fewer new drugs were launched in lower-priced drug markets. As seen in the exhibits XIV and XV, Canada's drug prices have been relatively higher than a lot of countries and has therefore had the privilege of also seeing a large number of new drugs. Profit not only helps biopharmaceutical companies fund research and development, but also incentivizes innovation. Higher prices lead to greater profits and therefore more investments back into innovation. While Canada has historically been considered a Tier 1 or 2 country, experts believe it may drop to Tier 3 or 4, which will result in delay of new medication in Canada.

In the past when there have been disagreements, PMPBR has challenged drug makers at an internal tribunal, and while most cases are settled, some appeals can go as far as federal court and the Supreme Court of Canada. With such an extreme shift in drug pricing laws, many expect drug makers to challenge PMPBR guidelines in court to test the boundaries of the new rules.

Pamela Fralick, president of industry group Innovative Medicines Canada, has said, "The industry does take a lot of risk on in creating these products. It does cost money. Our fear is that globally, decisions will be made that products will not be launched in Canada." Essentially, this reform might become a further barrier to access new medicine when its purpose is to be increasing the accessibility.

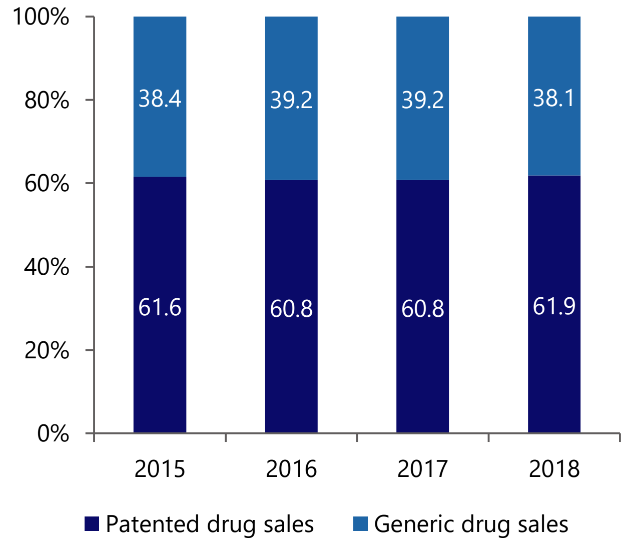
Prescription Drug Pricing Reform Risk Continued

With a substantial expected decrease in volume of new drugs coming into Canada, investors see a potential negative impact on the distribution industry within healthcare and, specifically, AND. AND's 2019 annual filings state that an extreme shift like this can materially reduce revenue due to fewer pharmaceutical products to manage and less profitable customers that would pressure AND for pricing concessions. The reform may adversely impact the distribution of drugs. Since AMD's client base is largely Canadian-only pharma/healthcare clients, AND would be impacted more than if it were more geographically diversified.

While investors believe that this can significantly impact revenue, they are not concerned that it will drop so drastically. This is because the main concern is around the availability of new drugs. This means that both the generic drugs as well as the old, patented drugs will not be impacted. As can be seen in figure XIII, there is still a significant number of drugs in Canada that are generic. Therefore, there would only be a marginal decrease in new drugs that Canada is receiving, and therefore only a marginal impact on AND. It is hard to predict an accurate number, but looking forward, investors need to think about the percentage of new drugs that would be withheld from Canada, and from that, derive the impact on AND.

EXHIBIT XIII

Canada Drug Sale Segmentation

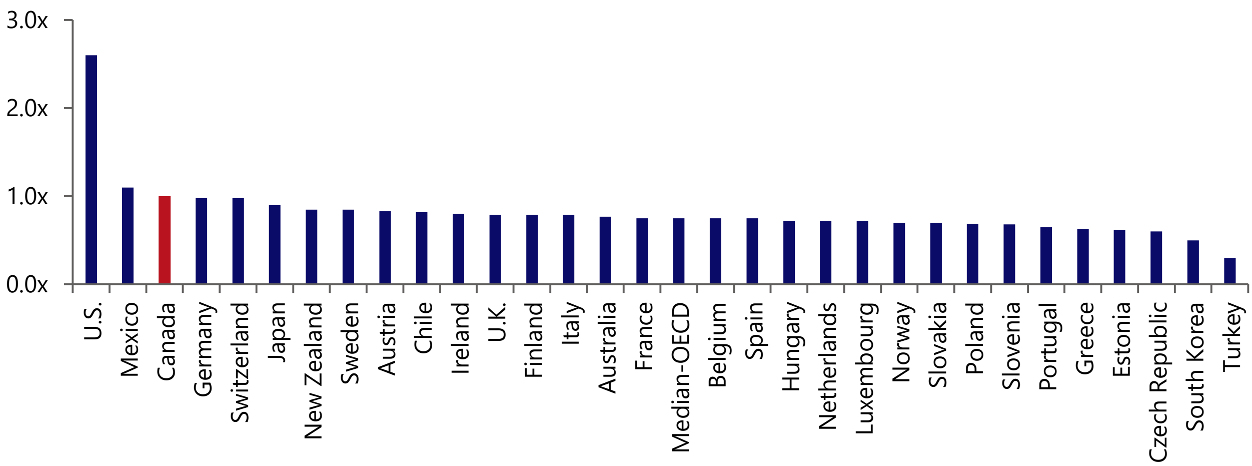


Source: IBIS World

Canada Drug Prices and Share of New Active Substances Launched

EXHIBIT XIV

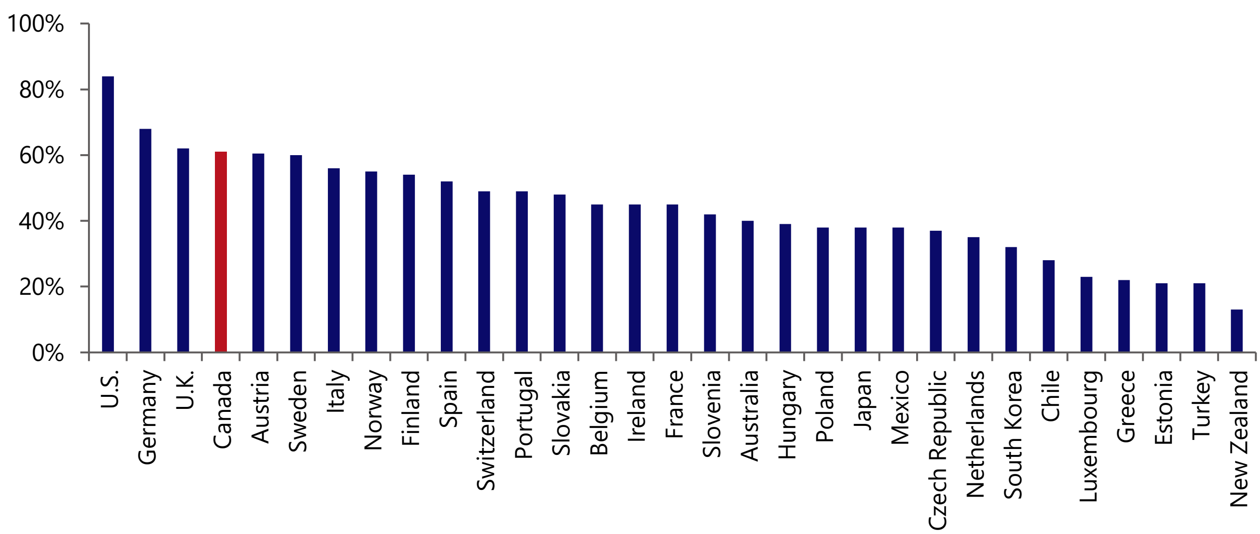
Average Foreign-to-Canadian Price Ratios, Patented Drugs, 2015



Source: Fraser Institute

EXHIBIT XV

Share of New Active Substances Launched (%), 2009-2014



Source: Fraser Institute

EXHIBIT XVI

Implied Return Sensitized to Growth Rate Scenarios

Year 5 - 10 UFCF Growth Rate	Year 1 - 5 UFCF Growth Rate								
	0%	**2%**	**4%**	**6%**	**8%**	**10%**	**12%**	**14%**	**16%**
0%	(47.7%)	(42.3%)	(36.5%)	(30.3%)	(23.6%)	(16.4%)	(8.6%)	(0.4%)	8.5%
2%	(43.4%)	(37.5%)	(31.2%)	(24.5%)	(17.2%)	(9.4%)	(1.0%)	8.0%	17.6%
4%	(38.7%)	(32.4%)	(25.5%)	(18.2%)	(10.3%)	(1.8%)	7.3%	17.1%	27.5%
6%	(33.6%)	(26.8%)	(19.4%)	(11.4%)	(2.9%)	6.3%	16.2%	26.8%	38.1%
8%	(28.2%)	(20.8%)	(12.8%)	(4.2%)	5.1%	15.1%	25.8%	37.3%	49.5%
10%	(22.4%)	(14.3%)	(5.7%)	3.7%	13.7%	24.5%	36.1%	48.5%	61.8%
12%	(16.1%)	(7.4%)	2.0%	12.1%	22.9%	34.6%	47.1%	60.6%	75.0%
14%	(9.4%)	0.0%	10.1%	21.0%	32.8%	45.4%	59.0%	73.5%	89.1%
16%	(2.2%)	8.0%	18.9%	30.7%	43.4%	57.0%	71.7%	87.4%	104.2%

	10 Year UFCF Growth Rate								
	0%	**2%**	**4%**	**6%**	**8%**	**10%**	**12%**	**14%**	**16%**
	(47.7%)	(37.5%)	(25.5%)	(11.4%)	5.1%	24.5%	47.1%	73.5%	104.2%

Source(s): Company Filings

AND Valuation and Conclusion

In searching for upside in AND's current price, we took on a "*what do you need to believe?*" mentality. To take on a position in AND, we would be looking for anywhere between a 20% and 30% margin of safety ("MOS") on our assessment of the company's intrinsic value.

At AND's current price, getting to a 30% MOS would imply that UFCF was going to grow at a 10.5% CAGR over the next 10-years. There are multiple reasons why we see this as an unlikely scenario, not the least of which is that AND is a well-established, market leading player that has grown UFCF at a 5.4% CAGR from 2016-2019, including multiple tuck-in acquisitions.

In understanding what this would mean for AND's competitive positioning, we analyzed what this level of topline growth would imply for AND's market share. Assuming an industry CAGR of 5.8% over the next 10-years (an extrapolation of the industry-estimated 5-year CAGR), AND would move from a 33% Canadian market share to ~42%. Taking over this 9% market share would mean either a withdrawal of the other competitors in the market, or an aggressive acquisition strategy that would allow AND to integrate the volume of the regional players into their own business. We do not see either of these scenarios as a likely occurrence, and intend to pass on the investment at this time.

While we believe that AND is a well run healthcare logistics and transportation market leader, we believe that the current valuation is not supported by the fundamentals. We view limited upside potential given the pharma industry regulatory risks and limited COVID 19 vaccine opportunity. We plan to continue monitoring the company and hope to enter a position if a more attractive entry point presents itself.

EXHIBIT XVII

Valuation Summary

Valuation Summary								Growth Period 1					Growth Period 2				
	2016	**2017**	**2018**	**2019**	**LTM**	**CAGR '16-'20**	**CAGR '16-'19**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue	223.6	251.0	277.0	290.0	304.3	*8.0%*	*9.1%*	343.9	367.9	386.3	394.1	401.9	410.0	418.2	426.5	435.1	443.8
Yoy Growth		*12.3%*	*10.3%*	*4.7%*	*4.9%*			*13.0%*	*7.0%*	*5.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Cost of Sales	(150.5)	(173.0)	(191.0)	(196.2)	(202.4)	*7.7%*	*9.2%*	(228.7)	(244.7)	(256.9)	(262.0)	(267.3)	(272.6)	(278.1)	(283.6)	(289.3)	(295.1)
Gross Profit	**73.1**	**78.1**	**86.1**	**93.8**	**102.0**	*8.7%*	*8.7%*	**115.3**	**123.4**	**129.5**	**132.1**	**134.7**	**137.4**	**140.1**	**142.9**	**145.8**	**148.7**
Gross Profit Margin %	*32.7%*	*31.1%*	*31.1%*	*32.4%*	*33.5%*			*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*	*33.5%*
Total Opex	**(42.7)**	**(44.0)**	**(45.2)**	**(48.8)**	**(55.2)**	*6.7%*	*4.6%*	**(31.2)**	**(32.7)**	**(33.7)**	**(35.1)**	**(35.9)**	**(36.5)**	**(37.2)**	**(38.0)**	**(38.6)**	**(39.4)**
Operating Profit	**30.4**	**34.1**	**41.0**	**45.0**	**46.7**	*11.3%*	*14.0%*	**52.8**	**56.5**	**59.3**	**60.5**	**61.7**	**62.9**	**64.2**	**65.5**	**66.8**	**68.1**
EBITDA	**52.4**	**57.7**	**64.5**	**70.7**	**73.5**	*8.8%*	*10.5%*	**84.0**	**89.2**	**93.0**	**95.6**	**97.6**	**99.4**	**101.4**	**103.5**	**105.4**	**107.5**
Operating Profit Margin	*13.6%*	*13.6%*	*14.8%*	*15.5%*	*15.4%*			*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*
EBITDA Margin %	*23.4%*	*23.0%*	*23.3%*	*24.4%*	*24.2%*	*0.8%*	*1.3%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*	*24.2%*
Income Tax	(3.0)	(3.1)	(3.0)	(3.5)	(4.5)	*10.7%*	*5.3%*	(5.1)	(5.4)	(5.7)	(5.8)	(5.9)	(6.0)	(6.2)	(6.3)	(6.4)	(6.5)
NOPAT	**27.4**	**31.0**	**38.0**	**41.5**	**42.2**	*11.4%*	*14.8%*	**47.7**	**51.1**	**53.6**	**54.7**	**55.8**	**56.9**	**58.0**	**59.2**	**60.4**	**61.6**
(-) Capex	(10.9)	(2.4)	(2.5)	(5.9)	(7.4)			(7.7)	(8.2)	(8.7)	(8.8)	(9.0)	(9.2)	(9.4)	(9.6)	(9.7)	(9.9)
(+) D&A	22.0	23.6	23.5	25.7	26.8			31.2	32.7	33.7	35.1	35.9	36.5	37.2	38.0	38.6	39.4
(-) Δ NWC	11.3	3.1	(0.7)	(3.0)	(11.7)			-	-	-	-	-	-	-	-	-	-
UFCF	**49.8**	**55.3**	**58.2**	**58.3**	**49.9**	*0.0%*	*5.4%*	**71.2**	**75.5**	**78.6**	**81.0**	**82.7**	**84.2**	**85.9**	**87.6**	**89.2**	**91.0**
UFCF Margin	*22.3%*	*22.0%*	*21.0%*	*20.1%*	*16.4%*			*20.7%*	*20.5%*	*20.4%*	*20.6%*	*20.6%*	*20.5%*	*20.5%*	*20.5%*	*20.5%*	*20.5%*

Valuation Output	
Discount Rate	10.0%
Terminal Growth Rate	1.50%
PV UFCF	498.3
PV TV	988.0
Enterprise Value	**1,486.3**
(-) Debt	(124.5)
(+) Cash	48.5
Equity Value	**1410.31**
W.A. Shares Out.	38.573
Implied Share Price	$36.56
Current Share Price	$41.00
Implied Return / (Loss)	**(10.8%)**

Source(s): Company Filings

References

1. Annual Filings
2. Company Website
3. Expert Calls
4. Financial Post
5. Fraser Institute
6. Global Legal Insights
7. Google Images
8. Government of Canada
9. IBIS World
10. IQVIA Solutions
11. National Bank Financial
12. Patented Medicine Prices Review Board
13. RBC Capital Markets
14. Reuters
15. S&P Capital IQ
16. Technavio
17. The Globe and Mail