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Investment ANALYSIS

Indies Pharma Jamaica Ltd.
October 4, 2022

Cumax Wealth Management Company Limited

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Company Profile

Indies Pharma Jamaica Ltd. (Indies or Indies Pharma) was listed on the Junior Market of the Jamaica Stock Exchange in 2018. The company distributes over 150 prescriptions and non-prescription or “over the counter” generic pharmaceutical products for Bioprist Holdings Limited under the “Bioprist Pharmaceuticals” brand in addition to the new line of products being sold under Orthopaedic and Joint Rehabilitation segment.

Indies services customers across all 14 parishes of the island, including over 400 pharmacies, private and public hospitals and government agencies including the National Health Fund as well as medical practitioners, and directly to individual end users. The Company strategy is to provide unique, quality, and affordable pharmaceutical and complementary products while maintaining efficient and effective product distribution across the island. It also aims to be a leading and trusted pharmaceutical distribution company with strong customer relationships, a commitment to brand and product development, and a large and reliable distribution network.

Shareholder’s Breakdown

Shareholders	Ordinary Shareholding	Approximate % of Total Shares
1 Bioprist Holding Inc.	1,042,858,249	78.26%
2 Sunand Gogineni	44,903,438	3.37%
3 GK Investments Limited	39,898,926	2.99%
4 Venugopal Naidu Kuntamukkala	23,171,070	1.74%
5 VM Wealth Equity Fund	13,695,613	1.03%
6 SAGICOR Select Fund Limited	10,688,828	0.80%
7 E Penny Barron	7,192,281	0.54%
8 NCB Capital Markets Ltd.	5,933,411	0.45%
9 JCSD Trustee Services Limited	5,967,082	0.45%
10 Star Holdings Ltd.	5,120,895	0.38%
11 General Public	133,106,856	9.99%
Total	1,332,536,649	100.00%

Analyst's Opinion

Rating	Closing Price 10/4/2022	Estimated Fair Value	Potential Capital Gain
Overweight	\$2.96	\$4.15	40.20%

It is our opinion that Indies Pharma is in the early stages of a new growth phase of its life cycle characterised by heavy investments in Research and Development (R&D) aimed at producing new generic formulations. This is best demonstrated in the company's intangible assets value which grew from nothing at the end of FY 2019 to over J\$370M at the end of 9M 2022. These investments were primarily aimed at gaining approval from the United States' Food and Drug Administration (FDA) for distribution of two (2) generic formulations in the United States. The evaluation of drugs, according to Indies co-founder and Chief Operating Officer, is expected to be completed by the FDA by the end of 2023. It is our expectation that, should FDA approval be forthcoming, access to the US\$730M market for the particular drugs should be accretive to Indies Pharma's shareholders.

The company has also continued to invest locally, submitting new drugs for approval to Jamaica's Ministry of Health and Wellness. In 2021, Indies President and CEO, Mr. Guna Muppuri indicated that the company has a number of applications before the Ministry seeking approvals, including:

"18 drugs long overdue for approval, another 26 waiting for appointments to submit dossiers, and another 38 drug dossiers will be ready for filing within the next few quarters¹"

These applications augur well for the company's portfolio of goods and by extension its reach within the local market. The company's holding of three (3) acres of land in Ironshore, St. James through its subsidiary Indies Pharma Business Park Limited, also augurs well for the company. The development plans submitted to the St James Municipal Corporation suggest upon completion (estimated for late 2023) the property will serve as the head office of Indies Pharma, affording

¹ Huntley Medley, Jamaica Gleaner, Indies Pharma pins hopes on new drugs, streamlined supplies to reverse declines, Published June 20, 2021, <https://jamaica-gleaner.com/article/business/20210620/indies-pharma-pins-hopes-new-drugs-streamlined-supplies-reverse-declines>

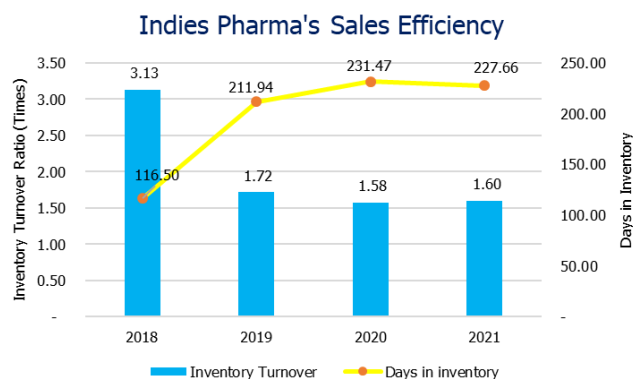
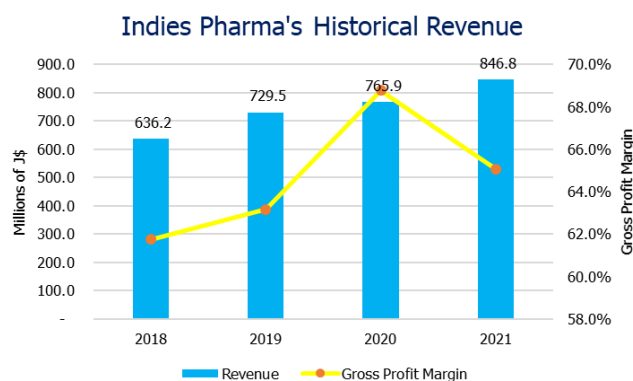
the company more warehousing space, house business processing outsourcing (BPO) operations and be a knowledge processing and financial centre.

It is our opinion that the fulfilment of these medium term objectives will likely be a catalyst to medium to long term growth. The anticipated growth is likely to more than compensate for the expiration of tax free concession the company enjoys on its earning until its fifth anniversary of listing on the Junior Market of the Jamaica Stock Exchange in 2023. Subsequent to that, the company’s tax rate should fall to half of the corporate income tax rate. These objectives will be complimented by short term business efficiency enhancing decisions taken by management to reduce slow moving products from its inventory and to strengthen its supply chain management in the context of the current logistical and inflationary environment. The implementation of these strategies coupled with consistent growth in sales, in our opinion, could still allow for the company to deliver value to shareholders in the short term. Consequently, Cumax Wealth estimates the fair value of Indies Pharma using the discounted cash flow to equity model and dividend discount model at J\$4.15 per share and recommend an **Overweight** position of the stock in a portfolio.

Financial Analysis

Profitability Review

Indies Pharma’s generated revenue of J\$846.8M in FY 2021, representing a 10.56% or J\$80.9M improvement relative to the previous year’s performance. In the process, the company incurred J\$295.9M in direct expenses, a 23.68% increase relative to the J\$239.3M incurred in the previous year. As a consequence of the higher degree of growth in expenses, Indies Pharma’s gross profit margin contracted from 68.8% in FY 2020 to 65.1% in FY 2021. Despite the year over year contraction in gross profit margin, Indies Pharma’s gross profit margin in FY 2021 remained above the average gross

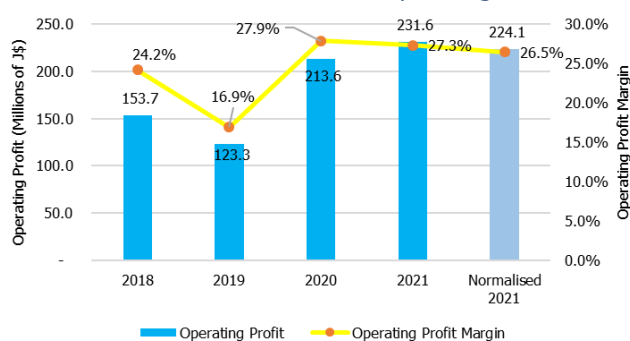


profit margin of 64.6% in the previous three years. Sales efficiency was relatively stable in FY 2021, with inventory turning over approximately 1.60 times, relative to 1.58 times. As a consequence of the modest improvement in the turnover ratio, inventory remained in stock for 228 days relative to 231 days the year prior.

Gross profit was supplemented by J\$7.5M in other operating income, which was the highest level of other operating income in the past four years, surpassing the previous year's J\$1.86M by over 300%. Other operating profit consisted of interest income, commissions, gain on disposal of fixed assets and other miscellaneous sources of income; approximately 65% of FY 2021's other operating income was from interest income and approximately 32% was from the gain on disposal of fixed assets.

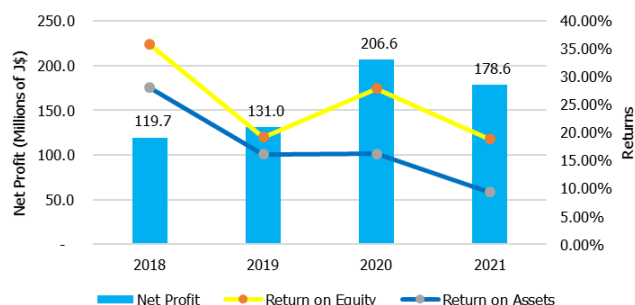
Indies incurred administrative expenses of J\$326.8M in FY 2021, a modest 3.8% or J\$11.8M increase relative to the previous year. Nonetheless, operating profit increased YoY by 8.4% or J\$18.0M. Operating margin, however, slightly contracted from 27.9% to 27.3%, despite the aforementioned extraordinary other operating income earned during the year. Nonetheless, when other operating income was normalised, Indies Pharma's operating profit still would have improved YoY by just shy of 5.0%.

Indies Pharma's Historical Operating Profit



Despite the previously described positive performance, Indies Pharma's bottom line contracted by 14.4% or J\$30.1M YoY to J\$178.6M. This was attributable to financing expenses the company incurred during the year. In FY 2021, Indies incurred J\$67.8M in finance expenses, which consumed approximately 30% of Earnings before Interest and Taxation (EBIT). For context, in the previous three years financing expenses, on average, consumed less than 4.0% of EBIT. The heightened financing expenses was in relation to an J\$805M bond the company issued in late (September) 2020. Consequently,

Indies Pharma's Historical Profitability & Returns

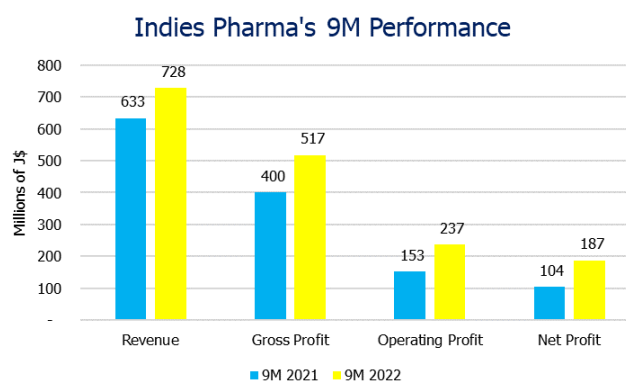


the company's Return on Average Shareholder's Equity and Return on Average Total Assets contracted in FY 2021 to 18.9% and 9.4%, respectively, from 27.9% and 16.2%, respectively, in the previous year.

First Nine Months of FY 2022 (9M 2022)

Indies Pharma's top line performance during the first nine months of FY 2022 (9M 2022) outperformed 9M 2022's revenue by 14.0%, growing to J\$727.6M. The higher level of revenue was coupled with a lower cost of goods sold as the company robust inventory management strategy helped to mitigate against an increase in direct expenses. Consequently, gross profit margin improved to 71.10% in 9M 2022 versus 63.18% in 9M 2021.

Operating profit and net profit also improved during the period, improving by 55.0% and 81.0%, respectively, to J\$236.6M and J\$187.4M, respectively. The respective margins also improved in tandem, with operating margin improving to 45.73% in 9M 2022 relative to 38.15% in the



corresponding period of the previous financial year. Meanwhile, net profit margin expanded to 36.23% relative to 25.89% in the corresponding period of the previous year. Of note is the fact that the company's reported nine month operating profit and net profit has surpassed that which was earned for the entirety of FY 2021.

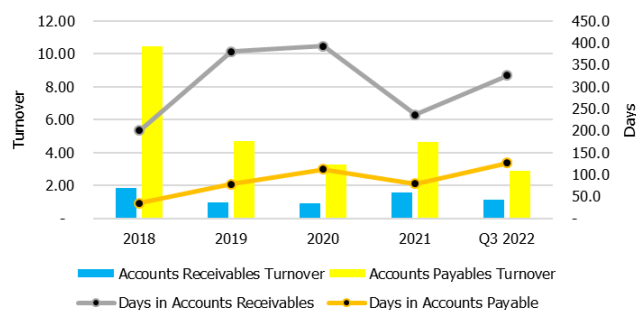
Balance Sheet, Liquidity & Solvency Analysis

As at July 31, 2022 (i.e. the end of Q3 2022) Indies Pharma reported total assets valued at J\$2.17B, consisting of approximately 73% non-current assets and 27% current assets. Over the past two and three quarter years (2.75) the company's asset grew by 181% from J\$770.9M at the end of FY 2019 to J\$2.17B at the end of Q3 2022. The initial catalyst for the significant growth in Indies Pharma's asset growth was a J\$805M loan the company received in FY 2020 to acquire asset.

The company's liquidity remained strong over the past half of a decade. At the end of Q3 2022, Indies Pharma's current and quick ratio were 7.43 times and 4.76 times, respectively. The company also maintained a strong cash position throughout the period, with that position growing relative to current liabilities as the

company's cash exceeding current liabilities by 2.28 times at the end of Q3 2022. However, the nominal cash balance has consistently declined, falling from J\$314M at the end FY 2020 to J\$191M at the end of Q3 2022. Important to note is that the cash balance in FY 2020 was supplemented by the aforementioned bond issue. Nonetheless, the decline in cash was assisted by a consistent theme of the company remitting payables at a faster pace than which the company collected receivables; 2.90 times relative to 1.12 times, respectively.

Indies Pharma's Receivable and Payable Turnover

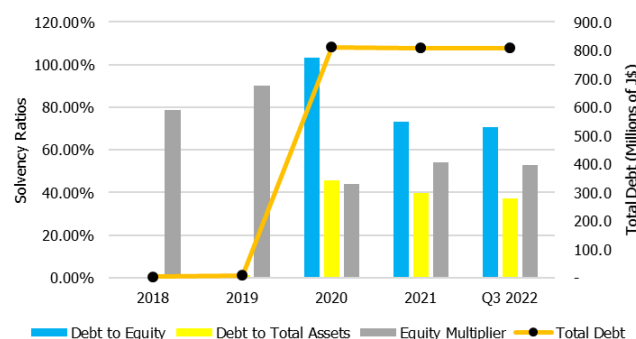


The company's solvency and nominal debt peaked in FY 2020 when the aforementioned bond was issued². In the years following, however, solvency improved, though nominal debt remained relatively stable. At the end of Q3 2022, Indies Pharma's total debt to total equity ratio declined to 70.6% compared to 103.1% at the end of FY 2020. The decline in the ratio (i.e. strengthening of the company's solvency) was

attributable to significant growth in the company's shareholder's equity as the revaluation reserve grew as a consequence of revaluation gains on land and buildings. Coupling this with retained profitability caused shareholder's equity to improve by 40.73% or J\$320.5M YoY to J\$1.1B. The

improvement in the company's equity position also helped the equity multiplier to improve over the period from 0.44 times total assets to 0.53 times total assets³. Similarly, the debt to total

Indies Pharma's Historical Solvency



² The 805M bond is a secured bond paying a coupon of 7% per annum, maturing in 2025.

³ A Higher Equity Multiplier suggest less reliance on debt to fund asset acquisition.

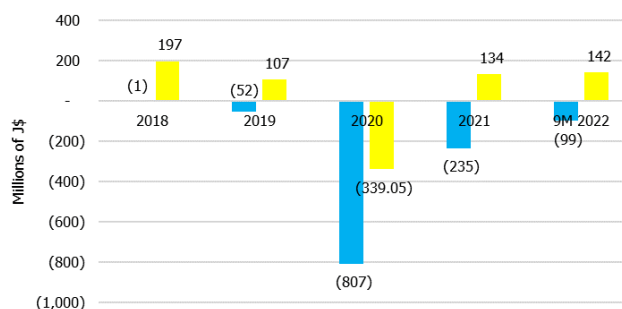
asset ratio followed a similar trajectory towards improvement, as by the end of Q3 2022 debt funded 37.3% of total assets relative to 45.5% at the end of FY 2020.

Cash Flow Analysis

Over the past four and three quarter years, Indies Pharma has generated positive cash flows from its operations. In FY 2022, the company generated J\$377.2M in cash from its operating activities, surpassing the J\$321.7M accrued in the previous year by 17.24%. During 9M 2022, the company generated J\$208.3M in cash from its operating activities, a 16.33% decline from the corresponding period of the previous financial year. This was primarily attributable to a higher rate of cash outflows versus cash inflows in 9M 2022 versus 9M 2021. This was best symbolised by the fact that during 9M 2022 the days in inventory increased from 289 days a year prior to 387 days (i.e. increase cash outflow).

Indies Pharma began to ramp up its investing activities in FY 2020, expending J\$807M that year towards Research and Development (R&D) and to gaining approval from the United States' Food & Drug Administration for the approval of its two generic formulations. This trend followed in subsequent years, with the company expending J\$235M in FY 2021 and J\$98.9M in 9M 2022. Despite the intensive investing activities, free cash flow (i.e. operating activities less capital expenditures) tended to be positive, with FY 2020 being the exception.

Indies Pharma's Historical Cash Used in Investing Activities & Free Cash Flows



In FY 2021 and during 9M 2022 Indies Pharma did not borrow to supplement its cash balance. Consequently, the hefty investments coupled with financing outflows were a drain on the company's cash balance in FY 2021 and in 9M 2022. This resulted in the net results of operating, investing and financing activities in those years being a reduction in the cash balance by J\$122.6M and J\$6.8M, respectively.

Company Valuation

Our thesis is that Indies Pharma's performance is likely to continue to improve in the short term as demand for their pharmaceutical products is expected to remain robust. We anticipate that the strong sales performance is likely to be complimented by management's strategy to optimize inventory management, which over the last nine months has helped the company better manage its expenses during a period characterized by supply chain disruptions and price inflation. It is our opinion that these skills will be transferable to the medium term when global supply chains eventually normalize.

Indies Pharma's performance was forecasted into the future for five (5) years and we utilized a Dividend Discount Model (DDM) and a Free Cash Flow to Equity Model (FCFE) to determine the stock's fair value. We anticipate the company to generate J\$983M in revenue and J\$261M in net profit in FY 2022. However, in the short term it is our opinion that investors should anticipate continued robust capital expenditure as the company continues to invest in R&D, positions itself to attain the United States' Food and Drug Administration for two (2) generic drugs and to develop property. Additionally, the company's zero tax concession is expected to expire in 2023, subsequent to which the company will pay half of the normal tax rate for five years. Nonetheless, it is expected that in the medium term, the company's investments will bear fruit and overcome the loss of the tax concession. At discount rate of 10.56% and an expectation of rapid earnings growth in the medium term the DDM and FCFE to produce a fair value estimates of J\$4.13 and J\$4.17 per share, respectively. **An average of the two yielded an estimated fair value of J\$4.15.**

Risks to Valuation

- 1) Changes in **economic conditions** could affect the company's ability to garner income. These changes include economic downturn, a change in the interest rate environment, changes in the labour market, etc. This risk is not just isolated to a local economic events as global economic changes could have a contagion effect on the company as well. Similarly, improvement in economic conditions could have the opposite effect.

- 2) Changes in **Government Policies** could affect the company's ability to do business. For example, one of the company's primary customers is the National Health Fund. Losing this customer could have a significantly negative impact on the company's earnings.
- 3) **Supply side shocks** could impede the company's ability to serve its clients, potentially resulting in loss of revenue, adverse timing of revenue and/or margin contraction.
- 4) **Poor inventory management** could also allow the company to hold obsolete inventory which it may have to write off.

Appendix

Investment Recommendation Definitions

Overweight – Consider capping exposure to this asset to 10% of the value of the portfolio.

Underweight - Consider reducing portfolio exposure to this asset to less than 5%.

Marketweight - Consider capping exposure to this asset to 5% of the value of the portfolio.

Sell - Consider reducing your portfolio's exposure to this asset to 0%.

Disclosures and Disclaimers

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