



ScripsAmerica, Inc. (OTCQB: SCRC, Target Price: \$1.20)

ScripsAmerica, Inc. (OTCQB: SCRC, "ScripsAmerica") is a growing provider of specialty prescription and over-the-counter (OTC) pharmaceuticals and medical supplies. At present the company generates the majority of revenues from its high margin specialty pharmacy business, which is led by its Main Avenue Pharmacy subsidiary. Based in New Jersey, Main Avenue specializes in compounding and is licensed to prepare and fill prescriptions using topical creams rather than pill format. In recent weeks, ScripsAmerica provided a positive update for 2014 and 1Q15 results, and also announced its intention to acquire an equity interest in more specialty pharmacies that would expand its specialty pharmacy operations into an additional 30 states.

Investment Highlights

Scrips reports strong revenue growth in fiscal 2014

ScripsAmerica released a business update on March 23, 2015, in which it confirmed preliminary fiscal 2014 revenues of over \$30mn and a profitable second half of the year. The results were roughly in line with our estimate of \$31.9mn on the top line, and we believe represent a significant milestone for the company. ScripsAmerica also disclosed a profitable beginning to the year, confirming that it would generate over \$0.4mn in net income during 1Q15 on revenues of at least \$9.5mn, representing growth of over 10x from 1Q14 revenues of \$0.8mn. Although \$9.5mn is a sequential decline from 4Q14 levels, management indicated that this was primarily the result of seasonality in the compounding business during January and February.

Acquisitions to dramatically expand compounding business

On March 6, 2015, ScripsAmerica announced its intention to acquire an equity interest in two additional specialty pharmacy businesses, which would increase the number of states in which the company can provide compounding to 40. As we noted during our initiation report on ScripsAmerica in December, we envision the specialty pharmacy division underpinning strong growth for ScripsAmerica for years to come. The company's Main Avenue unit can only provide compounding distribution in approximately ten states, so the proposed acquisitions have the potential to make a major impact on the specialty pharmacy business by increasing its geographic reach fourfold.

Gaining traction at PIMD

ScripsAmerica also appears to be gaining traction at PIMD International LLC ("PIMD"), a prescription drug and OTC branded products wholesaler located in Miami, FL, with DEA and state licenses to operate in eleven states. ScripsAmerica controls a 90% interest in PIMD, which specializes in providing medical wholesale services to hospitals, pharmacies and physicians, proving access to medications where there are shortages and customer inventories are below manufacturer allocation requirements. Although it is in the early stages, PIMD has experienced rapid growth from a small initial base, with revenues increasing from \$135,000 in January to \$554,000 in February.

Maintain price target of \$1.20

We maintain our price target of \$1.20 for ScripsAmerica. If achieved this would represent 1100% potential upside from the recent market price of \$0.10 on April 22, 2015. We see the next twelve months as a key period for the company, as we expect ScripsAmerica to demonstrate growth in its specialty pharmacy business, form a baseline of business at PIMD, and provide an update on the launch of its RapiMed product in Hong Kong.

Stock Details (04/20/15)

OTCQB	SCRC
Sector / Industry	Healthcare / Medical Appliances
Price target	\$1.20
Recent share price	\$0.10
Shares o/s (mn)	138.5
Market cap (in \$mn)	13.9
52-week high/low	\$0.22/ \$0.07

Source: Thomson Reuters, SeeThruEquity Research

Key Financial (\$mn, unless specified)

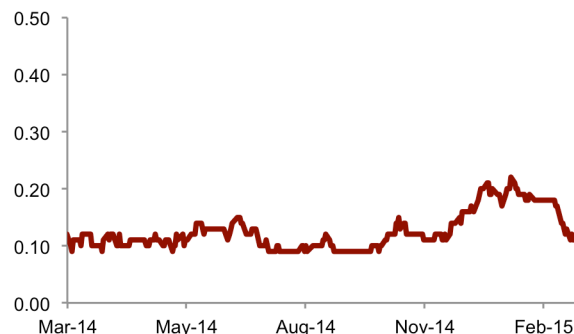
	FY13	FY14E	FY15E
Revenues	0.6	30.0	46.5
EBITDA	(7.3)	0.2	2.8
EBIT	(7.3)	0.1	2.3
Net income	(11.3)	(1.2)	1.7
EPS (\$)	(0.17)	(0.01)	0.01

Source: SeeThruEquity Research

Key Ratios

	FY13	FY14E	FY15E
Gross margin (%)	NM	86.6	86.0
Operating margin (%)	NM	0.3	4.9
EBITDA margin (%)	NM	0.6	6.1
Net margin (%)	NM	(4.0)	3.6
P/Revenue (x)	24.9	0.5	0.3
EV/EBITDA (x)	NM	70.4	4.9
EV/Revenue (x)	27.1	0.5	0.3

Source: SeeThruEquity Research



Source: Thomson Reuters

Strong end to 2014 combines growth and improving profitability

- ScripsAmerica released preliminary 2014 results on March 23, 2015, which demonstrated that the company was able to capitalize on strong order growth at Main Pharmacy and convert the business into profits. Management confirmed that 2014 revenues would exceed \$30mn and that the company achieved positive net income during the second half of 2014. We see this as a major milestone for the company and were impressed at the management team's ability to follow through on its guidance and strategic vision.
- Revenues of over \$30mn were roughly in line with our estimate of \$31.9mn, and represented growth of 5,474% from 2013 levels. While clearly the majority of the growth was due to the acquisition and integration of Main Pharmacy, it's worth noting that revenues at Main Pharmacy accelerated throughout the year with orders of approximately \$1mn in April growing to regularly surpass \$5mn per month by year-end.
- We do note one negative development in the company's specialty pharmacy business, which is that Main Avenue Pharmacy was notified by CVS/ Caremark that it was terminating the provider agreement between it and Main. Main can file for arbitration to adjudicate the ending of the contract, and ScripsAmerica noted that despite this development it still expects to be able to grow revenues and generate a profit in 2015.
- ScripsAmerica also disclosed in its preliminary results that it ended the year with over \$1.3mn in working capital, an improvement of approximately \$3mn in liquidity over the course of 2014. The company also secured a \$4mn working capital line of credit from Triumph Healthcare Finance, adding additional financial flexibility from an experienced strategic partner.



Continued profitability in 1Q15 despite seasonal factors in specialty pharmacy business

- ScripsAmerica also announced that revenues for 1Q15 would come in at \$9.5mn, representing 1,088% growth over 1Q14 revenues of \$0.8mn. ScripsAmerica management indicated that it would generate positive net income during the quarter of at least \$400,000, continuing the company's trend of profitability.
- Specialty orders came in at \$3.4mn in January and \$3.8mn in February, which management attributed to seasonal factors.

Proposed specialty acquisitions to drive revenue growth and geographic expansion

- On March 6, 2015, ScripsAmerica announced that it had entered into letters of intent to acquire equity interests in two pharmacies, expanding its specialty pharmacy operations into an additional 30 states. If completed, the company will be able to distribute its specialty pharmacy products in 40 states, a significant expansion from the ten states currently addressed by its existing specialty pharmacy business. Further, the acquired companies have a healthy mail order business, bringing a complementary platform to ScripsAmerica with ample opportunities for revenue synergy.
- ScripsAmerica expects to fund the acquisition with existing cash balances and borrowing capacity, a choice we like given the company's high existing share count, and our view that shares are undervalued. Management expects the deal to close no later than June 30, 2015.

Progress at PIMD International tracking ahead of our initial expectations

- We have been impressed by initial results at PIMD International, LLC ("PIMD"). PIMD offers wholesale prescription medication services for small and independent pharmacies, hospitals, and physicians – many of whom are not large enough to meet the minimum order requirements of the large distributors, and are therefore unable to carry many common prescription medications.



- ScripsAmerica controls 90% of Miami, Florida-based PIMD, which has DEA and state licenses to wholesale OTC and prescription drugs in 11 states.
- Although PIMD is in its early stages, it is quickly becoming material to ScripsAmerica's top line. In fact, PIMD has experienced rapid growth from a small initial base, with revenues increasing from \$135,000 in January to \$554,000 in February. This is tracking ahead of our expectations for year-one revenue, and we believe could emerge as a significant source of growth for the company during 2015.
- ScripsAmerica has also developed a diabetic medical supply business, which is still in its early stages but has nice potential for the company as it develops. Because of the licenses the company carries at Main Avenue Pharmacy, ScripsAmerica is able to offer many of the supplies needed by diabetes patients at attractive prices.
- The new diabetes supply program has enrolled over 1,000 patients, and generated \$103,673 in revenue during the month of February, according to an announcement by the company on March 4, 2015.

Price target for ScripsAmerica remains \$1.20

- We maintain our price target of \$1.20 for ScripsAmerica. If achieved this would represent 1,100% potential upside from the recent market price of \$0.10 on April 22, 2015.
- Although the diabetes program and PIMD are tracking ahead of our initial expectations, we are maintaining our price target at this time as we anticipate learning more about the trajectory of the specialty pharmacy business when the company releases its full 2014 and 1Q15 results and in light of the recent acquisition announcements. In the interim we have adjusted 2015E estimates to reflect recent results and 1Q15 guidance.
- We see 2015 as having the potential to be a watershed year for ScripsAmerica. We expect the company to generate significant growth over 2014 revenues of \$30mn, with easy comparables in the first half of the year allowing time for the company to grow its budding PIMD business and expand its specialty pharmacy business through acquisitions as well as geographic expansion. Further, we expect an update on the status of the launch of RapiMed in Hong Kong, and its new Physician Dispensing Program, which is scheduled to rollout during 3Q15.

About ScripsAmerica, Inc.

ScripsAmerica, Inc. is a supplier of prescription, OTC and nutraceutical drugs, delivering pharmaceutical products to a wide range of end users across the health care industry. End users include retail pharmacies, hospitals, long-term care facilities and government and home care agencies. For more information, visit www.ScripsAmerica.com.

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