

### Recommendation

Speculative Buy

### Risk

High

### Price (December 15, 2009)

\$0.60

### 52-Week Range

\$0.69 - \$0.15

### Target Price (One Year)

\$1.60

### Potential Return

2.67x

### Shares O/S

28.0 million

### Market Cap

\$16.8 million

### Average Daily Volume

50-day: 20,000

200-day: 26,100

### Year-End

December 31

C\$	BVPS	EPS
2007A	\$0.07	\$0.01
2008A	\$0.08	\$0.01
2009E	\$0.23	\$0.06
2010E	\$0.33	\$0.08

BVPS: Book Value Per Share  
EPS: Earnings Per Share

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## QHR TECHNOLOGIES INC.

(TSX-V: QHR)



### UPFRONT

Recent acquisitions should add to economies of scale, increase operating efficiencies, improve margins, and raise valuation parameters. As investors come to appreciate the Company's potential, the stock should break out from its narrow trading band of the past few months.

### RECOMMENDATION

We recommend QHR Technologies Inc. as a Speculative Buy for risk-tolerant investors. Our 12-month Target Price for the stock is \$1.60, significantly above its current price.

### THE COMPANY

QHR Technologies Inc. is a Kelowna, BC-based producer, marketer, and servicer of business software for the healthcare and social services markets. Its operations are conducted through two divisions:

- (1) the Enterprise Management Software (EMS) division, which specializes in workforce management software and financial management software targeted at medium-to-large healthcare and social services organizations; and
- (2) the Electronic Medical Records (EMR) division, which provides software for use in physicians' offices.

In 2008, the EMS division provided about 66% of revenues, and the EMR division the remaining 34%.

## **HIGHLIGHTS**

- Recent acquisitions should lead to strong gains in revenue and earnings over the next few years.
- Revenue and earnings for both operating divisions rose significantly in the first nine months of 2009.
- QHR's recent acquisition of Clinicare Corporation will lead to further significant growth in revenue and earnings for its EMR division, as well as expanding the Company's activities in the Ontario market.
- The Company operates in all Canadian provinces except Quebec.
- QHR intends to enter the U.S. market soon.

## **BACKGROUND**

QHR Software Inc. was formed in June 1997 and became a 100% subsidiary of QHR Technologies Inc. on June 28, 2000 when QHR went public through a reverse takeover.

The Company was granted Canadian and U.S. trademarks for its Quadrant HR software for Human Resource Information Systems in 2003. In 2004, it entered the Electronic Medical Records market through acquiring Accuro software for that market.

From 2004 to 2008, revenues grew from \$3.7 million to \$6.6 million, and net earnings improved from a loss of \$387,000, or (\$0.03) per share to earnings of \$254,000, or \$0.01 per share.

## **INVESTMENT CONSIDERATIONS**

### **(1) Strengths**

- QHR is a leading provider of proprietary workforce management and financial management software for the Canadian healthcare industry.
- Following the completion of the Clinicare acquisition, the Company's EMR division is expected to be the largest supplier of electronic medical records systems to Canadian doctors.
- High level of customer satisfaction, with a retention rate of at least 95% for both its divisions.
- The Company has a rapidly growing base of recurring revenues, which reached an annualized rate of \$7.0 million by the end of September 2009, and should escalate, with its recent acquisition and from internal growth, to \$10 million for 2010.

### **(2) Challenges**

- With many of its customers dependent on federal or provincial government funding or approvals, programs may occasionally be subject to delays.
- Since it is a technology-related business, competitors may develop more advanced products or services.
- The Company is dependent on a small group of key personnel, the loss of any one of which could adversely affect operations.

## PRODUCTS

QHR has four product lines, two within the EMS division, and two in the EMR division.

### (1) EMS Division

- (a) Quadrant Workforce is a user-defined, configurable Human Resource Information System that integrates separate human resources, payroll and staff scheduling applications within a single database. The product enables medium-to-large organizations to simplify the administration of their workforces in complex multi-site, multi-position, multi-contract workplaces to a central secure repository of employee information. Since the solution is easily configurable by the user, the client has access to a product configured to its particular requirements without the high cost of a customized system. The solution's other competitive advantage is that all the required employee information is stored in a single, secure database. The software is updated about twice per year so that it is current for applications such as payroll deductions.

Quadrant contracts consist of three elements: (1) an upfront purchase of software licenses; (2) professional fees to implement the software at the client's site over a 3-to-12 month period; and (3) annual recurring support and maintenance fees. Quadrant contracts are generally priced within a \$100,000 to \$1.0 million range.

- (b) The second EMS solution is the Financial Management software business which was acquired from Momentum Healthcare in January 2009, and now being sold as Quadrant Financials. The marketing, sales, and implementation teams are already fully integrated and there has been considerable cross-selling to existing customers.

### (2) EMR Division

- (a) The Accuro system and the recently-acquired Clinicare EMR products are designed for physicians and surgeons. These products are aimed at improving the administration of physicians' offices and clinics. Among the functions covered by the programs are patient scheduling, billing, electronic medical records, prescriptions, requisitions electronic lab results, and diagnostic imaging reports. The EMR systems are frequently upgraded to meet provincial requirements.

Accuro installations are sold under a monthly license and service agreement. Upfront training and installation is another source of revenue.

- (b) Through its Cloudwerx subsidiary and its data centres in Kelowna and Calgary, the Company provides medical records hosting, data storage backups, business continuation services, and a broad range of other technical services. Hosting and systems can bring in significant additional revenue.

**COMMENT:** *We believe that one of the Company's key strengths is its outstanding level of customer service. This has led to a 95% retention rate for both of its divisions.*

## INDUSTRY CONDITIONS

### (1) Healthcare Spending

As shown in the following table, based on statistics from the Canadian Institute for Health Information, healthcare spending in Canada has steadily grown over the past ten years, not only in absolute terms, but also on a per capita basis and as a percentage of GDP.

#### Canadian Healthcare Expenditures

<u>Year</u>	<u>Total Expenditure (\$billions)</u>	<u>Per Capita (\$)</u>	<u>As % of GDP</u>
2009	183.1	5,452	11.9
2008	171.9	5,170	10.8
2007	160.1	4,867	10.6
2006	148.0	4,648	10.4
2005	141.1	4,366	10.3
2004	131.9	4,123	10.2
2003	123.8	3,909	10.2
2002	115.2	3,671	10.0
2001	107.1	3,451	9.7
2000	98.4	3,207	9.1

These expenditures can be further categorized, with hospitals comprising the largest expense item (27.8% of the total in 2009), drugs the second-largest item (16.4%) and doctors the third-largest (14.0%). IT expenditures for the healthcare sector are not disclosed in this study; however, industry sources estimate that, at 2.2% of operating budgets, they are approximately half the 5.0% rate that they would be in other sectors. This should provide attractive growth potential for companies in this field as the healthcare industry makes increasing use of these technologies.

Gartner Group, a major IT information firm, estimates that worldwide healthcare IT spending grew 2.2% to US\$88 billion in 2009, considerably better than IT spending in general.

### (2) Canada Health Infoway

Canada Health Infoway is a not-for-profit organization funded by the Government of Canada to work with provinces and territories to foster and accelerate the development and adoption of pan-Canadian electronic health information systems. Since its inception in 2001, Infoway has approved 283 projects valued at over \$1.5 billion. In its 2009 budget, the federal government provided a further \$500 million for this agency to be spent over the next three years. One of the agency's key goals is to have 50% of Canadians on electronic health records by 2010 and 100% by 2016. At the present time, Infoway estimates that only 20% of Canadian physicians have automated their clinical records and that the remaining 80% still communicate by paper exchange and telephone.

Industry sources estimate that the potential market for EMR services in Canada is approximately 60,000 doctors, which could generate annual revenues of over \$200 million for EMR solutions providers.

### (3) U.S. EMR Market

In the U.S.A., the Obama administration considers EMR to be fundamental to reforming the U.S. healthcare system, and has proposed regulations to penalize doctors who do not have their patients on EMR systems by 2014. The U.S.A. has approximately 700,000 doctors.

Recent U.S. legislation and health administration plans indicate \$19.6B is being earmarked to move U.S. doctors and hospitals to EMR. The funding incentive for qualified U.S. doctors is approximately \$44,000 per doctor.

### (4) Provincial Funding Approval Process

Through regulatory systems, each province sets technical achievement standards for the providers of EMR services, such as that recently announced in Ontario with CMS Version 3.0. In addition, some provinces have their own incentive programs, which may subsidize eligible vendor products.

In the EMR field, QHR has already been designated as an approved vendor in Manitoba and Saskatchewan and, through its Clinicare acquisition, in Ontario. However, as a result of its excellent customer service reputation, it is the leading supplier of these products in both Alberta and B.C., despite not being a designated vendor in these provinces.

**COMMENT:** *Despite delays in programs and negative publicity over Ontario's eHealth program, we believe that both the federal and provincial governments are committed to the increased use of technology in medical applications and will provide the funding necessary to achieve this goal. OntarioMD recently announced a \$236 million program to fund the next round of physician EMR adoption in Ontario.*

## ACQUISITION HISTORY

Over the past two years, the Company has made a series of acquisitions, as outlined below:

### (1) EMS DIVISION

Momentum Healthware's financial software business (January 2009).

### (2) EMR DIVISION

Clinicare Corporation (November 2009)

SEBO Systems hosting and data-centre assets (November 2009)

Clinicvault Inc. (September 2008)

National Medical Solutions Inc. (August 2007)

**COMMENT:** *The Clinicvault and SEBO assets combined to form Cloudwerx in December 2009.*

On November 7, 2009, the Company announced that it had signed a Letter of Intent to acquire 100% of the outstanding shares of Clinicare Corporation, a Calgary-based, privately-held, electronic medical records company.

The purchase closed effective November 30, 2009, with QHR acquiring approximately 79% of the total issued and outstanding shares of Clinicare. QHR has made an offer for the remaining class B shares which it does not already own. This follow-on offer will close on February 28, 2010.

The acquisition will be merged with QHR's EMR division, which will then be supporting over 3,300 physicians across Canada in almost every province on practice management solutions (billings, patient scheduling). Management believes that, with over 2,000 physicians on EMR, this will be a greater number than any other EMR supplier in Canada.

**COMMENT:** *We believe that this acquisition should strengthen the Company's position in the EMR sector and expand its services in that area.*

**FINANCIAL REVIEW****(1) Q3/2009 versus Q3/2008**

For the third quarter of 2009, the Company reported earnings of \$0.01 per share compared with a loss of \$0.01 per share for the same period in 2008. Revenues rose 155% to \$3.3 million, led by a 219% gain in the EMS division. This reflected the impact of additional revenue from the Financial Management Services acquisition in January 2009, as well as continued growth in revenue from the division's Workforce Management Software. The EMR division's revenue increased 67%. The significant increase in EBITDA margin and net profit margin reflected the benefit of the acquisition made earlier in the year and the cross-selling opportunities of an expanded product line .

(\$000s)	<u>Q3/2009</u>	<u>Q3/2008</u>
Revenue	3,299	1,293
Operating Income	1,703	522
Operating Margin	51.6%	40.4%
EBITDA	552	(150)
EBITDA Margin	16.7%	na
Net Income	236	(215)
Net Margin	7.2%	na
EPS	\$0.01	(\$0.01)
Avg. Shares O/S (000)	26,103	21,991

**(2) 9M/2009 versus 9M/2008**

The latest results brought earnings for the first nine months of 2009 to \$0.05 per share compared with \$0.00 per share for the first three quarters of 2008. Revenues increased 123% to \$9.98 million. The strong growth was again led by the EMS division's 136% revenue gain, partially reflecting the impact of Financial Management Software acquisition revenue together with some large client sales earlier in the year. The EMR division achieved 55% revenue growth, aided by results from the Clinicvault acquisition in September 2008. Overall profit margins improved as a result of the integration of acquisitions made over the previous 12 months.

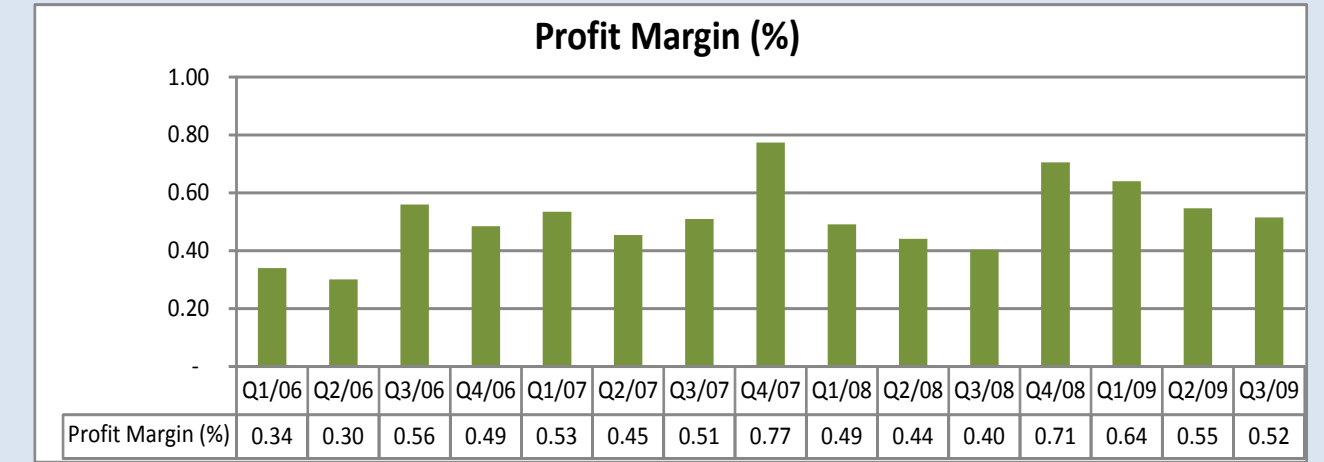
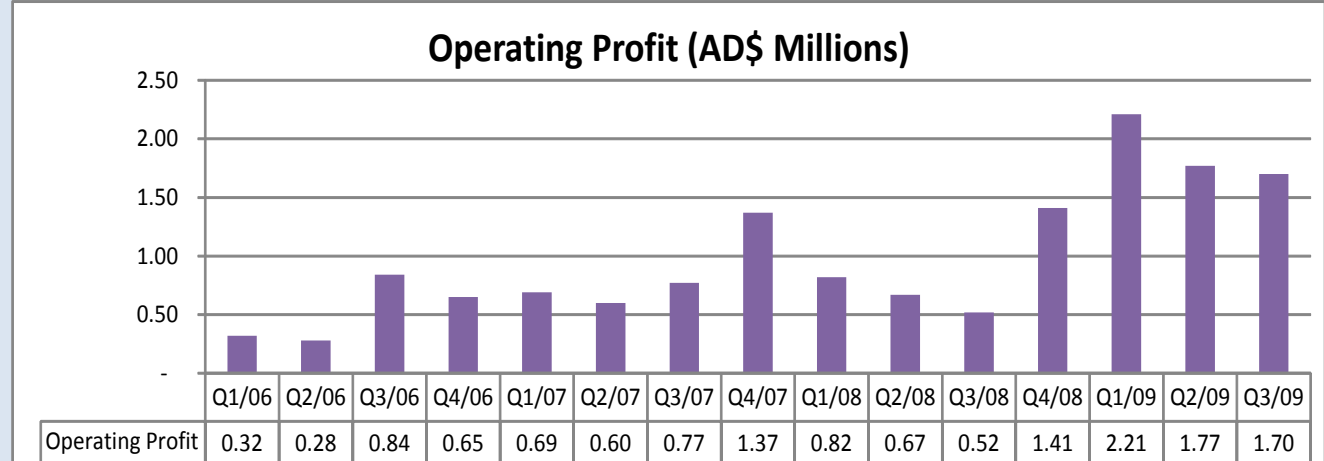
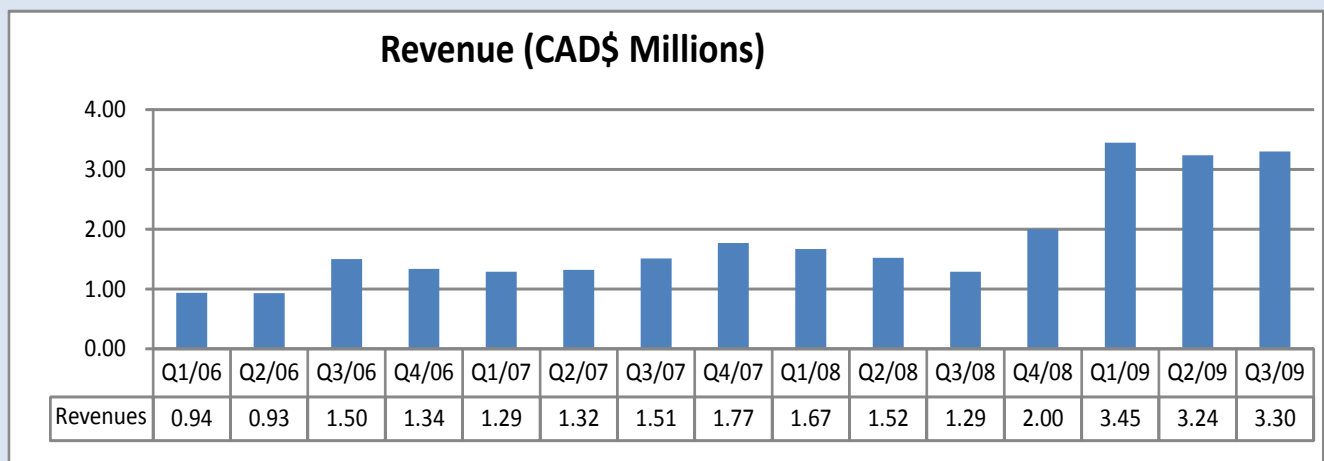
(\$000s)	<u>9M/09</u>	<u>9M/08</u>
Revenue	9,981	4,480
Operating Income	5,687	2,019
Operating Margin	57.0%	45.1%
EBITDA	2,199	104
EBITDA Margin	22.0%	2.3%
Net Income	1,202	(77)
Net Margin	12.0%	na
EPS	\$0.05	\$0.00
Avg. Shares O/S (000)	23,762	21,861

**COMMENT:** *Profit margins have improved significantly, as a result of acquisitions over the past 12 months which expanded the Company's product line in the EMS area.*

**(3) Quarterly Trends: Revenue and Operating Profit**

Shown below are figures for total revenue and operating profit, shown on a quarterly basis since the beginning of 2006.

The Revenue graph shows a rising trend, particularly in 2009. Likewise for the Operating Profit graph. The Operating Profit Margin suggests the current seasonality of earnings, which may change as the acquisitions start to contribute to results.



## (4) Financial Statements

	Year Ending December 31:						
	2004	2005	2006	2007	2008	2009E	2010E
<b>Statement of Income/(Loss):</b>							
Revenue	3,663,845	4,288,705	4,721,439	5,893,684	6,521,364	13,500,000	18,500,000
Cost of Sales and Operating Expenses	(2,023,505)	(2,677,454)	(2,643,131)	(2,878,409)	(3,112,410)	(5,841,000)	(7,933,000)
Operating Income	1,640,340	1,611,251	2,078,308	3,015,275	3,408,954	7,659,000	10,567,000
Operating Margin	44.8%	37.6%	44.0%	51.2%	52.3%	56.7%	57.1%
S,G,&A	(1,767,717)	(2,193,044)	(2,196,978)	(2,484,959)	(2,794,794)	(4,780,000)	(6,327,000)
EBITDA	(127,377)	(581,793)	(118,670)	530,316	614,160	2,879,000	4,240,000
EBITDA Margin	-3.5%	-13.6%	-2.5%	9.0%	9.4%	21.3%	22.9%
Amortization	(233,762)	(362,101)	(385,229)	(288,628)	(330,847)	(1,027,000)	(1,350,000)
Other Income/(Expenses)	(7,802)	(7,292)	(1,382)	(5,915)	5,211	1,000	2,000
EBIT	(368,941)	(951,186)	(505,281)	235,773	288,524	1,853,000	2,892,000
Interest Expense	(17,966)	(22,027)	(15,365)	(23,218)	(34,897)	(290,000)	(430,000)
EBT	(386,907)	(973,213)	(520,646)	212,555	253,627	1,563,000	2,462,000
Net Income/(Loss)	(386,907)	(973,213)	(520,646)	212,555	253,627	1,563,000	2,462,000
Total Shares Outstanding	14,795,759	16,295,759	16,295,759	21,795,759	22,395,759	29,053,259	29,700,000
Weighted Average Shares Outstanding	14,519,120	15,239,595	16,295,759	17,450,554	21,995,759	26,226,176	29,400,000
Earnings (Loss) Per Share	(\$0.03)	(\$0.06)	(\$0.03)	\$0.01	\$0.01	\$0.06	\$0.08
<b>Statement of Cash Flow:</b>							
Net Income (Loss)	(386,907)	(973,213)	(520,646)	212,555	253,627	1,563,000	2,462,000
All Non-Cash Items	280,990	395,071	385,229	288,628	344,669	1,027,000	1,350,000
Cash Flow from Operations	(105,917)	(578,142)	(135,417)	501,183	598,296	2,590,000	3,812,000
Capital Expenditures	(125,141)	(56,496)	(52,362)	(49,860)	(69,734)	(155,000)	(200,000)
Other Investing Items	(634,000)	0	(272,500)	(385,489)	(515,543)	(10,000,000)	(500,000)
Free Cash Flow	(865,058)	(634,638)	(460,279)	65,834	13,019	(7,565,000)	3,112,000
Working Capital Changes	597,992	(225,413)	(294,111)	(272,052)	(262,238)	987,671	(1,164,000)
Equity Financing	754,500	745,750	0	961,314	0	3,376,000	468,000
Debt Financing/Capital Leases	(55,804)	(148,521)	211,692	(309,873)	(145,552)	3,395,000	(2,600,000)
Change in Cash	431,630	(262,822)	(542,698)	445,223	(394,771)	193,671	(184,000)
Cash, Beginning of the Period	422,072	853,702	590,880	48,182	493,405	98,634	292,305
Cash, End of the Period	853,702	590,880	48,182	493,405	98,634	292,305	108,305
	As at December 31:						
	2004	2005	2006	2007	2008	2009E	2010E
<b>Balance Sheet:</b>							
Cash	853,702	590,880	48,182	493,405	98,634	292,305	108,305
Accounts Receivable	760,586	905,343	860,469	1,022,411	1,255,556	1,600,000	1,400,000
Other Current Assets	43,469	47,202	94,415	126,118	560,590	1,311,000	1,350,000
Capital Assets	415,831	330,655	276,372	302,671	665,942	1,344,761	1,337,161
Intangibles	508,833	297,500	328,042	928,180	1,621,645	11,100,000	11,450,000
Other Assets	469,147	370,288	212,463	325,556	359,663	500,000	500,000
Total Assets	3,051,568	2,541,868	1,819,943	3,198,341	4,562,030	16,148,066	16,145,466
Current Liabilities	491,289	519,626	692,777	537,558	874,236	2,800,000	2,400,000
Current Portion of Long-Term Debt	66,975	37,028	59,873	31,040	245,351	432,600	500,000
Deferred Revenue	1,792,527	1,605,135	1,232,387	1,113,167	1,228,377	2,800,000	3,300,000
Debt/Capital Leases	233,347	120,287	95,760	64,720	374,761	3,337,161	237,161
Total Liabilities	2,584,138	2,282,076	2,080,797	1,746,485	2,722,725	9,369,761	6,437,161
Shareholders' Equity	467,430	259,792	(260,854)	1,451,856	1,839,305	6,778,305	9,708,305
Total Liabilities & Equity	3,051,568	2,541,868	1,819,943	3,198,341	4,562,030	16,148,066	16,145,466
Book Value (S.E.) Per Share	\$0.03	\$0.02	(\$0.02)	\$0.07	\$0.08	\$0.23	\$0.33

See COMMENT on this table, provided on the next page.

**COMMENT:** *The Operating Margin improved significantly in 2009, as a result of the integration of acquisitions made in late 2008 and early 2009. We expect a further slight improvement in 2010. Equity financing increased in 2009 to partially fund acquisitions made that year. This also was a key factor in the increase in Shareholders' Equity in 2009. The major increase in Other Investing Items in the Cash Flow Statement is the result of the acquisitions made during 2009. This also led to the increase in Intangibles on the Balance Sheet. The Company and its subsidiaries had tax loss carry forwards of \$4.29 million, Investment Tax credits of about \$259,000, and a Scientific Research & Experimental Development pool of \$1.38 million available at the end of 2008. Thus, we do not expect the Company will pay taxes for many years.*

## (5) Other Financial Transactions

In late November, the Company announced that its EMS division had generated over \$1.5 million of new business from new and existing healthcare clients, which will be recognized in the fourth quarter of 2009.

The Company completed a non-brokered private placement for \$750,000 on December 1, 2009 with Pender Growth Fund (VCC) Inc. The private placement consisted of 1.25 million units at \$0.60 per unit, with each unit consisting of one common share and one half-share purchase warrant. Each whole warrant entitles the holder to purchase one additional share at \$0.75 until November 30, 2011.

The Company also reported that it was acquiring, from SEBO Systems, the assets of Cloudwerx which it did not already own. These consist of the assets to provide data hosting and data storage services, which had been previously owned by SEBO. Thus, Cloudwerx will become a wholly-owned subsidiary of QHR. The consideration for the purchase will be 700,000 shares of QHR. As part of the agreement, SEBO principals will provide ongoing consulting services to Cloudwerx.

## OUTLOOK

(\$'000)	<u>2008a</u>	<u>2009e</u>	<u>2010e</u>
EMS Revenue	4,315	10,000	11,500
EMR Revenue	<u>2,206</u>	<u>3,500</u>	<u>7,000</u>
Total Revenue	6,521	13,500	18,500
Operating Profit	3,409	7,659	10,567
Operating Margin	52.3%	56.7%	57.1%
EBITDA	614	2,879	4,240
EBITDA Margin	9.4%	21.3%	22.9%
Net Income	254	1,563	2,462
Net Margin	3.9%	11.6%	13.3%
EPS	\$0.01	\$0.06	\$0.08

**(1) 2009**

With over \$1.5 million of new business for the Company's EMS division booked for Q4/2009, and with ongoing business in this division plus continued growth in the EMR division, full-year 2009 revenues could approach approximately \$13.5 million compared with \$6.5 million for 2008.

We assume that EBITDA margins will increase to 21.3% compared with 9.4% for 2008, as the Company continues to benefit from its higher level of revenues and the positive impact of the Financial Management business acquired early in the year. Although both amortization and interest costs will be significantly above 2008 levels, we expect net earnings to reach at least \$1.56 million, or \$0.06 per share, for 2009 compared with \$254,000, or \$0.01 per share, for 2008. The per share number for 2009 reflects share issuance for acquisitions, including partial payment for Clinicare, the financial assets of Momentum, and the purchase of the SEBO assets.

**(2) 2010**

**COMMENT:** *We expect further significant growth in 2010 as a result of the Company's latest acquisitions.*

For 2010, we expect the Company to achieve significant further revenue and earnings gains as it benefits from a full year of contributions from the acquisitions made in 2009, as well as further internal growth from its existing operations.

We have assumed that the EMS division achieves an approximate 11% revenue growth as it continues to benefit from increased market penetration as a result of its expanded product mix.

The EMR division should achieve an approximate doubling in revenues as it benefits from a full year's results from the Clinicare acquisition and the increased opportunities from the creation of its Cloudwerx operation.

We have assumed some further improvement in EBITDA margins to 22.9% from 21.3% as the Company benefits from its greater revenues. After higher interest costs and increased amortization, net earnings should reach about \$2.46 million, or \$0.08 per share.

**COMMENT:** *These estimates do not assume any further acquisitions in 2010 which, based on the Company's record over the past few years, is probably an overly conservative assumption.*

**(3) Risks To Forecast**

- Any potential problems with the integration of any of the acquisitions the Company has recently made or will make over the near term.
- Delays in receiving timely approvals of programs or funding by various government agencies as the Company expands its activities in Ontario and into the U.S. market.

## VALUATION

As shown in the table below, we have chosen five Canadian healthcare industry software producers to provide comparative valuations to QHR. The following is a brief description of each:

1. **HealthScreen Solutions Inc.** (TSX-V: MDU). HealthScreen Solutions is a leading supplier of practice enhancing services and electronic medical record (EMR) software for Canadian physicians.
2. **HTN Inc.** (TSX-V: HET). HTN Inc. is a developer of medical office management software.
3. **Logibec Groupe Informatique Ltd.** (TSX: LGI). Logibec is a Quebec-based developer, marketer, implementor, and supporter of information systems for the health and social services sectors. Its operations are carried out in both Canada and the United States. Its U.S. activities are carried out under the MDI Achieve name.
4. **Nightingale Informatix Corporation** (TSX-V: NGH). Nightingale is a rapidly growing healthcare service and software company. It provides electronic medical records to primary care practices, multi-physician clinics and large scale regional health organizations and networks.
5. **ZoomMed Inc.** (TSX-V: ZMD). ZoomMed manufactures and markets ZRx Prescriber, a web-based application that improves prescription management and provides communications between physicians and pharmacists.

As shown in the table below, three of the comparatives have approximately the same market cap as QHR, Logibec is significantly larger, and HTN has a much smaller market cap. Several of the comparable companies are not yet profitable and do not even have positive EBITDA. Thus, we are using Price/Sales and Price/Book Value as the parameters for our comparative valuations.

### COMPARABLES (Prices as of December 15, 2009)

<u>Company</u>	<u>Symbol</u>	<u>Stock Price</u>	<u>Shares O/S (M)</u>	<u>Market Cap (M)</u>	<u>Sales/Share</u>	<u>Price/Sales</u>	<u>Book Value</u>	<u>Price/Book Value</u>
HealthScreen	MDU	\$0.18	81	\$14.6	\$0.16	1.13 x	\$0.05	3.60 x
HTN Inc.	HET	\$0.02	97	\$1.9	\$0.006	3.33 x	\$0.00	0.00 x
Logibec Group	LGI	\$20.00	9	\$180.0	\$8.18	2.44 x	\$8.13	2.46 x
Nightingale Info.	NGH	\$0.26	71	\$18.5	\$0.25	1.04 x	\$0.03	8.67 x
ZoomMed	ZMD	\$0.17	98	\$16.7	\$0.007	24.29 x	\$0.05	3.40 x
Average						6.45 x		4.53 x
QHR Tech	QHR	\$0.60	26	\$15.6	\$0.39	1.54 x	\$0.23	2.61 x

Source: eResearch

As shown in the table, QHR shares are currently trading at 1.54 times trailing 12-month sales and 2.61 times book value. This is significantly below the multiples of 6.45 times sales and 4.53 times book value at which our comparable companies shares are trading. We believe that this reflects a lack of investor familiarity with the company and its recent growth. As investors become more aware of the Company's strong growth prospects, we believe that the multiples will expand from their current levels.

If we take a range of 40% to 50% of the price/sales multiple at which our comparables are trading and apply them to our estimated 2010 sales of \$0.64 per share, we generate a price objective of \$1.65-\$2.06 for the stock.

On a price/book value basis, using a 4.0-5.0 multiple range, which is either side of the comparables' average of 4.53x, on the 2010 estimated book value of \$0.33, we generate a price range of \$1.32-\$1.65 for the stock.

The simple average of these figures is \$1.63.

## **TARGET PRICE**

With due consideration to all of the factors involved in assessing the estimated value of QHR, we have chosen a 12-month Target Price for the stock of \$1.60 per share.

**COMMENT:** *We believe that the Company's stock is significantly undervalued relative to that of other companies in its field and, therefore, provides attractive capital gains potential over the intermediate term.*

## MANAGEMENT & DIRECTORS

The following biographies were taken from the Company's website.

### (1) Management (of QHR Technologies Inc. and Major Subsidiaries)

#### **Al Hildebrandt, President, CEO and Director**

Al Hildebrandt has been involved in all aspects of marketing software solutions since 1983. He founded what is today QHR Software in June 1997, targeting niche-market software and emphasizing strong client services. The driving force behind QHR's applications has been Mr. Hildebrandt's development of a fully integrated human resource system that includes payroll, human resources, and staff scheduling. He is actively involved in OSTEC (Okanagan Science and Technology Education Council), promoting technology in the Okanagan region and, in 2004, he won OSTEC's Outstanding Contribution to the Science and Technology Community Award.

#### **Tom Mamic, CFO**

Tom Mamic has financial experience in both public and private organizations, involved in managing and translating strategy into structure and execution. Prior to joining QHR, Mr. Mamic held a variety of executive and senior managerial positions in a number of technology development organizations. He was co-founder, President and CEO of Agrisoma Biosciences Inc., and VP Finance and CFO of Chromos Molecular Systems Inc. A Chartered Accountant, Mr. Mamic also holds a Bachelor of Commerce from the University of British Columbia.

#### **Larry Smith, COO, QHR Software Inc. (EMS division)**

Larry Smith is responsible for all areas relating to both the strategic direction and day-to-day operations of the Company. He has over 20 years of successful and proven management experience in the healthcare, IT, and software development industries, and has held senior leadership positions in several software and healthcare companies. Mr. Smith has a B.Sc. in Health Information Science and a MBA, which give him a good perspective and understanding of the needs of the healthcare and social services industries. Mr. Smith is also a Certified Management Consultant, and has assisted major organizations in structuring and managing growth.

#### **Fred Chapman, GM Optimed Software Corporation (EMR division)**

Fred Chapman has more than 30 years' experience in IT, software development, and being associated with EMR systems for doctors. After working with IBM, he was with Clinicare Corporation from 1989 until 2005 in a variety of roles, including Chief Operating Officer. In 2008 he became the General Manager & VP Sales for Optimed Software. The company benefits from Fred's knowledge of the EMR industry and senior management experience. The acquisition of Clinicare by QHR reunites Mr. Smith with his former customers.

#### **Charles LaFleche, CMA, FCMA, Vice-President, Corporate Development and Director**

Charles LaFleche is the founder and Chief Business Development Officer of Momentum Healthware, an 80-person Winnipeg-based healthcare information technology company. The company's U.S. operations are headquartered in Nashville, Tennessee. In 2001, Mr. LaFleche was named a Fellow of the Society of Management Accountants of Canada. In 2003, he was named to the Standards Council of Canada. Mr. LaFleche is also a founding Board member and Treasurer of the Canadian Health Information Technology Trade Association (CHITTA), and sits on two Canadian Standards Association (CSA) working groups. He is Chairman of the Riel Corporation, a Winnipeg economic development organization, and he sits on the advisory board of the St. Boniface Hospital Research Centre.

### (2) Directors

**Al Hildebrandt** (see bio above)

**Charles LaFleche** (see bio above)

**Douglas Blakeway, Chairman**

Douglas Blakeway has 40 years of executive management experience in technology business development. Mr. Blakeway founded and operated a number of successful businesses, from service-oriented companies to high technology electronic manufacturing. Since 1982, he has been a director of several public companies and currently serves as the Chairman and CEO of Wireless2 Technologies Inc., a publicly-traded international wireless RFID enterprise that he founded in 1985. He serves on audit, compensation and corporate governance committees and facilitated the successful qualification of a Capital Pool Company to a Tier 2 issuer on the TSX Venture Exchange. Mr. Blakeway is a member of Simon Fraser University Surrey - Business Advisory Council, BC Securities Policy Advisory Committee (SPAC), Canadian Listed Company Association, and the Wireless Innovation Network of BC and TEC (the Executive Committee), an international organization for CEOs.

**Dr. Ernest Wigmore**

Dr. Ernest Wigmore is a medical doctor, specializing in family medicine. He has been an active member of the College of Physicians and Surgeons of B.C., serving on a number of committees. Dr. Wigmore is a pioneer in the integration of computer-based information technology into the medical clinic. He was founder and Chairman of National Medical Solutions, an electronic medical-records provider acquired by QHR in August 2007. While continuing to practice family medicine, he is engaged in wide business interests in food processing, farm management and export marketing.

**Robert McGowan, FCA**

Robert McGowan is a retired business man with broad experience in public companies. He is a Chartered Accountant and has served as President of the Institute of Chartered Accountants in Manitoba. From 1987 to 1994, he was Chief Financial Officer of United Grain Growers Limited in Winnipeg, and played a key role in the transition of the co-operative to a public company. From 1994 to 2006, Mr. McGowan was Chief Financial Officer and VP Finance & Administration of Sun-Rype Products Ltd., a Kelowna based TSX-listed company.

**Dr. Tom Kinahan**

Dr. Tom Kinahan is a practicing pediatric and adult urological surgeon, and former Chief of Surgery at the Kelowna General Hospital. He founded the Company's EMR software Accuro, a system designed to meet the needs of specialist and primary-care physicians. He recently completed an M.Sc. degree in Health Informatics through the University of Victoria, under Dr. Denis Protti and Dr. Francis Lau. Dr. Kinahan is a Clinical Assistant Professor in the Faculty of Medicine, UBC, and physician representative on the IMIT Steering committee for the Interior Health Authority in B.C.

**Victoria Withers**

Victoria Withers' career spanned 30 years with IBM in a wide range of senior executive management roles in Canada and the United States, with responsibilities in sales, government relations, communications, finance, human resources and general management. All roles involved aspects of consulting, coordinating people and projects, and implementing new technologies. Her assignments included working with a broad spectrum of government, utilities and commercial customers across Canada and internationally. Ms. Withers has served on the boards of the Telus World of Science and the Vancouver Board of Trade, and served as a cabinet member of the United Way. She is a member of the Institute of Corporate Directors.

**CORPORATE INFORMATION**

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## ANALYST CERTIFICATION

The Research Analyst who was involved in the preparation of this Research Report hereby certifies that:

- (1) the views and opinions expressed herein accurately reflect the Research Analyst's personal views concerning any and all securities and issuers that are either discussed or are the subject matter of this Research Report; and
- (2) the compensation received for the preparation of this report was not related, in any way, to the Research Analyst's views and opinions expressed herein.

### eResearch Analysts on this Report:

**Bill Campbell, B.Comm:** Bill Campbell has over 40 years of experience as a research analyst, including over 20 years as a senior analyst at Burns Fry, Maralor Investments, Equity Value Service, Majendie Securities, and Pineridge Financial. His analytical experience extends to industrial products, steels, auto parts, transportation, and aerospace. He was ranked the number one "special situations" analyst by Brendan Woods in 1988.

**Bob Weir, B.Sc., B. Comm, CFA:** Bob Weir has 43 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for supervising the firm's 34 analysts and conducting the day-to-day management affairs of the company. He joined eResearch in 2004 and has been its President, CEO, and Managing Director, Research Services since May 2005.

### eResearch Analyst Group: Managing Director, Research Services: Bob Weir, CFA

#### Financial Services

Robin Cornwell

#### Biotechnology/Health Care

Scott Davidson

#### Transportation &

#### Environmental

#### Services/Industrial Products

Bill Campbell

#### Oil & Gas

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Achille Desmarais

Eric Eng

#### Special Situations

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#### Mining & Metals

George Cargill

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Kirsten Marion

Shash Patel

Oliver Schatz

Graham Wilson

Michael Wood

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## eResearch Recommendation System

<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

## eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

<b>High Risk:</b>	<p><i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.</p> <p><i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.</p>
<b>Medium Risk:</b>	<p><i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.</p> <p><i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.</p>
<b>Low Risk:</b>	<p><i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.</p> <p><i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.</p>

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QHR Technologies Inc. paid eResearch a fee of \$10,000+GST to conduct research on the Company on an Annual Continual Basis.

To ensure complete independence and editorial control over its research, eResearch follows certain business practices and compliance procedures. For instance, fees from Covered Companies are due and payable prior to the commencement of research.

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