Alta Fox Capital Long Idea:
Hamilton Thorne LTD (HTL CN EQUITY)

$0.80 (CAD)

04/30/2018

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HTL Business Overview (1/4)

< > HAMILTON THORNE Equity | FA | Related Functions Menu | Message

HTL CN C$ C .80 -0.02 .80 / .83 4x22

On 30 Apr d Vol 206,787 O .80V H .820 L .80V Val 165,466

HTL CN Equity | 96) Actions | 97) Export | 98) Settings | Financial Analysis

ADJ Hamilton Thorne Ltd | Periodicity Annuals | Cur USD

1) Key Stats | 2) I/S | 3) B/S | 4) C/F | 5) Ratios | 6) Segments | 7) Addl | 8) ESG | 9) Custom

11) Adj Highlights | 12) GAAP Highlights | 13) Enterprise Value | 14) Multiples | 15) Per Share | 16) Stock Value

In Millions of USD	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est	2020 Y Est
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Market Capitalization	10.1	26.2	65.1	67.8			
- Cash & Equivalents	4.3	1.8	5.7	5.7			
+ Preferred & Other	0.0	0.0	0.0	0.0			
+ Total Debt	3.9	7.2	11.1	11.1			
Enterprise Value	9.7	31.6	70.4	73.1			
Revenue, Adj	9.0	10.5	22.1	22.1	27.4	30.1	32.5
Growth %, YoY	3.7	16.4	110.4	110.4	23.8	9.8	8.0
Gross Profit, Adj	5.8	6.9	13.2	13.2	15.6	17.1	
Margin %	63.8	65.3	59.6	59.6	57.0	57.0	
EBITDA, Adj	1.4	1.3	3.5	3.5	5.6	6.5	7.7
Margin %	15.0	12.0	15.8	15.8	20.5	21.6	23.7
Net Income, Adj	1.0	0.7	5.7	5.7	2.4	3.0	
Margin %	11.4	6.5	25.8	25.8	8.8	9.8	
EPS, Adj	0.02	0.01	0.05	0.05	0.02	0.03	0.03
Growth %, YoY	0.0	-50.0	400.0	641.5	-60.0	50.0	0.0
Cash from Operations	1.1	1.0	3.2	3.2			
Capital Expenditures	0.0	-0.1	-0.4	-0.4			
Free Cash Flow	1.0	0.9	2.9	2.9			

HTL Business Overview (2/4)

ADJ Hamilton Thorne Ltd — Periods 10 Annuals — Cur USD

1) Key Stats | 2) I/S | 3) B/S | 4) C/F | 5) Ratios | 6) Segments | 7) Addl | 8) ESG | 9) Custom

11) Adj Highlights | 12) GAAP Highlights | 13) Enterprise Value | 14) Multiples | 15) Per Share | 16) Stock Value

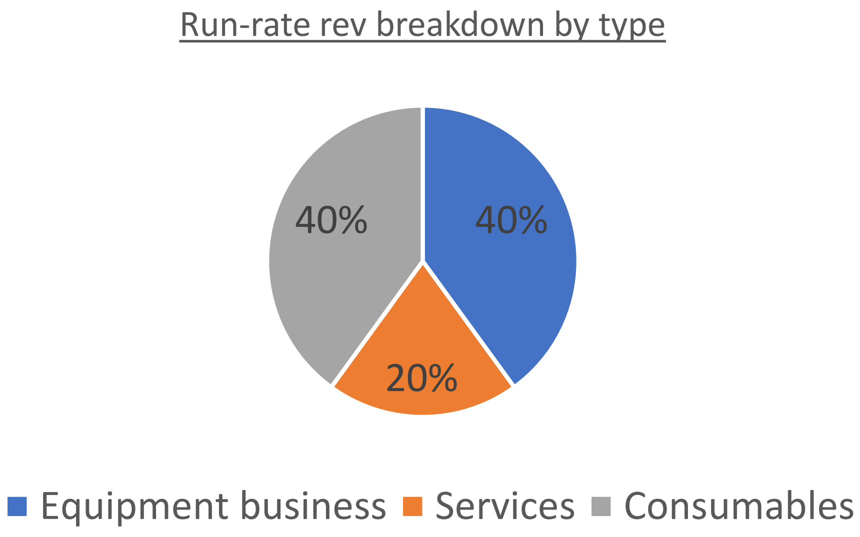
In Millions of USD except Per Share	2016 Y	2017 Y	Current	2018 Y Est	2019 Y Est	2020 Y Est
12 Months Ending	12/31/2016	12/31/2017	05/01/2018	12/31/2018	12/31/2019	12/31/2020
EV/Sales	3.00	3.18	3.31	2.67	2.43	2.25
Average	1.43	5.39				
High	3.11	7.13				
Low	0.90	2.85				
EV/EBITDA	25.03	20.13	20.91	13.05	11.25	9.50
Average	9.52	44.89				
High	24.97	59.43				
Low	6.01	20.09				

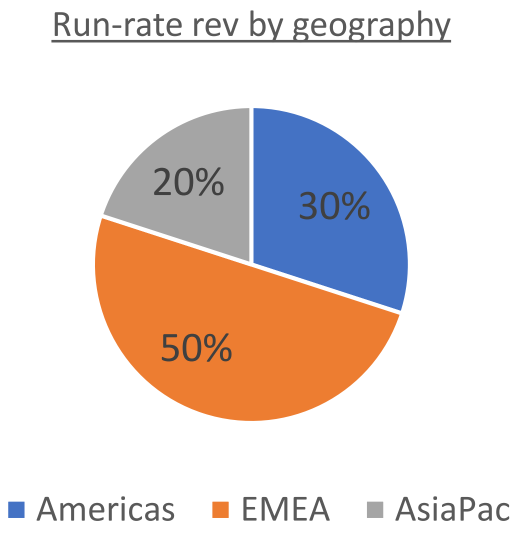
HTL Business Overview (3/4)

- Hamilton Thorne ("HTL) was founded in 1985 with a focus on developing high-tech lasers attached to a standard microscope that performed micro-surgeries on human eggs to help determine whether they were a strong or weak candidate for transfer in the IVF process.
- HTL basically invented this laser category and they always had a strong product with respected technology. However, as a business, HTL was pretty lousy: an individual laser costs ~$30,000 and is a one-time sale. The company generated millions in losses as a sub-scale equipment provider and lacked a coherent strategy.
- This all changed in 2011 when David Wolfe joined HTL and took over from one of the original co-founders as CEO.
- Through a couple of transformative acquisitions and a change in market strategy, HTL has gone from a lousy lasers business to an integrated provider of high quality IVF products to IVF clinics around the world. Today, equipment sales (including the original lasers) are only 40% of revenue. The remainder is consumables (40%) and services (20%). ~60% of run-rate revenue is high-margin recurring revenue.

HTL Business Overview (4/4)

Approx. Revenue Breakdown





- HTL products have historically been sold primarily (~80%) through distributors. However, this is rapidly changing as the company invests in its own sales force to leverage their new products from recent acquisitions.

Thesis Summary

- HTL is a high-quality business in a fast growing sector led by a value-creating CEO. We expect HTL to grow 10%+ organically over the next several years before factoring in tuck-in acquisitions. EBITDA margins will increase significantly from the low 20's today to 30% long-term as the company improves its product mix and leverages its direct sales force. Finally, with a U.S. exchange listing likely in the next several years along with increased IR efforts, the company's significant multiple gap with peers will narrow.
- Return algorithm: LDD organic revenue growth, high teens EBITDA growth, and multiple expansion.
- We believe HTL will trade (in our base case) to ~1.30 CAD/share by the end of 2019, representing ~65% upside from the current price.

Why Does This Opportunity Exist?

- Small market cap
- Does not trade on a major exchange
- Lack of many public pure plays
  - Only real pure play comp is Vitrolife, which trades in Sweden
- Company has recently transformed the business, but this is not yet apparent in full year financials
- The market is underestimating the long-term margin potential of the business

Main Thesis Points

1. In Vitro Fertilization ("IVF") is an attractive industry to invest capital in over the next decade

2. HTL is in a prime position to outgrow the IVF industry

3. HTL is a high quality business run by a very capable CEO

4. HTL's margins are likely to see significant expansion over the next 5 years

5. HTL's valuation is attractive on both a relative and absolute basis

Thesis Summary

1. **IVF is an attractive industry to invest capital over the next decade**
2. HTL is in a prime position to outgrow the IVF industry
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5. HTL's valuation is extremely undemanding given the sector and company-specific tailwinds

Supplying IVF clinics is an attractive industry to invest capital over the next decade (1/2)

- **IVF is a high growth market:** the total industry is growing ~high single digits % per year globally.
  - This is a combination of ~5% growth in mature markets and LDD% internationally.
- **Demand is relatively inelastic from end users** (couples trying to conceive).
  - This is often an emotional decision. Couples will pick the clinic they believe has high quality equipment and will give them the best chance for success. Price is not the primary determinant.
- **There is a highly fragmented customer base (1000+ IVF clinics) with low negotiating power**
- **There are significant regulatory barriers to entry** that favor the larger players that can understand and adapt to the changing global regulatory process.
- **There are high switching costs of changing IVF suppliers**: embryologists develop a familiarity with certain equipment and consumables. Switching equipment risks a greater chance of human error for what is a very expensive and delicate procedure.
- **Equipment, consumables, and services to IVF clinics is a fragmented market and the winners and losers are starting to take shape.**
  - There are 2 "tier 1 players" with over $100M in annual revenue. HTL is one of ~10 "tier 2" players with annual revenue between $20-$50M. There are many sub-scale "tier 3" players that are either being acquired or getting squeezed out of the market.

IVF is an attractive industry to invest capital over the next decade (1/2)

- **The drivers behind IVF industry growth are likely to remain in place for at least the next decade:**
  - **Delayed childbirth**: in most countries there has been a demographic shift towards delayed childbirth, with more women waiting until their 30's and 40's to have children (see appendix 1).
  - **Increasing prevalence of obesity**: worldwide obesity has doubled since 1980 and shows no sign of slowing. This has a negative impact on female and male fertility. It is a known factor for poor ovulation and obese women are 3x more likely to suffer from infertility than women with normal BMI.
  - **Growing middle class and changing policies in developing countries**: cost has traditionally been a big barrier to access. China and India are among the fastest growing IVF markets.
  - **Technological advancements:** while IVF technology has improved over the years, the success rate is still around 1/3 (resulting in pregnancy). Given the high cost and inconvenience of IVF, the number of treatments will likely increase significantly to the extent the success rate is improved.

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IVF Clinic Suppliers: Three Tiers of Competitors

- There are ~ 4,500 IVF clinics globally
  - ~1,100 in Europe, 500 in the U.S., and 2,900 in ROW
  - HTL sells to over 1,000 IVF clinics
- The market for HTL's services is a ~$1B USD market today growing ~7%
  - ~24% of revenue is from Tier 1 players, defined as $100M+ USD annually of IVF sales. This tier consists of just two companies:
    - Vitrolife (VITR), a pure-play company out of Sweden that trades for 11.4x 2018 Consensus Revenue & 29.3x Consensus 2018 EBITDA
    - The Cooper Companies (COO). IVF is <10% of sales for COO but they have recently made multiple acquisitions in the IVF space north of 5.0x revenue.
  - ~12% of revenue is from Tier 2 players, defined as $20M+ USD annually of IVF sales
    - Including HTL, this tier consists of ~9 players.
    - **Furthermore, the list of #2 players is shrinking rapidly because three of the nine have been acquired in the last 18 months!**
  - ~64% of revenue is from Tier 3 players, defined as <$20M USD annually of IVF sales
    - Many of these players supply one or two different types of products and are sub-scale, making them attractive bolt-on acquisitions for Tier 1 and Tier 2 players.

An Overview of the Tier 1 and Tier 2 IVF Competitors

- The market for equipment and services to the IVF market is very fragmented: there are two large players, a few tier 2 players, and a long tail of small, subscale players:

Company	2017 IVF Sales (USD)	Notes
Vitrolife (VITR SS EQUITY)	$122.6M	Only large-cap that is a pure play on IVF. Trades for 11.3x 2018 Consensus Revenue and 29.2x 2018 Consensus EBITDA.
The Cooper Companies (COO US EQUITY)	~$115M*	Large-cap diversified medical company that has acquired multiple IVF players in the last two years. IVF is still <5% of total sales and checks indicate the company is losing market share due to poor execution.
Cook Medical	$45	
Irvine Scientific	$40	ACQUIRED by Fuji Film in March of 2018. Full terms not known.
Kitazato Corp.	$35	
Wallace	~$30	ACQUIRED by Cooper Companies in November of 2016 for 5.79x sales
Hamilton Thorne (HTL CN EQUITY)	~$29	HTL trades for 2.7x consensus 2018 Revenue and 13.0x Consensus 2018 EBITDA. Grew 7% organically in 2017 and 14% organically in Q4 2017.
LifeGlobal	~$25	ACQUIRED by Cooper Companies in April of 2018 for 5.21x 2017 sales. Forecasted to grow revenue mid-hsd.
Nikon	~$25	
Olympus	~$25	
Illumina	~$20	

Alta Fox IVF Industry View (1/2)

- **Most of the tier 3 players will either shrink or be acquired.** Tier 3 players:
  - Do not have R&D scale so it is hard to stay on the forefront of technologies
  - Cannot afford to invest meaningfully in a direct sales force and must rely on third party distributors which do not prioritize their product and offer much lower margins
  - Are less convenient to the IVF clinics, which would prefer to interact with as few customers as possible. Larger companies can be a "one-stop shop" and can offer multiple product discounts and better customer service across a range of items.
- Vitrolife will continue to be well positioned, but its valuation reflects a bright future
- There are opportunities for tier 2 players to consolidate some of the tier 3 players at attractive prices and grow faster than the industry's HSD % growth.
  - **HTL is in a prime position to outgrow the industry as a prominent tier 2 player with a strong brand, an internal salesforce, a good cell culture medium product (through Gynemed), and a CEO with significant M&A experience. It will either:**
    - i) continue to acquire small sub-scale players in the IVF industry at attractive multiples and reap the synergy benefits or
    - ii) be acquired at a high revenue multiple by a "Tier 1" IVF player or a separate medical company that is looking to enter the IVF space

Alta Fox IVF Industry View (2/2)

- Investing in HTL is a far cheaper way to invest in the high-growth and attractive qualities of the IVF industry than Vitrolife

All #'s adjusted to millions of USD for comparison purposes, all #'s Bloomberg Consensus

Company	EV	2018 Revenue	2018 EBITDA	EV/2018 Rev	EV/2018 EBITDA	2018 rev growth	2018 EBITDA growth	2019 rev growth	2019 EBITDA growth
VITR SS EQUITY	$1,546	$139.9	$54.4	11.0x	29.3x	14.1%	15.7%	13.4%	13.8%
HTL CN EQUITY	$73.1	$27.4	$5.6	2.67x	13.0x	23.8%	60.0%	9.8%	16.0%

- **VITR has just 5.1x the revenue of HTL but trades for over 21x the enterprise value.** This gap seems unjustified because in a normal year (no acquisitions) such as 2019 consensus #'s, the companies are growing at similar rates.
- If HTL traded at even 2/3 of the fwd EBITDA multiple of Vitrolife on 2020 numbers, the stock has ~100% upside.

Additional Thoughts on HTL vs. Vitrolife

- Vitrolife is a very high quality business. They were a first mover in China with cell culture media and they have very high margins. But **we do not believe that VITR deserves over 4x the revenue multiple and 2x the EBITDA multiple compared to HTL.**
  - VITR has already had significant EBITDA margin expansion: HTL is on the cusp of it.
  - It will be increasingly difficult for Vitrolife to make acquisitions that "move the needle." The tier 3 players are mostly too small to matter for VITR and there are only 6 "tier 2 players" available to acquire.
    - HTL on the other hand has a long runway for acquisitions of smaller competitors which can drive significant inorganic growth at high incremental margins.
- Alta Fox view: HTL's significant multiple gap versus VITR will shrink. HTL's multiple is low partially because it is on the Canadian venture exchange and has an insignificant institutional investor following. With increasing IR efforts and a desire to list on the Nasdaq, this will all sort itself out for long-term oriented investors patient enough for the multiple gap to close.

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HTL is a high quality business

- ~60% recurring revenues
- 100%+ Returns on Capital
- Organic growth of 10%+ per year with a very long runway
- Highly fragmented market with opportunities for significantly accretive M&A
- Diversified product portfolio (1,000+ SKUs) and diversified customer base (1,000+ IVF clinics)
- High barriers to entry

How did HTL transform from a struggling equipment business to a high-quality IVF competitor?

- The company, under David Wolf's leadership as CEO, changed its strategy. Wolf realized that being a niche tier 3 player is significantly less attractive than being a diversified tier 2 player within the IVF market.
- Wolf made two really smart acquisitions to transform into a tier 2 player, which increased their mix of recurring revenue from 0% to 60% and increasingly used a direct sales force.
- Embryotech: Acquired in September 2017 for $7.25M USD ($6.08M cash, $1.175M stock at 0.198/share)
  - Purchase price represented ~1.5x 2017E revenue and ~4.8x 2017E EBITDA.
  - This business is a market leader in providing quality control services to the fertility space.
    - Every piece of equipment or consumable that comes into contact with the egg or sperm has to be checked for toxins. Embryotech performs these tests.
    - This is a good business because it is 100% recurring revenue, there are regulatory barriers to entry, and switching costs are very high.
- Gynemed: Acquired in April 2017 for $15.1M USD (9.3M cash, 2.3M stock at 0.57, 3.5M convertible debt).
  - Gynemed is a manufacturer and distributor of a wide range of consumables and equipment to IVF labs primarily in Europe. Importantly, this provided HTL with a respected cell culture media product and a sales team in Europe.
  - Purchase price represented ~1.6x trailing revenue and 6.6x trailing EBITDA.
- Both of these businesses, as shown in the subsequent slides, are high quality businesses as standalone entities. However, they are far more valuable when rolled into HTL because it can cross-sell multiple products to customers while leveraging the existing sales force.

Embryotech Acquisition Overview

- 80% gross margin business
- 100%+ returns on tangible capital
- Nearly 100% recurring revenue

- This is a high-quality business and expanded HTL's product offering.

Embryotech Financials (USD)	2015
Revenue	4,977,624
COGS	1,080,676
GP	3,896,948
GM %	**78.3%**
SG&A	1,488,893
SG&A % sales	29.9%
EBIT	2,408,055
EBIT Margin %	**48.4%**
Tangible Capital Invested	
(+) PP&E	200,829
(+) Total current assets	1,412,013
(-) Cash	528,130
(-) Accounts Payable	24,184
Total Tangible Capital Employed	**2,116,788**
EBIT/Tangible Capital	**114%**

Gynemed acquisition overview

- Mid 40's gross margin business with significant operating leverage growing top-line mid-teens.
- ~80% recurring revenue business
- 100%+ returns on tangible capital

- This is a high quality business. It was growing mid-teens BEFORE layering in the cross-selling synergies at HTL.

Gynemed Financials (EUR)	**2015**	**2016**
Revenue	7,615	8,842
y/y %		16.1%
COGS	4,353	4,745
GP	3,262	4,097
GM %	**42.8%**	**46.3%**
Total opex	1,522	1,571
EBIT	1,749	2,533
% sales	**23.0%**	**28.6%**
y/y		44.8%
Tangible Capital Invested		
(+) Total Assets	2,429	2,319
(-) Intangible assets	11	6
(-) Liquid assets	193	21
Total Tangible Invested Capital	2,225	2,292
EBIT/Tangible Capital	78.6%	110.5%

How was HTL able to acquire these businesses at such attractive multiples?

- Embryotech deal
  - HTL identified the seller, which was located in the same state. HTL contacted them directly over an extended period.
  - HTL was able to purchase at an attractive price because: HTL was the only bidder, there were real revenue synergies, and HTL was able to easily absorb Embryotech as a local player.
- Gynemed deal
  - Gynemed had 3 owners. 2 were looking to retire, 1 wanted to continue in the business. The company engaged a broker. HTL came up with an offer that was able to match the sellers needs
  - HTL was not the highest bidder. Their offer was accepted because there were revenue synergies (versus cost synergies/layoffs) and the company's owners could contribute in those synergies via the equity piece of the HTL offering.
  - Dr. Fabian Sell, CEO of Gynemed commented, "My co-founders and I founded Gynemed 20 years ago to provide premium products backed by the highest quality scientific data. We are very pleased to be joining Hamilton Thorne who shares our belief in quality and service. We believe that the combination of the businesses can significantly accelerate the growth of both the Hamilton Thorne and Gynemed operations around the world. The management and board of Hamilton Thorne have been strong partners during this process and we look forward to the future of the combined Company."

David Wolf is a Strong CEO that has and will create value at HTL

- **David Wolf has created tremendous value**
  - When he became CEO in September of 2011, the business was losing over a million/year in EBITDA and was a struggling equipment business without a cohesive strategy
  - In a relatively short span, he has transformed the company into a diversified tier 2 player with ~60% recurring revenue growing faster than the industry
  - The stock price has increased over 500% since he took over in September of 2011
- **Wolf's strong M&A background likely to lead to additional value created**
  - He tracks 150 companies in the IVF space and maintains a dialogue with ~60 IVF companies at any given time that are potentially open to selling. As tier 3 players continue to get squeezed by tier 1 and tier 2 players, HTL should be able to continue to acquire attractive assets at bargain prices.
  - He has over 30 years of M&A experience.
- **He is non-promotional and 100% focused on the business**
  - Unlike many micro-cap CEO's we have encountered, Wolf is non-promotional. He sets goals that are realistic and tends to exceed them. Furthermore, despite his M&A experience, he is not an "empire-builder." He apparently spent close to a year in discussions with Gynemed on a debate over 1-turn in EBITDA multiple.
  - He is honest and straightforward about the challenges of integrating companies and seems to "get it."
  - We believe he is a very high-quality CEO whose strengths are well suited for the changes occurring in the IVF industry.

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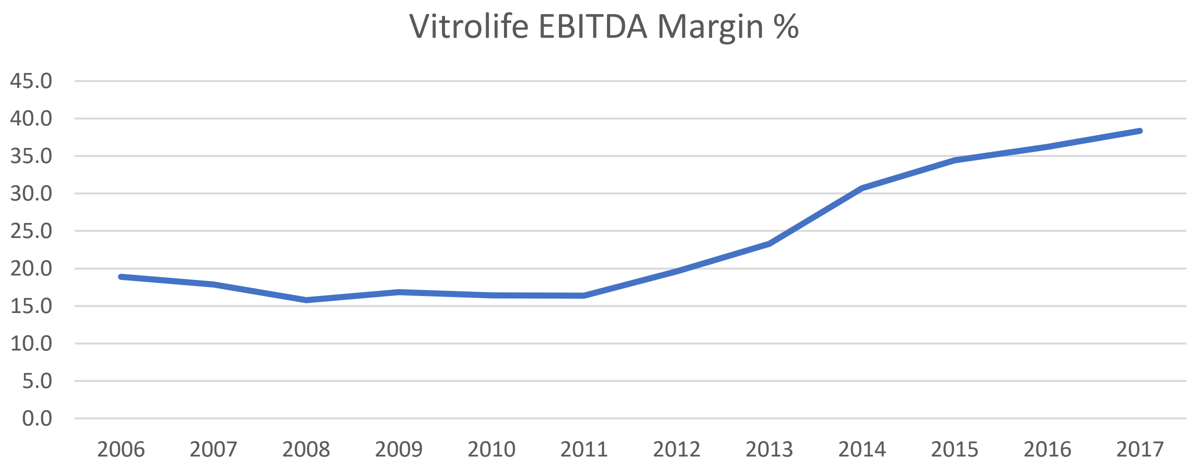
HTL's margins are likely to see significant expansion over the next 5 years (1/2)

- From 2006-2017, Vitrolife's margins more than doubled from 18.9% in 2006 to 38.3% in 2017.
- An important factor contributing to Vitrolife's margin growth was the growth of their cell culture media segment. This is the ultimate high-recurring revenue consumable in the industry because it is crucial to the IVF process, switching costs are high (embryologist familiarity and trust), and it is a low cost relative to the overall procedure.
- With the 2017 acquisition of Gynemed, HTL now has a respected cell culture medium for the first time. Gynemed has a strong foothold in Europe (in 95%+ of IVF clinics), but is underpenetrated globally. HTL is in the process of getting the approved licenses to sell Gynemed elsewhere and leveraging their existing sales force. As Vitrolife's margin expansion demonstrates, this is a big deal.

HTL's margins are likely to see significant expansion over the next 5 years (2/2)

- We believe that HTL is likely to have significant margin expansion over the next 5-10 years, similar to Vitrolife's when it was similarly sized.



2006 Vitrolife versus 2017 HTL (millions of USD)

	Vitrolife (2006)	HTL (2017)
Revenue	**23.3**	**22.0**
Gross Profit	15.8	13.3
Gross Margin %	*68.0%*	*60.4%*
Adj. EBITDA	**4.4**	**4.9**
Adj. EBITDA %	*18.9%*	*22.2%*

HTL's margins are likely to see significant expansion over the next 5 years (2/2)

- HTL comments from 5/25/17 conference call post-Gynemed acquisition:
  - "Clearly, Gynemed products have a tremendous opportunity to be sold successfully as they have been in the European market, and historically in selected Asian markets. Given the Hamilton Thorne broad distribution that we have in Asia as well as the distribution and direct sales that we do in the Americas… we will be able to expand the sales of the Gynemed-branded products which will in fact enhance both top line revenues and gross profit margins."
- HTL comments from Q4-17 conference call on cell culture media:
  - "An important emphasis for us is increasing the sale of Gynemed consumables in the U.S."
  - We've also recently filed our first FDA 510(k) submission to get clearance to offer the Gynemed family of cell culture media products into the U.S. We will follow up with additional submissions over the next few months.

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HTL's valuation is extremely undemanding given the sector and company-specific tailwinds (1/2)

- Relative to peers, HTL is significantly undervalued
  - HTL is growing at similar rates to VITR but trades for a small fraction of VITR's multiple

Company	EV	2018 IVF Revenue	2018 EBITDA	EV/2018 Rev	EV/2018 EBITDA	2018 rev growth	2018 EBITDA growth	2019 rev growth	2019 EBITDA growth
VITR SS EQUITY	$1,546	$139.9	$54.4	11.0x	29.3x	14.1%	15.7%	13.4%	13.8%
HTL CN EQUITY	$73.1	$27.4	$5.6	2.67x	13.0x	23.8%	60.0%	9.8%	16.0%

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Recent M&A transactions suggest HTL is significantly undervalued:

Date Announced	Acquirer	Target	Currency	Transaction Value (M)	Revenue Multiple	EBITDA Multiple
4/3/2018	CooperSurgical	LifeGlobal	USD	$125	5.2x	N/A
4/28/2017	Hamilton Thorne Ltd.	GYNEMED GmbH & Co. KG	USD	15.1	1.6x	6.6x
11/6/2016	CooperSurgical	Smiths Medical (Wallace)	GBP	140.0	7.0x	10.8x
9/16/2016	Hamilton Thorne Ltd.	Embryotech Laboratories	USD	7.3	1.5x	4.8x
5/31/2016	Vitrolife AB	MTG/Octax	SEK	127.2	1.6x	7.7x
5/25/2016	CooperSurgical	Recombine Inc.	USD	85	4.3x	N/A
4/4/2016	CooperSurgical	Genesis Genetics	USD	60	2.5x	N/A
2/9/2016	CooperSurgical	The Pipette Company	USD	14.3	N/A	N/A
12/17/2015	CooperSurgical	Research Instruments Ltd.	USD	76	4.5x	17.1x
8/10/2015	CooperSurgical	Reprogenetics LLC	USD	46.5	2.3x	N/A
11/5/2014	Vitrolife AB	Unisense Fertilitech A/S	SEK	360.7	3.8x	N/A
6/29/2012	Vitrolife AB	Cryo Management Ltd.	EUR	9.0	4.5x	N/A
6/4/2012	CooperSurgical	Origio A/S	DKK	1,182.20	3.1x	18.3x
Median					**3.1x**	**9.3x**
Median excluding HTL deals					**3.8x**	**14.0x**

Valuation Methodology

- We examine two different valuation methodologies:
  - A revenue-based methodology, which is most applicable if HTL is acquired, which we see as a reasonably likely outcome.
  - An EBITDA-based methodology, which is most applicable if HTL remains a standalone entity and continues to acquire tier 3 IVF players.
- For both methodologies we:
  - Project out to 2020, apply respective forward estimates to 12/31/2020 assuming a 12/31/2019 exit.
  - Use a fully diluted share count including conversion of convertible debt to equity.
  - Assume modest cash build (including conversion of convertible debt to equity).
  - Largely ignore the benefits of additional acquisitions (only incorporate 1% growth in inorganic revenue/year in base case).
  - Apply multiples in the base case consistent with recent non-HTL M&A. transactions. In the bull case, we assume multiples in excess of the recent M&A comps but a discount to VITR.

Valuation: Assuming HTL is acquired on a Revenue Basis

Revenue based valuation			
	Bear	Base	Bull
2020 Rev (USD)	32.9	35.5	37.4
Multiple	3.5	4.0	7.0
EV	115.1	142.2	261.8
net cash (assumed)	4.0	5.0	6.0
Equity Value (USD)	119.1	147.2	267.8
USD:CAD	1.26	1.26	1.26
Equity Value (CAD)	150.0	185.4	337.4
FDSO	129.5	129.5	129.5
Equity Value (CAD)/Share	1.16	1.43	2.61
Current Price	0.80	0.80	0.80
% upside	44.8%	79.0%	225.6%
IRR	24.8%	41.7%	102.9%

Notes

Base case: 10% organic growth/yr + 1% inorganic

VITR: 11.4x, recent M&A median: 3.8x

Valuation: HTL as a standalone entity

EBITDA based valuation	Bear	Base	Bull
2020 EBITDA (USD)	7.16	8.54	9.80
Multiple	12.0	14.0	25.0
EV	85.9	119.6	245.1
net cash (assumed)	4.0	5.0	6.0
Equity Value (USD)	89.9	124.6	251.1
USD:CAD	1.26	1.26	1.26
Equity Value (CAD)	113.3	157.0	316.4
FDSO	129.5	129.5	129.5
Equity Value (CAD)/Share	0.87	1.21	2.44
Current Price	0.80	0.80	0.80
% upside	9.4%	51.5%	205.3%
IRR	5.5%	28.3%	95.2%

Notes

VITR: 29x fwd EBITDA, recent M&A median: 14.0x

VITR EV/fwd Revenue over time

VITR EV/fwd EBITDA over time

Risks

- Key man risk
  - David Wolf is important to the continued success of HTL.
- New products are not effective, HTL loses market share
- HTL has a product quality issue, erodes brand value
- Company makes a poor acquisition and/or fails to properly integrate existing acquisitions

Catalysts

- Greater analyst/IR coverage
  - Company recently engaged Bristol IR, which is doing a webinar kickoff event on 5/1/2018 which should help tell HTL's story
  - Company only has two analysts covering the name from small firms.
- Listing on a major exchange
  - This is a U.S. business trading on the Canadian Venture Exchange. Management is outspoken about their desire to list in the U.S. once they reach the appropriate scale.
- Additional accretive acquisitions likely to be viewed favorably
- Beating consensus estimates
  - Consensus estimates look low for 2019 in particular. Analysts are assuming <10% revenue growth, stable gross margins, and 110 bps of operating leverage. All of those assumptions seem like bear case estimates. Company should be able to do 10%+ organic growth, is likely to make an additional acquisition, and is very likely to have more than 110 bps of operating leverage as they i) shift more sales to their direct sales force and away from third party distributors and ii) increase the penetration of Gynemed's high-margin cell culture media.

Conclusion

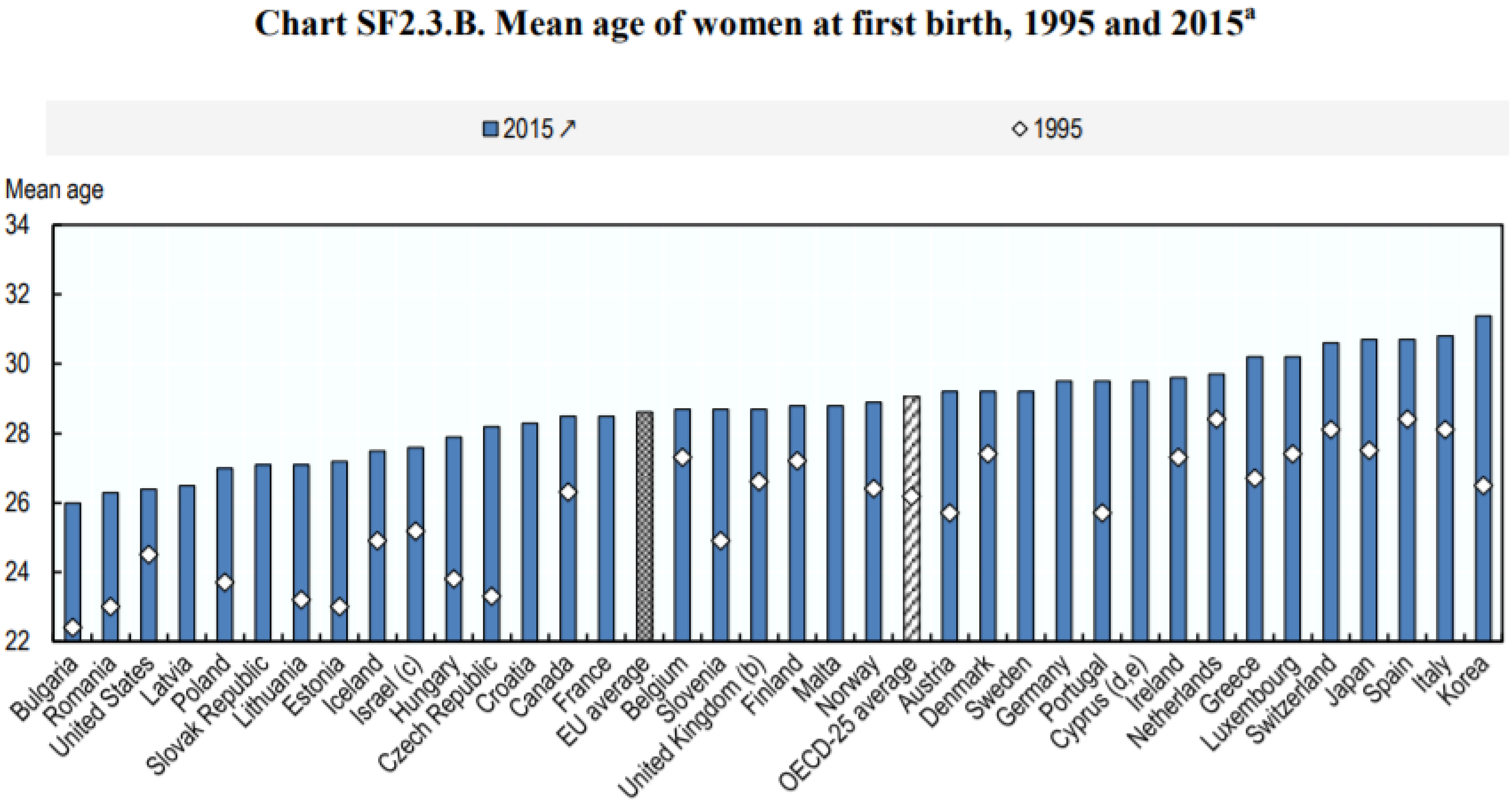
- HTL is a high-quality business in a very attractive sector on the verge of significant top-line growth and operating leverage.
- The company is significantly undervalued relative to both peers and recent M&A transactions. Additional analyst and IR coverage, along with outperformance versus consensus estimates, should serve as catalysts to drive attractive returns through 2019-2020.
- 1.30 CAD/share (in between revenue and EBITDA method base cases), representing 63% upside, seems like a reasonable 2019 price target without making any heroic assumptions.

Questions? Comments?

- Feel free to contact: info@altafoxcapital.com

- To be added to our distribution list, visit: https://www.altafoxcapital.com/contact/

Appendix 1



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