

MedX Health Corp. (MDX-V) Tele-Dermatology Comes of Age

March 25, 2020

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- Skin cancer, including melanoma, is the most prevalent form of all cancers and its instances are actually increasing.
- The current standard of care to diagnosis skin cancer is very inefficient with significant wait times to see a dermatologist. Such delays could result in very bad outcomes for patients with acute situations.
- MedX Health Corp. has developed a front-end medical device (SIAscope) that can scan suspicious moles/lesions and penetrate 2 mm below the surface of the skin to accurately generate high quality images. These images can then be uploaded to its proprietary DermSecure tele-health platform and be securely transmitted to dermatologists for assessment.
- Given the high quality of the images, which dermatologists have declared are the "next best thing to being there" in person, we believe MedX will find a receptive audience, especially today as COVID-19 is forcing the cancellation of many face-to-face visits.
- The MedX platform has been proven through a proof-of-concept trial in Norway where its SIAscopes deployed at 109 Boots pharmacies captured 80,000 scans and found 800 cases of melanoma.
- With its medical device having regulatory approval in 35 countries, including the US, Canada, Australia, EU and most recently Brazil, MedX is firmly in commercialization. In fact, we believe it has strong visibility on initial orders from its Brazilian distribution partner that could result in \$8 million of hardware sales over the next 2 years and a run-rate of \$14 million of high margin, recurring platform revenue by the end of FY21.
- Such a run-rate would only represent ~0.6% of the population receiving an annual skin cancer screen. We believe 1-1.5% is very possible in a population where 8% are deemed "high risk".
- Not only could orders from Brazil be much deeper given the size of the population and the prevalence of skin cancer in the country, but we believe MedX has ongoing relationships with other countries with an aggregate population of 580 million that could translate to firm orders over the course of the year.
- However, with its regulatory approved platform, orders-in-hand and with other significant opportunities, the stock has a market cap of only \$15 million, implying to us that investors are unaware of the recent positive developments at the company.
- Typically, SAAS-based tele-health companies trade between 5-10x sales. Given the noted visibility for \$14 million of such revenue by the end of FY21, MedX trades at 1x.
- Given MedX checks all the boxes of the questions that we believe investors should be asking, we believe the current valuation represents an excellent risk-return proposition. We therefore initiate coverage with a Buy recommendation and \$0.45 target price.

Initiating Coverage

Buy \$0.45

Recent/Closing Price	\$0.10
12-month Target Price	\$0.45
Potential Return	350%
52 Week Price Range	\$0.07 - \$0.17

Estimates

YE: Dec 31	FY20E	FY21E
Revenue (\$MM)	4.4	14.9
EBITDA (\$MM)	0.4	5.2
EPS	0.00	0.02

Valuation

	FY20E	FY21E
EV/Sales	3.6x	1.1x
EV/EBITDA	39.0x	3.0x
P/E	56.6x	4.2x

Stock Data (MM except per Share items)

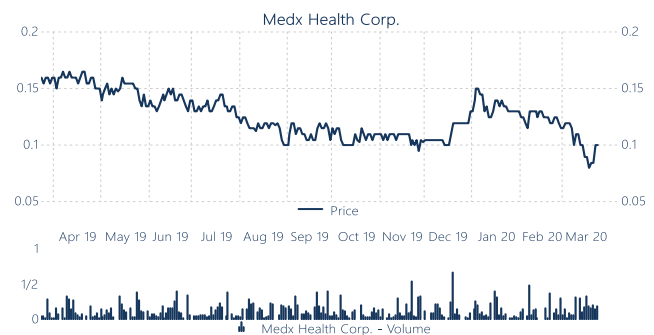
Shares Outstanding	
Basic	157.8
FD	231.5
Market Cap	
Basic	\$15.8
FD	\$23.1
Net Debt	\$0.0
EV	\$15.8

About the Company

MedX's mission is to develop and implement non-invasive, practical, drug free and cost-effective skin analysis and assessment systems for use by trained medical professionals. The company's Class 2 skin cancer scanning device with images that can be uploaded on its proprietary cloud-based tele-health platform are sent to local dermatologists for review. MedX is through its R&D phase with regulatory approval in 35 countries and has firmly commenced commercialization.

All prices in C\$ unless otherwise stated

Stock Performance



Investment Thesis

In a famous Seinfeld episode, Jerry was dating a dermatologist who he disparagingly referred to as “Pimple Popper MD” until another character thanked her for saving her life. Jerry asks “How did she save you?”, “I had skin cancer” was the reply.

Melanoma and skin cancer, of course, is no laughing matter. In fact, skin cancer accounts for one-third of all cancer cases and is one of the only forms of cancer that is increasing in prevalence. The good news is that early detection can result in a survival rate of 98%. The bad news is that if left undetected, skin cancer and melanoma in particular, metastasizes very quickly, dropping the survival rate down to 25%. The key, therefore, would appear to be a rigorous and regular screening regiment. Once again, however, the bad news is that the current “standard of care” does not lend itself to such a regiment as one must first see their General Practitioner (GP) and then be referred to a dermatologist – a process that could take 8-12 months; time that some patients may not have.

In what could be a virtual circle of care wherein everyone wins (ie. patients, dermatologists, healthcare system), MedX Health has commercialized a regulatory-approved (in multiple countries), highly efficacious Class 2 skin cancer scanning device with images that can be uploaded on the company’s proprietary cloud-based tele-health platform and sent to local dermatologists for assessment. Through this network, patients can receive their prognosis and receive treatment within 72 hours after the initial screening.

We believe MedX Health is incredibly well positioned, both fundamentally and from a risk-return value perspective because it checks the four key questions that investors should be asking:

a) Does MedX Fill an Unmet Medical Need? **YES**

- Company’s medical platform (front-end triage and software platform) dramatically reduces the time to review skin cancer screening results.
- Platform also acts as a yield management tool for dermatologists with more time spent on confirmed cases versus benign moles/lesions.
- We know the technology works from a proof of concept trial in Norway where its SIAscope has taken ~80,000 scans and found 832 cases of melanoma.

b) Is the Product Through the R&D Stage with All Regulatory Approvals? **YES**

- MedX’s SIAscope has received regulatory approval in 35 countries including Canada, US, EU, Australia and most recently Brazil.

c) Is There a Sales Backlog? **YES**

- Given all the regulatory approvals, MedX has started commercial sales
- Revenue model is front-end hardware sales coupled with recurring “platform” revenue based on a minimum number of screens per device (360/year at \$10/image)

- On January 16, 2020, the company announced its first major contract with Brazil for 500 SIAscope units, which represents ~\$1 million in hardware sales and \$1.8 million of recurring platform revenue. We believe this is just the beginning for Brazil who has indicated it could order 4,000+ SIAscopes over the next 24 months, which would translate to ~\$14 million of recurring revenues
- Other near-term revenue opportunities exist in Canada, the US, Spain, Mexico and Columbia

d) Does the Stock Trade Below Intrinsic Value? **YES**

- With a current market cap of ~\$15 million versus recurring platform revenue visibility of \$14+ million (not including hardware sales of ~\$8 million over the next two years), the stock trades ~1x indicated, high margin, revenue just from Brazil. Such tele-health companies typically trade between 5-10x such revenue.
- As such, in our opinion, MDX is materially undervalued with its in-hand contract in Brazil. Follow-on Brazil orders plus potential roll-outs in Canada, US and other countries represents a free option to investors.

With our four critical investment criteria questions answered in the affirmative, we believe the shares of MedX Health represent an excellent risk-return proposition. We therefore initiate coverage of MedX with a Buy recommendation and a target price of \$0.45.

Skin Cancer Primer

Skin cancer is the most frequent malignant neoplasm in the world. Each year, there are more new cases of skin cancer than the combined incidence of cancer of the breast, prostate, lung and colon. As a point of reference, more than 5.4 million cases of nonmelanoma skin cancer were treated in over 3.3 million people in the US in 2012. Furthermore, the diagnosis and treatment of nonmelanoma skin cancers in the US increased by 77% between 1994-2014. The primary cause of skin cancer is exposure to ultraviolet (UV) radiation in sunlight (and from indoor tanning). Frequent sun exposure and sunburn in childhood can cause irreversible damage that can lead to skin cancer later in life. In fact, a person's risk for melanoma doubles if they have had more than 5 sunburns, but also just one blistering sunburn in childhood or adolescence more than doubles a person's chance of developing melanoma later in life. The estimated 5-year survival rate for patients whose melanoma is detected early is ~98%. However, the survival rate falls to 65% when the disease reaches the lymph nodes and 25% when the disease metastasizes to other organs. The key, therefore, is early detection. Two countries in particular have been leading the charge in terms of public awareness. For example, Australia, who has the highest rates of melanoma in the world, started public education in the 1980s with its campaign of "Slip on a shirt! Slop on some sunscreen! Slap on a hat!" Brazil also has its own campaign to create awareness with mobile units (ie. 18-wheel mobile hospitals) driving around cities to physically examine people as well as promote educational activities.

Screening for other forms of cancer, such as colorectal, has become much more standardized through recommendations by the American Gastroenterologist Association through its educational programs that strongly suggest preventative procedures every 5 years. Studies have shown that such preventative measures are 50% effective at identifying early-stage problems. As such, there are now 19 million colonoscopies performed every year in the United States, which is a US\$50 billion business in-and-of-itself.

With skin cancer having a higher prevalence than all other forms of cancer, we believe the time is now to standardize screening, especially since it is non-invasive. MedX Health offers the only regulatory approved screening tool as well as a secure tele-health platform through which to send the images to dermatologists. Its platform is an efficacious medium to quickly offer screening to a much wider audience in multiple countries around the world. By finding potential skin issues at an earlier stage, it is a win-win for all parties: the patient's survival rate is dramatically increased and the healthcare system saves a significant amount of money as an early stage removal/remediation is dramatically less expensive than a pharmacology-driven solution.

The MedX Health Platform

The MedX platform consists of a front-end scanning medical device (SIAscope) and a tele-health electronic highway (DermSecure) to securely transmit the patient's health information and their images to the dermatologists (ie. the "readers"). As such, the company's platform is the only end-to-end solution that provides high quality images and direct access to dermatologists whereby decisions can be made immediately as to the seriousness of the skin concerns, thus benefiting the patient and the healthcare system. In particular:

- a) SIAscope: is a regulatory approved medical device technology acquired by the company in 2011, which is used to scan suspicious moles and lesions using specific light wavelengths to penetrate 2mm below the surface of the skin and generating 5 pathophysiology images. The quality of the images provides dermatologists a vastly improved level of certainty when assessing such moles/lesions and thus allows for immediate feedback to their patients. This improves the quality of care (and lowers anxiety levels of patients) by dramatically reducing the need for unnecessary biopsies and dramatically reducing the wait times to receive treatment for malignant tumors.
- b) DermSecure: this platform enables the web-based operation of its SIAscopy scanning technology and allows MedX to deploy its technology in networks of 3rd party locations from which patients' mole and lesion scans can be connected to specialist physicians for remote assessment. DermSecure complies with international standards for privacy and security (HIPAA, PIPEDA, GDPR). MedX completed its DermSecure platform at the end of 2019.



Source: MedX Health

With its end-to-end platform now complete, we believe there are four key questions that investors should be asking themselves to determine the investment worthiness of MedX. Our analysis confirms that the company meets all such criteria and as such, in our view, the shares offer excellent upside potential.

Does MedX Fill an Unmet Medical Need? YES

To understand if MedX's platform fills an unmet medical need, one must first understand the current standard of care. Today, if one has a concern about a suspicious mole or lesion, one must first make an appointment to see their family doctor. If that doctor believes it needs further attention (note that such GP's misdiagnose 1 in 5 malignant moles), the patient is sent to see a dermatologist. In Canada, the wait time to see a dermatologist can be between 5 and 18 months (565 specialists servicing 37 million people). Long wait times are caused, in part, by anxious patients who want to receive a diagnosis yet 89% of all skin biopsies are benign. This over-crowding of the health system is a result of bad triage tools (ie. non-existent except for visual inspection by a GP who is not specifically trained for this specialty). The real issue is that the current standard of care crowds-out patients who may have a real problem and the wait times could mean that a cancerous mole that is not caught early could metastasize into something much more troubling by the time the patient gets to see the dermatologist.

Even in the United States, who operates under a private health care system, average wait times are 6 weeks or longer to see a dermatologist. In Philadelphia as an example, wait times are up to 11 weeks. More concerning is that times are increasing with patients waiting 50% longer than 10 years ago. Maybe even more concerning than that is that wait times are the #1 reason patients did NOT visit a dermatologist. I am not a doctor, but even I know that if one doesn't go see a dermatologist, it is impossible to get a diagnosis.

As with other forms of cancer, early detection of skin cancer is critical to increasing the survival rate. **In fact, melanoma, if untreated, can become life threatening in as little as 6 weeks as it can spread quickly to other parts of the body. Six weeks versus median wait times of several months to see a dermatologist is the problem with the current standard of care.**

MedX's diagnostic equipment can quickly triage a patient's suspicious mole/lesion with the high-quality images uploaded to its tele-health platform to a specialist who will read it within 72 hours. This math, in our view, proves that MedX, in theory, can fill an unmet medical need. However, it is not just in theory. The company has proven it in practice through a proof of concept trial in Norway.

In 2016, a clinical paper was written analyzing MedX's diagnostic platform based on deployment of the SIAscope in 109 Boots' pharmacy stores in Norway. The objective of this deployment was to determine the efficacy of this novel service and explore patient acceptability of it. The trial consisted of in-pharmacy capture of images from individuals who paid NOK350 (~\$50) for the first mole and NOK150 (\$22) for subsequent scans, which were sent to a trained specialist in dermatology for interpretation. In all, ~80,000 scans were taken from the 109 stores. Of those, 7.9% required further testing and 1% were found to have melanoma or ~800 individuals. In essence, the MedX diagnostic tools may have saved those 800 lives and certainly saved the Norwegian health service significant money through such early detection. As one might expect from such results, there was an 88% satisfaction level from the consumers.

While we have outlined why the current standard of care is insufficient, we would also note that competing technologies, namely smart-phone apps, do not seem to be able to satisfy that unmet medical need. As an example, Vancouver-based MetaOptima is a privately held company whose vision is to be the leader in intelligent dermatology skin analytics. The company offers its MoleScope camera as an attachment to an iPhone. Patients can then take pictures of their own moles to track if/how they are growing. However, the images neither offer a detailed enough image to be of much use to a dermatologist nor are the pictures sent through a secure platform that guarantees patient privacy. Therefore, in our conversations with the medical community, such products cannot act as an effective triage tool and they cannot act as a yield management tool for dermatologists. In one sense, they may, in fact, create more anxiety for patients and lead to the aforementioned long wait times to see a dermatologist.

Strong Medical Advisory Board Gives Comfort

While our due diligence conversations with many in the medical community confirm our thesis that the MedX solution fills an unmet medical need, we also take comfort from its strong Medical Advisory Board that consists of in-field experts. In particular, we would highlight:

Dr. Daniel Siegel: A clinical Professor of Dermatology at SUNY Downstate in Brooklyn, New York and a former President of the American Academy of Dermatology, Dr. Siegel, who has published over 100 articles in major medical journals, believes that “tele-dermatology has been slow to catch on because of its poor image quality, but with MedX’s clear dermoscopic view combined with four additional views 2 mm below the skin’s surface, it’s as close to having a patient in front of you as I have seen”.

Dr. Trevor Champagne: A clinician in Quality and Innovation at Toronto's Women's College Hospital, Dr. Champagne is a board-certified dermatologist in Canada and the United States. With a Bachelor in Mathematics from the University of Waterloo, an MD from Western University and a graduate of the University of Toronto Dermatology residency program, we believe Dr. Champagne has great insights into the market not only from his experience but also as a user of the MedX technology.

The fact that MedX’s platform works as a proven triage tool and can securely transmit detailed images to dermatologists leads us to conclude that YES, the company fulfills an unmet medical need. We now move on the next question that investor should be asking.

Is the Product Through the R&D Stage with All Regulatory Approvals? YES

We have met many medical companies in our career and heard their plans to fill a specific medical need yet almost all had difficulty getting through the clinical process with most ending up dying on the vine. Supporting such companies once they receive regulatory approval dramatically reduces the risk as one just needs to consider commercial risk (discussed in our next section) as opposed to both clinical and commercial, which, when combined, increases the risk logarithmically.

MedX's SIAScope is classified as a medical device and needs regulatory clearance such as 510K approval in the United States. It has, in fact, been cleared by the FDA in the US, Health Canada and is CE marked for sale in Europe with equivalent approval in Australia (the #1 skin cancer market in the world on a per capita basis). In all, MedX has approvals in 35 countries including most recently Brazil with whom it has a growing backlog of orders.

As for DermSecure, its tele-health platform, MedX does not need regulatory approval but it has received HIPAA (Health Insurance Portability and Accountability Act), PIPEDA (Personal Information Protection and Electronic Documents Act) and GDPR (General Data Protection Regulation) approvals. Such certifications, which secure patient information, are critical in securing contracts with both front-end users of the SIAScope (such as pharmacies and med spas) as well as back-end readers, ie. Dermatologists.

With all of its regulatory approvals in place, MedX is through the R&D phase and is firmly in the midst of commercialization. As such, the answer to this important investor consideration is YES.

Is There a Sales Backlog? Yes

As we indicated above, MedX has all of its regulatory approvals which are the necessary precursor to initiating commercial sales in each specific region. We noted earlier that Brazil is one of the countries who is at the forefront of skin cancer awareness and prevention. As such, it is not a big surprise that Brazil is the first major country to pursue a large-scale commercial relationship. To that end, MedX announced on April 9, 2019 that it had signed an exclusive distribution relationship with CBD Vida to launch a comprehensive ease-of-access skin scanning/assessment program throughout Brazil. Vida has extensive relationships that cover pharmaceuticals, medical clinics, pharmacies and government.

Once MedX had completed its DermSecure tele-health platform at the end of 2019, the company received its first order for 500 SIAScopes from its Brazilian partner. According to MedX Brazil (renamed from Vida), the "MedX SIAScopy on DermSecure telemedicine platform is a perfect solution for early detection" of a problem that saw 100,000 new cases of skin cancer between 2016 and 2017 (according to the Brazil Cancer Institute). MedX Brazil, through its channel partner One Way Diagnostica, was marketing the platform prior to Brazil regulatory

approval and notes that it has seen strong demand. One Way Diagnostica, in particular, appears to be an excellent partner as it is focused on forming strategic partnerships with North American companies who have healthcare/diagnostic/therapeutic products that its large sales force can re-sell to its customers throughout Brazil.

With a population of 210 million and 8,000 dermatologists, we believe the Brazilian demand for the MedX platform will be significant. The aforementioned initial order of 500 SIAscopes is just the beginning and we believe there are commitments for a total of 1,500 scopes this year and an incremental 2,500 in 2021.

Revenue Model

MedX's revenue model is a combination of hardware sales and recurring SAAS-based revenue associated with the images that are sent to the dermatologists. In particular, the platform is sold as a package (not unlike cell phone packages) with the standard plan of ~\$2,000 upfront for the hardware unit and \$300 per month based on a minimum of 30 scans per month (ie. \$10/scan) or \$3,600/year in recurring, high margin, revenue.

Therefore, just based on the projected ramp in sales to its Brazilian partner, MedX could expect to generate \$3 million in hardware sales in 2020 with an exit recurring SAAS-image related revenue of \$5.4 million. With more packages expected to be sold in 2021, hardware revenue in that year could be \$5 million with recurring SAAS revenue of \$14.4 million.

Anticipated Brazil Roll-Out

(\$000s)	FY20e	FY21e
Hardware Units Sold	1,500	2,500
Hardware Revenue (\$)	3,000	5,000
Installed Base, End Year	1,500	4,000
Monthly Rev/Unit (\$)	300	300
SAAS Rev Run-Rate, End Year (\$)	5,400	14,400

Source: Beacon Securities Ltd

With a current market cap of ~\$15 million, the stock is trading at less than 1x the exit rate FY21 recurring revenue versus peer group valuations upwards of 5-10x recurring sales.

Huge Market in Brazil and Beyond

The above table highlights just what the initial indications are from MedX's Brazilian partner. To put it in perspective, an installed base of 4,000 SIAscope scanning devices would equate to 1.4 million scans per year. That would represent annual screens of 0.6% of the population. Our conversations with the principals of One Way Diagnostica indicate that they believe 8% of the Brazilian population should be classified as "high risk" of skin cancer and thus should partake in annual screening. If so, that would imply a potential of 17 million screens or \$170 million in recurring revenue based on the current pricing of

\$10/scan. While such a target would take years to achieve, we certainly believe that an installed base that is capable of servicing 1-1.5% of the Brazilian population over the next few years is feasible. This would imply 2-3 million annual scans or \$20-\$30 million in SAAS recurring revenue, which could be serviced through an installed base of 6,500-7,000 SIAscopes.

While Brazil appears to be an excellent market and represents significant upside to the stock based solely on this high visibility opportunity, this is clearly a global opportunity. Typically, the sales process is twofold whereby the company must engage a group to host the front-end devices and a back-end group of dermatologists to read the images. MedX has a number of initiatives in other countries including:

- a) *Canada*: With information gathered from the trial in Norway, pharmacies seem to be an excellent channel partner to host the SIAscope scanning device as stores are not only easy for consumers to access but they already have private consultation rooms (to take the scans) and relationships with physicians. MedX has a relationship with a Canadian national pharmacy chain who has ~1,500 stores across the country. We would expect this pharmacy to start a trial in a few stores later this year with a full roll-out in 2021. Using a similar model to the one noted above, if 1-1.5% of the Canadian population gets an annual skin screening examination, that would represent between 400,000 – 550,000 annual scans or a \$4-\$5.5 million recurring revenue opportunity.
- b) *United States*: With a population of 330 million and 7,800 Dermatology practices, the United States clearly represents a large market opportunity. As in other markets, we believe MedX is taking a 2-pronged partner approach with clinics to deploy the SIAscope and dermatologists to read the images. In terms of the former, we believe it is pursuing two types of groups:
 - i) Pharmacy Channel Partners: Interestingly, CVS is increasingly focusing on healthcare service hubs within their stores that will offer services to patients. In particular, it is piloting HealthHubs in certain locations and plans to have 1,500 such Hubs operating by the end of 2021 in which shoppers will have access to a wide range of regular and telehealth services. We believe one such service could be skin health. Since 2017, CVS has had a campaign called Long Live Skin that is aimed at increasing awareness around skin health, sun safety and the importance of proper skincare. The SIAscope would seem to make sense given their strategic thrust.
 - ii) Med Spas: We believe there are 4,800 med spas and general esthetician clinics (laser hair and mole/sunspot removal) across the US. We note that the latter is a large business but such moles should be checked to see if they are malignant before they are safely removed, which would entail being checked by a dermatologist. The major suppliers to this large market are already in distribution discussions with MedX and we expect this to be a major point of entry for the company into the US market.

- iii) Retail Clinics: We highlight this channel given Walmart's recent announcement of its goal to become "America's Neighborhood Health Destination" and launching its first Walmart Health center in Dallas, Georgia. The center offers primary care, labs, X-rays, EKG scans, dental, optical and hearing. We do not think it would be a large leap of faith to think the SIAscope would fit in well with such product offerings.
- c) *Europe*: Aside from its proof of concept trial in Norway, MedX has forged other relationships in Europe. In particular, SANITAS, the leading health insurer in Spain, is conducting a pilot in 8 locations.
- d) *Latin America*: Countries such as Columbia and Mexico likely have the same skin cancer issues amongst their populations as Brazil. MedX has been in discussions with partners in both countries and we believe the same model that was used in Brazil would be replicated throughout Latin America.

Aside from Brazil where MedX has firm commitments and where we outlined the opportunity at a very conservative 2-3 million annual scans (\$20-\$30 million in recurring revenue at 1-1.5% penetration of the population), the above countries (ie. Canada, United States, Spain, Mexico and Columbia) represent an aggregate population of 580 million. Using a similar 1-1.5% of the population who would be deemed high-risk and likely candidates for annual screening, these countries would represent an aggregate 5.8 – 8.7 million scans or an incremental \$58-\$87 million of SAAS-based recurring revenues, putting the total near-term opportunity at \$100+ million.

Production Capacity

Understanding that delivery of the SIAscope is the "front-end of the wedge" that enables the SAAS-based recurring revenue on the DermSecure platform, we believe it is important to highlight MedX's manufacturing strategy for it and its ability to quickly scale-up production. MedX has an ISO 13485 (for medical devices) certified manufacturing facility in Mississauga, Ontario where it has the capability to produce between 600-1,000 SIAscopes per month. While such capacity is sufficient to support our current forecast, the company is preparing for anticipated higher volumes through a 3rd party contract manufacturer. It expects to have such a relationship in place by Q4/FY20.

Getting back to the original question, therefore, of "Is there a sales backlog?", the answer is YES.

Does the Stock Trade Below Intrinsic Value? Yes

High margin, SAAS-based companies typically trade in the range of 5-10x of their recurring sales. If we solely look at contracts with its Brazilian partner, such recurring revenue should be on a run-rate of \$14.4 million by the end of FY21. If one were to assign a 5x multiple to that revenue, that would translate to an EV of \$72 million. Such a valuation would also correspond to 15x our FY21 EBITDA forecast.

Capital Structure

To understand how that translates on a per share basis, let us take a look at the current capital structure.

After the recent \$1.7 million equity raise (14.2 million shares @ \$0.12 with a full warrant at \$0.20), there are 158 million shares outstanding with 56 million warrants, predominately priced at \$0.20. The company has a \$0.5 million convertible debenture outstanding at \$0.20, which would convert to another 2.5 million shares. Consequently, the fully diluted share count is 231 million. If all of the warrants were exercised, MedX would receive \$11 million in cash.

Valuation

Based on 158 million basic shares and using our exit-FY21 recurring revenue forecast and 5x multiple to arrive at an EV of \$72 million, we would arrive at an implied value of \$0.45/share. However, we would note that such a valuation is the base case on the current visible commitments from MedX's Brazilian partners. As such, it does not include any further upside from Brazil which we have highlighted above (ie. 8% of the population is deemed "high risk" whereas 1.4 million scans represent only 0.6% of the population) or other countries which we have also highlighted above. In the sensitivity table below, we highlight the potential share price under specific scenarios, specifically the number of annual scans, which we believe is the key operational metric, and an assumed P/Recurring Revenue multiple of 3-10x.

	Number of Annual Scans							
(@ \$10/scan)	1,400,000	2,000,000	2,500,000	3,000,000	3,500,000	4,000,000	4,500,000	5,000,000
3x Sales	\$0.27	\$0.38	\$0.47	\$0.57	\$0.66	\$0.76	\$0.85	\$0.95
5x Sales	\$0.44	\$0.63	\$0.79	\$0.95	\$1.11	\$1.27	\$1.42	\$1.58
10x Sales	\$0.89	\$1.27	\$1.58	\$1.90	\$2.22	\$2.53	\$2.85	\$3.16

Source: Beacon Securities Ltd

With a recent price of \$0.09 and a market cap of ~\$15 million, the shares are trading at ~1x the commitment from the Brazilians. As noted in the table, we would expect the number of annual scans to dramatically increase both in Brazil and as MedX expands to other countries as well as a multiple expansion as investors become more aware of the company's large opportunity.

Getting back to the original question, therefore, of "Does the Stock Trade Below Intrinsic Value?", the answer is YES.

Risks

Technology Risk: MedX has developed its skin cancer screening platform consisting of its front-end triage unit (SIAscope) and tele-health platform (DermSecure) to securely transmit high-quality images to dermatologists. If a more efficacious technology is created or if another company manages to create a similar technology to SIAscope, MedX's sales could be negatively impacted. However, as we discussed earlier, the primarily competing technologies are iPhone-based apps, which do not offer the level of detail necessary for dermatologists to make an informed diagnosis.

Market Acceptance: We discussed earlier in the report the current standard of care to diagnosis skin cancer. While it seems readily apparent that there are key concerns with the current standards, the medical community tends to move slowly in adopting new technologies. If the market does not accept MedX's platform, sales could be slower than we have anticipated. However, after the successful proof of concept trial in Norway and the initial orders from Brazil, not to mention interest from potential Canadian partners, we believe the market is already trending towards mass acceptance of its platform.

Financial: MedX has an approximate \$15 million market capitalization and has a history of losses. If it is unable to raise sufficient capital to fund its anticipated growth, it may not be able to achieve our forecast. However, the recent closing of a \$1.7 million equity financing and expected upfront payments from their Brazilian partners for the SIAscopes (at anticipated 50% gross margin) should allow for the company to generate positive cash flows in the very short term.

Initiating Coverage with Buy Rating and \$0.45 Target Price

We are initiating coverage of MedX Health Corp with a Buy rating and a target price of \$0.45. In summary, our recommendation is based on the following:

- a) Skin cancer, including melanoma, is the most prevalent form of all cancers and its instances are actually increasing.
- b) The current standard of care to diagnosis skin cancer is very inefficient with significant wait times to see a dermatologist. Such delays could result in very bad outcomes for patients with acute situations.
- c) MedX Health has developed a front-end medical device that can scan suspicious moles/lesions and penetrate 2mm below the surface of the skin to accurately generate high quality images. These images can then be securely transmitted via its DermSecure tele-health network to dermatologists for review.
- d) Given the high quality of the images, which dermatologists have declared are the “next best thing to being there” in person, we believe MedX will find a receptive audience, especially today as COVID 19 is forcing the cancellation of many face-to-face visits.
- e) The platform performed a proof of concept trial in Norway during which 80,000 scans were performed that found ~800 cases of melanoma (1%). During the trial, dermatologists reviewed the images with feedback to patients within 72 hours. This is evidence, in our opinion, that the platform fills an unmet medical need.
- f) With its medical device having regulatory approval in 35 countries (including US, Canada, Australia, EU and Brazil), MedX is firmly in commercialization. In fact, we believe it has strong visibility on initial orders from its Brazilian distribution partner that would result in \$8 million of hardware sales over the next 2 years and a run-rate of \$14 million of high margin, recurring platform revenue by the end of FY21.
- g) Such a run-rate would only represent 0.6% of the population receiving an annual skin cancer screen. We believe 1-1.5% is very possible in a population where 8% are deemed “high risk”.
- h) Not only could orders from Brazil be much deeper given the size of its population and the prevalence of skin cancer in the country, but we believe MedX has ongoing negotiations with other countries that could translate to firm orders over the course of the year. For example, Brazil, Canada, the United States, Spain, Mexico and Columbia have an aggregate population of 580 million. A 1% annual penetration rate would equate to 5.8 million annual scans or \$58 million of high margin recurring revenue.
- i) However, with its regulatory approved platform, orders-in-hand and with the significant opportunities noted above, the stock has a market cap of only \$15 million, implying to us that investors are unaware of the recent positive developments at the company.

- j) Typically, SAAS-based tele-health companies trade between 5-10x sales. Given the noted visibility for \$14 million of such revenue by the end of FY21, MedX trades at ~1x.

As one can see from the above analysis, we believe MedX Health checks all of the four key questions that we believe investors should be asking. Given the current valuation of the shares, we do not believe they reflect the intrinsic value of the company, which creates an exceptional risk-return opportunity. As such, we are initiating coverage of MedX with a Buy recommendation and a 12-month target price of \$0.45.

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As at February 29th, 2020	#Stocks	Distribution
BUY	61	71.8%
Speculative Buy	8	9.4%
Hold	3	3.5%
Sell	0	0.0%
Under Review	13	15.3%
Tender	0	0.0%
Total	85	100%

BUY Total 12-month return expected to be > 15%
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
 Hold Total 12-month return is expected to be between 0% and 15%
 Sell Total 12-month return is expected to be negative
 Under Review
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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