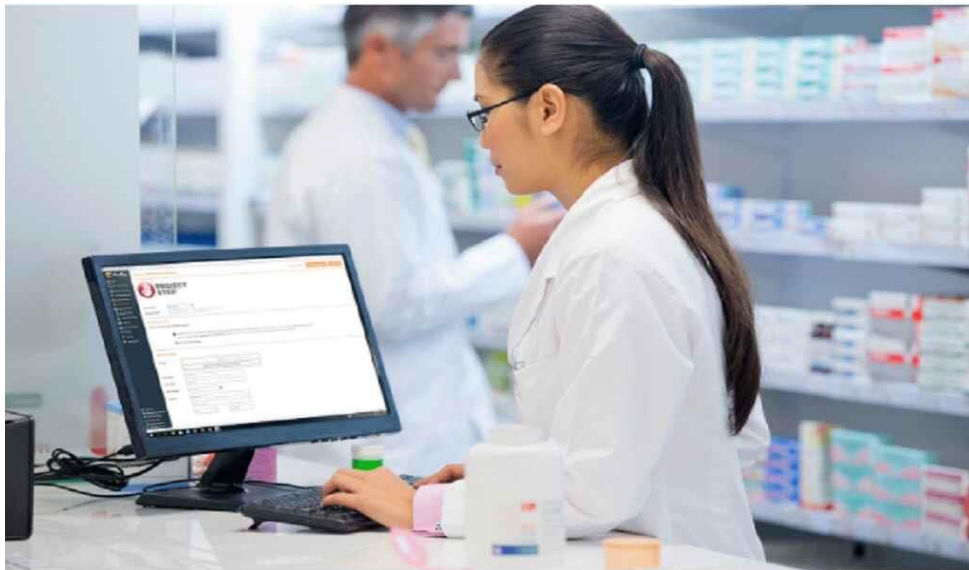


MedAdvisor Ltd (ASX: MDR): Built a robust foundation for growth in FY24 and sustainable growth in the years ahead

BY ACE INVESTORS / 08 AUGUST 2024



Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: MDR
Shares O/S	551.29 million
Closing Price	AUD 0.430
Market Cap	234.29 million
52 W H/L	0.590/0.160
One Year Stock Performance	88.64%
Avg. Volume	1.11 million
EPS(TTM)	-0.016
P/E	-
Annual Dividend Yield	0.00%
Franking	-
Last Dividend Ex-Date	-
Last Dividend Pay Date	-
DPS (AUD)	-
ROE (%)	-15.21%

(Source: ASX)

Company Overview

MedAdvisor (“MDR” or the “Company”) is a world-class medication management platform that empowers patients to manage their medications. MedAdvisor’s highly automated and intuitive software system connects patients to tools and education materials from their preferred pharmacy. MedAdvisor works with 32,000 pharmacies in the US to deliver programs to help patients take their medication safely and effectively. In Australia, MedAdvisor connects over 3.1 million patients through more than 95% of Australian

pharmacies. MedAdvisor is on track to become one of the largest players in the global digital medication management and communications market. In July 2022, the company acquired GuildLink from Guild Group (a 100% owned entity of The Pharmacy Guild of Australia). The acquisition of GuildLink enabled the company to provide a consolidated platform, which removes duplication increases efficiencies for Australian pharmacies and enhances their ability to provide integrated bookings, clinical services, vaccinations, and medication management for their patients. MedAdvisor also works in partnership with PGA to develop and deliver new and ongoing health service initiatives, including government programs, to provide and support the health needs of communities across Australia, under the terms of a Master Services Agreement (**MSA**).

Investment Rationale

Identified significant operational cost savings to position the business for profitability in FY24

During FY23, MedAdvisor completed a strategic review of its operations following the successful acquisition and integration of GuildLink. The review identified significant operational cost savings opportunities to streamline its Australian operations and position the business for profitability in FY24. As part of the cost-saving measures, MedAdvisor planned to reduce its Australian headcount by approximately 20% by the end of June 2023. The reduction in headcount underpins annual cost savings of circa \$2 million for FY24 (with the associated restructuring and redundancy costs included in FY23). MDR has made significant progress on its Pathway to Profitability through its strategic initiatives across the Group. The company has undertaken a restructuring effort focused on investing in key areas of the business to drive operational efficiencies. One notable endeavour is MedAdvisor's investment in cloud migration of US products, which delivered lower operational expenses, improved scalability, and increased operational agility. This move was the material step in a broader plan to modernize US technology to optimize processes and lay a foundation for product innovation. These advancements underscore the Company's commitment to driving financial performance and delivering sustainable growth company-wide.

- GuildLink integration was completed on schedule and below budget, with initial strategic benefits realized
- Strategic review of Australian operations completed following the GuildLink acquisition, with a 20% headcount reduction underpinning \$2 million of annualized savings from FY24
- Significant progress to profitability in FY24 through restructuring, cloud migration, and Group strategic initiatives undertaken in FY23 to create a “One MedAdvisor” business

Built a robust foundation for growth in FY24 and sustainable growth in the years ahead

For the year ended 30 June 2023 (FY23), MedAdvisor has built a robust foundation for growth, enabling the company to drive profitable EBITDA growth in FY24 and sustainable growth in the years ahead. For FY23, MedAdvisor delivered a 44.6% YoY growth in Revenue to \$98.0 million, supported by growth in both the United States and Australia & New Zealand. In the

US, MedAdvisor provides services through its omni-channel intelligent patient management platform, THRIV. The company recorded a +45.5%YoY growth in Revenue to \$78.1 million, with digital solutions accounting for 40% of total revenue. In the United States, the company expanded its pharmacy network by 10,000 locations to over 32,000 pharmacy locations. MedAdvisor recorded a +41.9% YoY growth in Australia and New Zealand (ANZ) Revenue to \$19.9 million, driven by the acquisition of GuildLink and early CY23 price increases. In Australia, the company achieved the integration of GuildLink on schedule and within budget, with nearly 95% of Australian pharmacies utilizing its platform. The restructuring efforts undertaken in the Australian business during FY23 are anticipated to deliver annualized cost savings of approximately \$2.0 million in FY24. The company also made solid progress in New Zealand, with over 215 pharmacies now successfully integrated into the MedAdvisor Solutions platform. MedAdvisor increased its Gross profit by 69.7% YoY to \$59.4 million and gross margin by 9.0% to 60.6%, driven by a strategic shift in product mix. The company reduced its EBITDA loss by \$8.3 million to \$(3.0) million in FY23 vs \$(11.3) million in FY22, driven by gross margin improvement, cost savings and scale benefits. Towards the end of FY23, the company completed the development of its initial 5-year strategic plan, which encompasses a series of initiatives poised to substantially expand our total addressable market.

EBITDA bridge FY22 to FY23:

Items highlighted below indicate one-off or non-recurring costs for FY23.

FY22 EBITDA (m)	(\$11.30)	Commentary
Revenue and Margin uplift	\$24.50	Improvement due to shift in product mix to digital medication awareness programs across and significant expansion in digital patient reach.
Performance based remuneration	(\$4.50)	Performance based remuneration (directly attributable to revenue and margin uplift). Combination of cash and non-cash share based payments.
Product innovation	(\$2.00)	Investment in product innovation capability to strengthen MedAdvisor's core products while planning for future growth.
One MedAdvisor	(\$1.50)	One-Company initiative focused on global platform planning and enterprise branding.
US Cloud migration	(\$1.20)	US cloud migration project (resulting in USD \$3m in savings over the next three years).
GuildLink Acquisition & Integration	(\$2.00)	GuildLink acquisition and integration costs.
AU / GuildLink Employee costs	(\$2.00)	Restructure employee costs (20% headcount reduction in FY24).
Business Restructure	(\$1.40)	US and AU redundancy costs.
Other	(\$1.63)	CPI increases and other general expenses.
FY23 EBITDA (m)	(\$3.03)	

(Source: Company reports)

MedAdvisor announced a strategic investment and collaboration agreement with Charac in the UK

On 28 Nov'2023, MedAdvisor announced a significant development in the UK market, through a strategic investment and licensing agreement with Charac Limited, UK (Charac), which delivers a pivotal step in the continued expansion of MedAdvisor Solution's innovative healthcare solutions globally. Charac is a leading innovator in the UK community pharmacy sector. It has developed an advanced digital patient relationship management system tailored specifically for independent community pharmacies operating within the NHS. Under the license agreement, MedAdvisor will invest up to £1 million for a 7.4% shareholding in Charac, with the appointment of Rick Ratliff as a Non-Executive Director on the Charac Board. Moreover, MedAdvisor will transition its customers to the Charac platform, allowing for the

closure of its UK operations and resulting in substantial annualized savings of AUD 700K-800K. The company will incur one-time costs of approximately AUD 300K. This strategic move ensures a continued presence in the UK market, together with a rapidly growing partner.

Achieved strong operational as well as financial performance for Q4 FY24

For the quarter ended 30 June 2024 (Q4 FY24), MedAdvisor achieved strong operational as well as financial performance, with a +32.0% YoY growth in Revenue to \$22.3 million and a +47.6% YoY growth in Gross profit to \$15.5 million, driven by both growth in the US and Australia. In the US, the company recorded 34.2% YoY growth in revenue to \$15.3 million, benefitting from the significant interest in patient engagement programs powered by THRiV. Patient engagement programs powered by THRiV represented almost 48% of 4Q revenue, compared to less than 3% in 4Q FY23. During the quarter, the company executed over 88 programs across 69 brands with more than 30 pharma organizations. In Australia and New Zealand (ANZ), the company recorded a 27.3% YoY growth in Revenue to \$7.0 million, assisted by the flow-through of FY23 price increases, new SaaS pharmacy business, and continued growth in transaction/payment fees and health programs. Health Programs business continued to grow with the Q4 FY24 value & volume of programs up by almost 60% pcp. The company is expected to deliver a 24.6% YoY growth in Revenue to \$122.1 million (FY23: \$98.0 million), a 25.1% YoY growth in Gross profit to \$74.2 million (FY23: \$59.3 million), and an inaugural EBITDA and NPAT profit for FY24.

Group Financial Results:

AUD (\$m)	4QFY24	4QFY23	Change
Revenue	\$22.3m	\$16.9m	+32.0%
Gross Profit	\$15.5m	\$10.5m	+47.6%
Gross Margin	69.5%	62.1%	+7.4ppts

(Source: Company reports)

Outlook: During Q4 FY24, the company identified several opportunities where AI can positively add to the MedAdvisor Solutions business and established a partnership with the Brand Engagement Network (BEN) to deploy conversational AI through its pharmacy channel. The company also launched Transformation 360 and completed the creation of a shared services organization structure and detailed technology development plan. MedAdvisor finished FY24 with strong momentum heading into FY25 and maintained a healthy pipeline in the US. The company expects that demand for patient engagement programs powered by THRiV to continue into 2025. In Australia, the company was also selected as a preferred software provider to support Australia's initiatives to expand the scope of pharmacy practice including various UTIs, oral contraceptives, skincare, and now the North Queensland Community Pharmacy Scope of Practice Pilot. The significant advancements achieved across the business in FY24 are providing a strong foundation for continued growth into FY25.

ACE's Recommendation

MedAdvisor (“MDR” or the “Company”) is a world-class medication management platform that empowers patients to manage their medications. During FY23, MedAdvisor has built a robust foundation for growth to drive profitable EBITDA growth in FY24 and sustainable growth in the years ahead. During the year, the company expanded its pharmacy network by 10,000 locations to over 32,000 pharmacy locations in the US. In Australia, the company achieved the integration of GuildLink on schedule and within budget, with nearly 95% of Australian pharmacies utilizing its platform. The restructuring efforts undertaken in the Australian business during FY23 are anticipated to deliver annualized cost savings of approximately \$2.0 million in FY24. The company also made solid progress in New Zealand, with over 215 pharmacies now successfully integrated into the MedAdvisor Solutions platform. The company also announced a change in its UK strategy, In Nov 2023, MedAdvisor announced a strategic investment and collaboration agreement with Charac in the UK. Under the agreement, MedAdvisor will invest up to £1 million for a 7.4% shareholding in Charac. Moreover, the company will transition its customers to the Charac platform, allowing for the closure of its UK operations and substantial annualized savings of AUD 700K-800K. MedAdvisor finished FY24 with strong momentum heading into FY25 and maintained a healthy pipeline in the US. The company expects that demand for patient engagement programs powered by THriV to continue into 2025. In Australia, the company was also selected as a preferred software provider to support Australia's initiatives to expand the scope of pharmacy practice including various UTIs, oral contraceptives, skincare, and now the North Queensland Community Pharmacy Scope of Practice Pilot. The significant advancements achieved across the business in FY24 are providing a strong foundation for continued growth into FY25. We believe that the growing adoption of its omnichannel patient engagement solutions and cost-out initiatives in place are expected to drive growth in earnings going forward. The stock closed the day at A\$0.43/share today and presents an investment proposition in our view. So, we would like to recommend a **BUY** rating on the stock.

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