Mark Bunting
Publisher

COVER STORY

TECSYS RETURNING TO GROWTH MODE AS IT STRIKES ANOTHER ACQUISITION

SUBSTANTIAL GROWTH EXPECTED FOR TOP U.S. HEMP-BASED CBD MAKER CHARLOTTE'S WEB

GREAT BEAR RESOURCES COULD BE AN ACQUISITION TARGET AND HAS 73% UPSIDE

CHINA'S NETFLIX BREAKS OUT AND ON THE VERGE OF A MAJOR UPTREND

RETURNING TO GROWTH

Tecsys now set up nicely after consolidating 10-year run

TALE OF THE TAPE

Tecsys Inc.

- Ticker Symbol: TSX:TCS
- Market Cap: $146 million
- Dividend Yield: 2%
- Ten-Year Return: 800%
- Projected One Year Return: 80%

"GROWTH AT TECSYS IS BEING DRIVEN BY AN INCREASE IN HEALTHCARE SPENDING, THE RECENT ORDERDYNAMICS AND PCSYS ACQUISITIONS, HEALTHY GROWTH IN NEW BOOKINGS, AND THE SUCCESSFUL LAUNCH OF ITS NEW HOSPITAL PHARMACY MODULE."

HAYWOOD SECURITIES

Mark Bunting, Publisher & President, Capital Ideas Media

Tecsys is another one of those unheralded Canadian technology companies that quietly excels and rewards shareholders.

In the depths of the market crisis in late 2008, the supply chain management company's stock was trading around $1 share.

Fast forward nearly 10 years to the summer of 2018, and the shares, trough to peak, had a spectacular 1380% gain.

After a lengthy period of consolidation brought on partly due to uncertainty about health care in Donald Trump's America, Tecsys (TSX:TCS) is returning to growth, according to Haywood Securities, which initiated coverage on the company in early December.

TECSYS Inc.(TSX:TCS) | 10 year chart

Tecsys recently struck a deal to buy PCSYS A/S of Denmark for nearly $14 million.

A word of caution. Tecsys is not very liquid with an average daily volume of about 3,200 shares.

Here are portions of a report from Haywood analysts Pardeep Sangha and Daniel Rosenberg, followed by commentary on Tecsys from Laurentian Bank Securities analysts Nick Agostino:

“BACKLOG IS BEING DRIVEN BY HEALTHY GROWTH IN NEW BOOKINGS. TECSYS ACHIEVED RECORD QUARTERLY BOOKINGS IN FISCAL Q2 2019, DRIVEN BY HEALTHCARE BASE ACCOUNTS WHICH GREW 196% YEAR-OVER-YEAR.”

Tecsys is Returning to Growth

Growth is being driven by an increase in healthcare spending, the recent OrderDynamics and PCSYS acquisitions, healthy growth in new bookings, and the successful launch of its new hospital pharmacy module in October.

Revenue growth had slowed in 2017 and 2018 due to the Trump administration’s uncertainty around healthcare policy in the U.S.

We view the recent Democrat majority in the House of Representatives as a positive catalyst that should lead to increased spending in the healthcare sector.

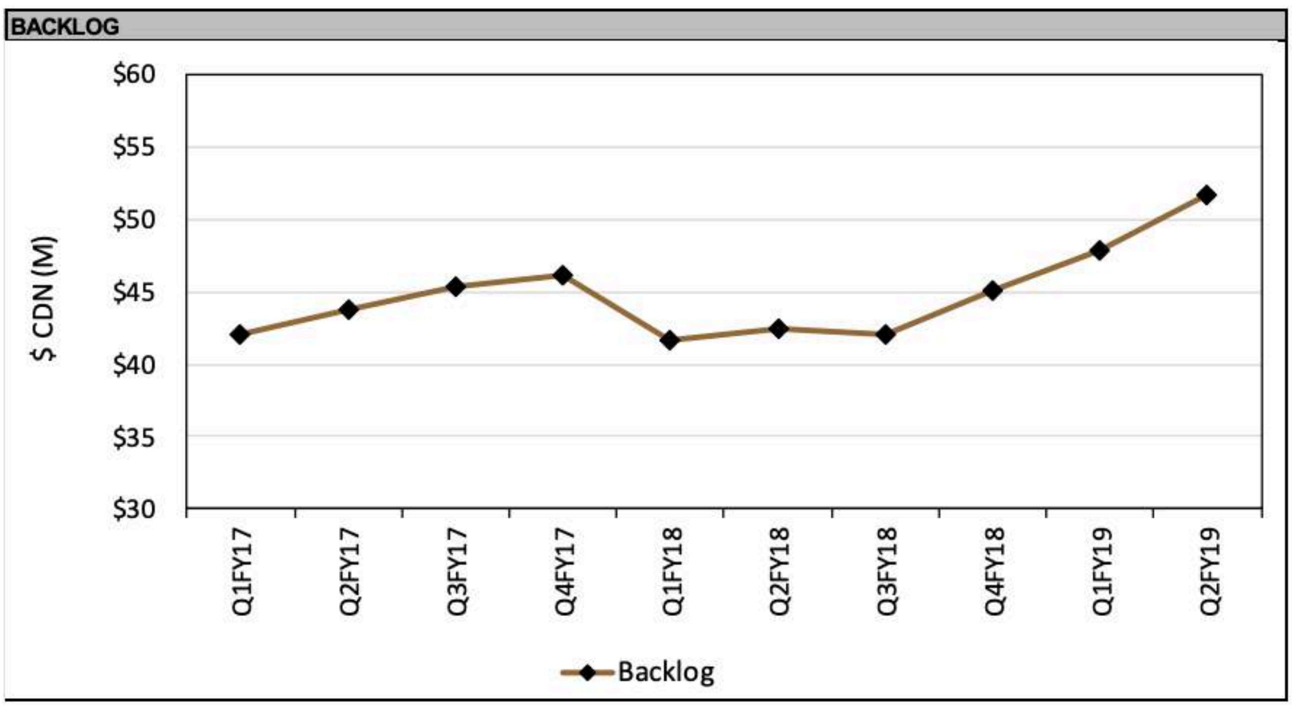
We like recent M&A.

The recent acquisitions of Order Dynamics and PCSYS immediately increase revenue and also broaden Tecsys’ product offering, geographic reach and addressable market.

Record backlog provides strong visibility.

Backlog is being driven by healthy growth in new bookings. Tecsys achieved record quarterly bookings in fiscal Q2 2019, driven by healthcare base accounts which grew **196% year-over-year**.

The company’s pipeline remains strong in both the healthcare and complex distribution sectors.



“WE ARE FORECASTING 15% REVENUE GROWTH IN 2019 AND 31% IN 2020. THIS ACQUISITION WILL HAVE A GREATER IMPACT TO THE COMPANY’S 2020 FORECAST AS TECSYS’ 2019 YEAR END IS ON APRIL 30TH, 2019.”

Experienced management with strong track record.

The company is led by Mr. Peter Brereton, who has been the CEO since 1998 and is joined by a veteran management team.

The company has a history of generating positive cash flows and is one of the few Canadian technology companies that pays a dividend.

Tecsys' share price has declined since the August highs. Since then the Democrats have regained majority of the House of Representatives, healthcare spending is coming back, the company reported record bookings and backlog; hence, we believe the current share price presents a buying opportunity for investors.

Our take on the PCSYS A/S deal.

Tecsys announced the acquisition of PCSYS A/S, a Danish technology company that provides warehouse management, transportation management and labelling systems.

The purchase price was nearly $14 million. We like this acquisition as it expands Tecsys' global footprint, gives Tecsys a strong beachhead in the European market, is immediately accretive and **will increase the company's scale to more than $100 million revenue**.

Key hi-lights

PCSYS is a good fit with Tecsys. PCSYS has more than 1,000 customers across a range of industries. PCSYS had revenue of about $15.4 million and operating profit of approximately $1.8 million in the year ending September 30, 2018.

This acquisition also allows Tecsys to expand its existing product offerings into the European market. Furthermore, we like the purchase price metrics as Tecsys paid approximately 0.9x price-to-sales multiple.

Renewed focus on acquisitions.

Tecsys has been very active with acquisitions recently, as this follows the OrderDynamics acquisition in November 2018 for $13.4 million. The hiring of new CFO Mark Bentler has freed up previous CFO Berty Ho to focus on acquisitions.

Increasing debt to fund acquisition.

Tecsys is funding the purchase with a bank term loan of $12 million and existing cash. Tecsys had last reported cash of $21 million and no debt as of October 31, 2018.

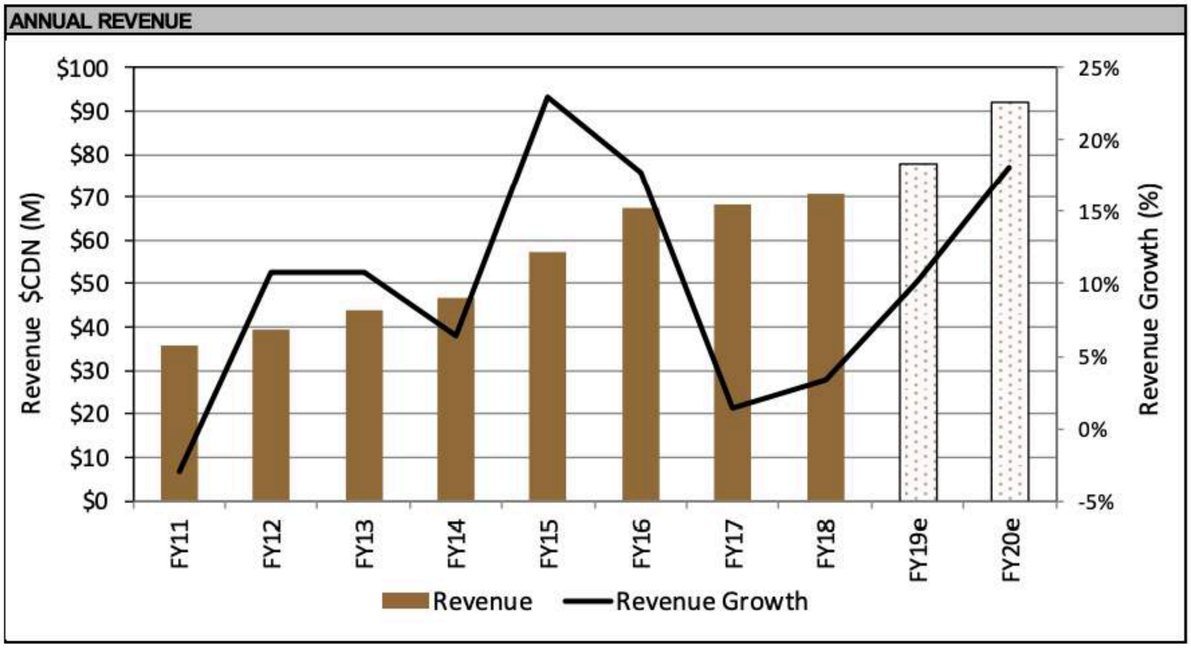
With the OrderDynamics and PCSYS acquisitions, Tecsys will have a net debt balance that the company can manage through its positive operating cashflows.

Outlook

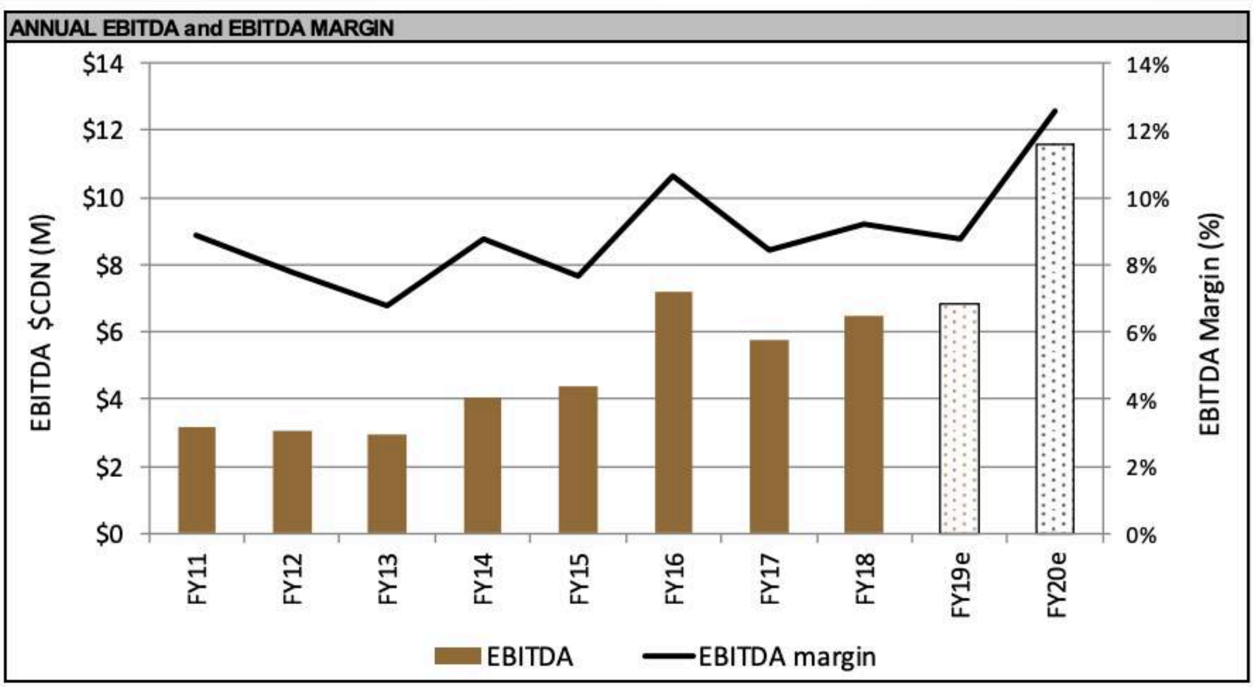
We are forecasting 15% revenue growth in 2019 and 31% in 2020. This acquisition will have a greater impact to the company's 2020 forecast as Tecsys' 2019 year end is on April 30th, 2019.

Our new 2019 forecast is for revenue of $81.1 million and EBITDA of $7.3 million (previously revenue of $77.9 million and EBITDA of $6.8 million).

Our new 2020 forecast is for revenue of $106.2 million and EBITDA of $13 million (previously revenue of $92 million and EBITDA of $11.6 million).



We expect EBITDA margins to decline slightly from 9.2% in 2018 to 9% in 2019, but then increase to 12.2% in 2020.



Strong backlog will continue to drive future revenue growth.

Tecsys reported backlog of $51.7 million at the end of October 31, 2018, compared to $42.2 million one year earlier.

The company is seeing renewed activity in the healthcare market, boosted by increased healthcare segment spending.

Laurentian Bank Securities also likes the latest Tecsys deal. Analyst Nick Agostino raises his **price target to $18 from $17 and maintained a "buy" rating**.

He says the PCSYS acquisition is accretive to earnings, established a European beachhead for Tecsys, presents an intriguing product offering, and allows for cross-selling to drive growth.

Laurentian Bank Securities has done investment banking business with Tecsys within the last 24 months.

INITIATIONS

Cormark Securities analyst Kyle McPhee initiated coverage of **Charlotte's Web Holdings** (CSE:CWEB) with a "buy" rating and a target price of $25.50 per share which suggests **20% upside**.

"**Charlotte's Web is an established leader** in the right category at the right time with the company currently having the top brand in the U.S. market for hemp-based CBD sold as a health and wellness product" Mr. McPhee added in his report.

"**The hemp-based CBD category** has been gaining increasing share in the U.S in recent years given the perceived benefits surrounding a variety of physical/mental conditions."

"**Growth for Charlotte's Web** should be substantial in 2019 as they further capitalize on category expansion in a more accepting retail channel. The hemp-based CBD market is projected to grow to anywhere between $1.9-$11.2 billion by 2020."

"**Charlotte's Web is a top market player** with a proven track record of operational execution through to finished goods, an established economic model highlighted by wide margins, sizeable capacity in place to capitalize on growth and a pile of excess cash."

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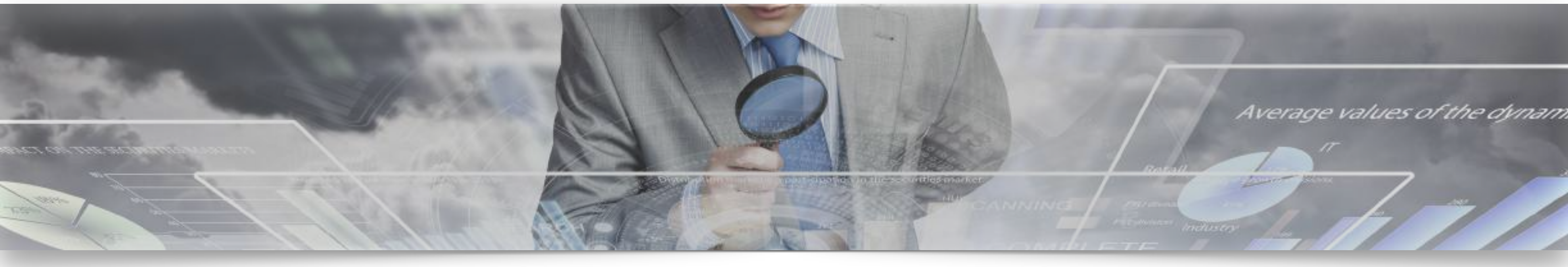
Canaccord Genuity analyst Kevin MacKenzie initiated coverage on **Great Bear Resources** (TSXV:GBR) with a " speculative buy" rating and price target of $4.75, giving the stock **73% upside**.

Mr. MacKenzie calls Great Bear Resources' 100% owned Dixie gold project in Red Lake Ontario, "an emerging discovery with the right signature."

"**While it's still early days,** we highlight the project's comparable structural-geological setting, style of mineralization and developing grade profile to that of many of the more established deposits within the camp" Mr. MacKenzie added in his report.

"**Given the established milling capacity** within the Red Lake camp, we view the Dixie property as a potential future acquisition target in terms of a near-surface, high-grade feed source.

"**We rate Great Bear with a "speculative buy"** rating to reflect both the financing risk associated with a non-revenue generating company and the technical risk associated with a project for which feasibility has yet to be demonstrated. Great Bear is a prospective investment for risk-tolerant investors."



Upgrades

- **Precision Drilling Corp. (TSX:PD)** has been upgraded to "strong buy" from "outperform" by Raymond James analyst Andrew Bradford. He has maintained a target price of $5 per share which implies a return of nearly 73%.

- **Eldorado Gold Corp. (TSX:ELD)** has been upgraded to "buy" from "market perform" by Cormark Securities analyst Richard Gray. He has substantially increased his target price to $8 per share from $5.40 which suggests a return of 53%.

- **Labrador Iron Ore Royalty Corp. (TSX:LIF)** has been upgraded to "buy" from "neutral" by Eight Capital analyst Ralph Profiti. He has bumped his target price up to $40 from $32 which projects upside of nearly 33%.

- **Mullen Group Ltd. (TSX:MTL)** has been upgraded to "outperform" from "market perform" by Raymond James analyst Andrew Bradford. He has a target price set at $15.60 which implies upside of 30%.

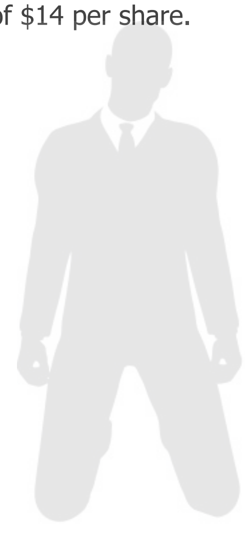
Downgrades

- **Cenovus Energy Inc. (TSX:CVE)** has been downgraded to "neutral" from "outperformer" by CIBC World Markets analyst Jon Morrison. He has cut his target price to $12.50 from $14.50.

- **AltaGas Ltd. (TSX:ALA)** has been downgraded to "hold" from "buy" by Desjardins Securities analyst Justin Bouchard. He has lowered his target price to $16 from $18.

- **SNC-Lavalin Group Inc. (TSX:SNC)** has been downgraded to "hold" from "buy' by Laurentian Bank Securities analyst Mona Nazir and she lowered her target price to $40 from $60, following the company's profit warning.

- **Husky Energy Inc. (TSX:HSE)** has been downgraded to "sell" from "not rated" by Goldman Sachs analyst Neil Mehta. He has a price target of $14 per share.



Technically SPEAKING by Dwight Galusha

setyourstop.com

iQIYI (NASDAQ:IQ) is called the Chinese Netflix. Since the IPO price surge, price action has spent the last seven months consolidating in a descending channel pattern.

Like many Chinese related stocks the share price has been unjustly beaten up. Last month, price action began to breakout from this consolidation pattern as momentum (the PPO indicator) crossed above the zero line.

A breakout above the volume by price resistance line drawn on the chart at $21.50 would complete this technical pattern suggesting the beginning of a new major uptrend. Watch for the breakout.