

MedX Health Corp.

MDX \$0.065

TSXV Exchange | OTC:MDXHF | Market Cap \$12M

Description and Introduction:

- Skin cancer, including melanoma, is the most prevalent form of all cancers and its instances are actually increasing.
- The current standard of care for the diagnosis of 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.
- Elimination or reduction of the delays in the current diagnosis process can dramatically benefit patients.

MedX Health Corp., a speculative micro-cap stock with a current equity valuation of just \$12 million, has developed its SIAscope™, a Class 2 medical scanning device which, used in conjunction with an HD camera, can scan suspicious – potentially cancerous – moles and lesions and penetrate two millimeters (mm) below the surface of the skin to accurately generate high quality images. See Figure 1 and 2. These images are then uploaded to MedX’s proprietary DermSecure™ telemedicine platform to 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 since today’s post-COVID world has made wait times in the healthcare system much more challenging.

The MedX SIAscopy platform was originally proved through a proof-of-concept trial in Norway, where SIAscopes deployed at 114 Boots pharmacies captured 80,000 scans which detected 862 cases of melanoma. Since that original trial, the SIAscope™ unit and the DermSecure™ software platform have been extensively upgraded, including the linked HD camera. The SIAscope™ and the DermSecure™ platform now have regulatory approval from Health Canada, the FDA in the United States, CE acceptance for sale and use in Europe, and regulatory approvals for sale and use in Great Britain, Australia and Brazil.

The aggregate R&D costs incurred by MedX were immense, around \$14 million in total. Still, those costs have already been incurred, and future required R&D spending, principally on increasing security and developing multi-lingual facets for the software, is expected to be minimal for the foreseeable future.

Figure 1: MedX's SIAscope™



The very best **Image Capture**



Source: MedX Health Corp.

Figure 2: MedX's HD Camera



Source: MedX Health Corp.

The SIAscope™, when used in conjunction with its HD Camera, creates five separate high-definition, real-time images of the suspicious area two mm below the skin's surface. The scanning process typically takes place in a clinic or a pharmacy consulting room and is carried out by a trained technician rather than a fully qualified medical practitioner, thus reducing the wait time so often encountered by a patient to arrange an appointment with their family doctor. The images are then sent to a dermatologist via the DermSecure™ platform. (The transmitted images are composed of raw data; in this way, pixelation effects do not obscure any part of the pictures.) The dermatologist then reviews the information and returns a professional assessment to the patient within 72 hours. This assessment could include a prescription to treat the skin condition or onward referral for an in-person appointment with a dermatologist or for surgery.

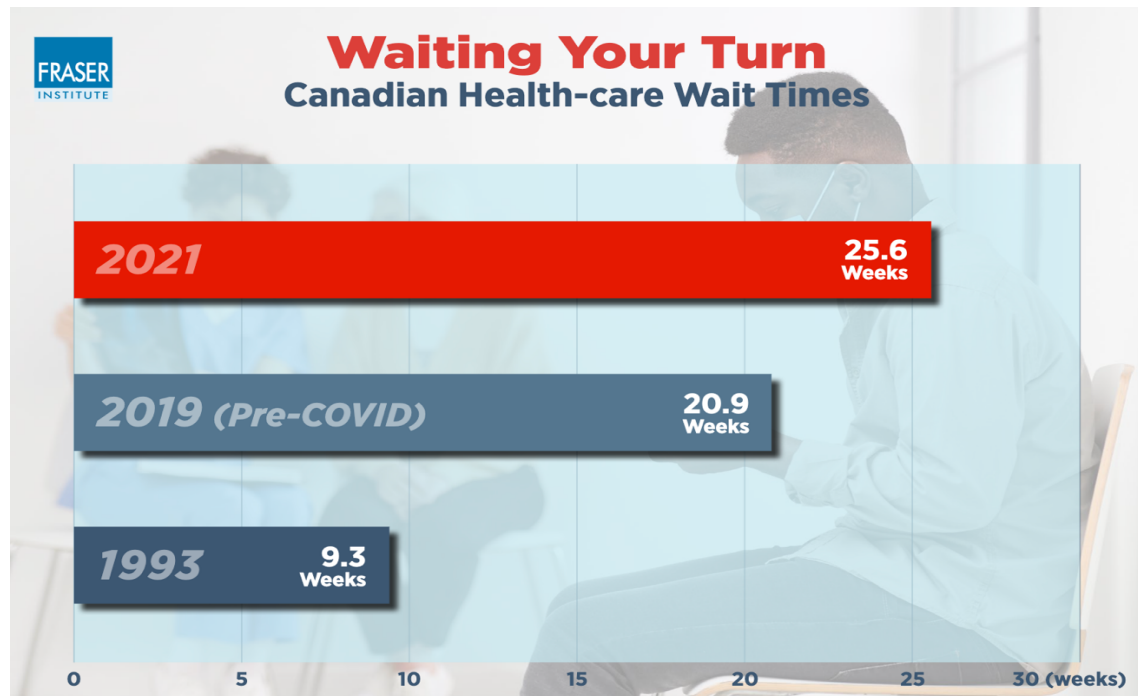
Important to note: the resolution of the high-definition images that MedX's system sends to dermatologists is crucial to these specialists. In order to determine the severity of a mole or lesion, a dermatologist must be certain the image is extremely detailed. As a testament to the quality of MedX's transmissions, dermatologists have only rejected about 0.05% of the images sent by MedX's system. In contrast, over 40% of images sent across the internet are considered less than fully distinct.

MedX assumes no responsibility for the dermatologist's assessment of the patient's condition. If the dermatologist does not believe he/she can accurately diagnose the skin issue with the images provided by MedX, they can recommend that the patient come to their office or otherwise make arrangements for a personal consultation.

Benefits of MedX's Equipment and Process: A patient's ability to receive a quick diagnosis from a licensed medical professional has at least two benefits. Firstly, the patient can likely avoid a painful biopsy of the affected area. Probably more important, the patient will not have to wait a week or more for the biopsy results, reducing anxiety levels.

Secondly, MedX's innovation removes the inconvenient (sometimes life-threatening) issue of ever-lengthening wait times to see a doctor. Indeed, in a December 2022 study, the Fraser Institute concluded that Canadians waited nearly six months on average for a necessary medical appointment. See Figure 3. Wait times in Ontario were the shortest, about 18.5 weeks, while wait times in Nova Scotia often exceeded a full year.

Figure 3: Wait Times to See a Doctor in Canada are Long and Continue to Lengthen



Source: Fraser Institute.

More specifically, if an individual becomes concerned about a suspicious mole or lesion, the traditional practice is for the patient first to arrange an appointment with his/her primary care doctor. After that appointment, the primary care doctor could refer the patient to a dermatologist if specialized attention is required. Unfortunately, there are only 634 dermatologists serving patients across Canada. This equates to just 1.7 dermatologists per 100,000 citizens. Even with a doctor's referral in hand, securing a timely appointment with a qualified dermatologist can be, in a word, challenging. This difficulty is further exacerbated for a prospective patient living in a rural area.

Such a drawn-out process can be life-threatening for a patient afflicted with even early stages of skin cancer: untreated skin cancer can rapidly spread to other parts of the body in a very short time, sometimes in as little as six weeks. As a further note of caution regarding this sequence: primary care doctors reportedly misdiagnose or fail to diagnose one in five malignant moles.

MedX Has Received the Necessary Regulatory Approvals for its Innovative Device: MedX's SIAscope™/DermSecure™ system has been approved by Health Canada and the U.S. FDA. In addition, the products are CE marked for sale in Europe, which means the devices have been assessed to meet safety, health and environmental protection requirements and also have regulatory approvals for sale and use in Great Britain, Australia and Brazil.

Early Skin Cancer Screening/Detection is a Tragically Overlooked Health Issue with Enormous Consequences: Skin is the largest organ in the human body, and melanoma skin cancer is extremely dangerous. It frequently goes undiagnosed until it is in advanced stages, and, unfortunately, more people become afflicted each year. Indeed, more new cases of skin cancer occur each year than the combined incidences of breast, prostate, lung, and colon cancers. Exposure to ultraviolet (UV) radiation in sunlight and from indoor tanning are the primary causes of skin cancer.

Frequent exposure to the sun, including childhood sunburns, can cause irreversible damage, which can translate into skin cancer later in life. Remarkably, a person's encountering just one blistering sunburn in childhood or adolescence more than doubles the odds of eventually developing melanoma.

As with many cancers, **early detection of melanoma skin cancer is crucial for the patient;** the estimated five-year survival rate for patients for whom the cancer is found in the early stages is around 98%. However, if melanoma skin cancer advances such that it reaches the lymph nodes, that percentage declines to about 65%. If the cancer metastasizes to other organs, a patient's survival rate is only around 25%.

The sheer number of patients who suffer (and unfortunately die) from skin cancer is both shocking and extremely depressing: the Canadian Cancer Society estimates that 9,000 Canadians were diagnosed with melanoma skin cancer in 2022, and 1,200 died from it. In addition, nearly 100,000 Americans are expected to be diagnosed with melanoma in 2023, and around 8,000 succumbed to the disease in 2022, according to the American Cancer Society. Melanoma is the third most diagnosed cancer among individuals aged 25 to 39 in the United States. It is possible that the use of MedX's medical innovative device could begin to reduce both the incidences of, and the number of deaths, caused by skin cancer by dramatically reducing the time between an initial attendance at a clinic or pharmacy for a scan and the initial assessment by a dermatologist from weeks to as little as 72 hours.

DermSecure™ Platform -- Adaptable and Very Secure: MedX uses state-of-the-art technology to send medical images to dermatologists securely. The DermSecure™ platform runs on the Amazon Elastic Compute Cloud (EC2), which provides on-demand, scalable computing capacity in the Amazon Web Services (AWS) Cloud. The use of EC2 technology allows MedX to deploy applications faster. In addition, DermSecure's clinical data is stored on Amazon's Simple Storage Service (Amazon S3), which provides industry-leading scalability and data availability. A browser-based multilingual interface, DermSecure™ can be deployed globally and is compatible with any computer hardware.

Landmark Agreement with PharmaChoice: In mid-April 2023, MedX commenced a major pilot program for its SIAscope™ and DermSecure™ technology with PharmaChoice, a major, fast-growing pharmacy group across Canada (www.pharmachoice.com). Nearly 1,100 independent pharmacies operate under its PharmaChoice and RxHealthMed brands.

The pilot program called for MedX's system to be initially deployed in twenty PharmaChoice locations in four provinces (British Columbia, Ontario, Nova Scotia, and Newfoundland). The non-exclusive agreement calls for an expansion into fifty pharmacies if the pilot program proves successful (which it has) and, ultimately, a potential expansion into a majority of PharmaChoice pharmacies.

As of August 2023, MedX's equipment has been installed in 40 PharmaChoice pharmacies, and the company expects to add 35 locations per month through at least the end of 2023. While it is unlikely that all ~1,100 PharmaChoice locations will ultimately be outfitted with SIAscope™ and DermSecure™ equipment, Management believes a realistic target is in the 500-600 pharmacy range.

Under the Agreement with PharmaChoice, independent pharmacy owners pay a fee to buy MedX's devices and agree to operate the equipment for interested customers for a usage fee (see below). So, even if an individual pharmacy chooses to operate under another flagship name in the future, it likely would continue to allow its customers access to MedX's technology.

Economics of MedX’s System are Attractive for All Parties: MedX charges an individual pharmacy a base cost of between \$4,000 to \$10,000 (depending on relevant criteria) to purchase a SIAscope™ and HD Camera set. This price point enables MedX to generate revenue, so each sale of equipment to a pharmacy equates to a positive pretax cash flow of between \$2,000 to \$4,000. It is estimated that the sale of the SIAscope™/HD Camera sets under the Agreement with PharmaChoice will generate in excess of \$2,000,000 in net proceeds.

While of course, constructive, these proceeds are not the key elements to MedX’s value proposition as those sales are one-time in nature. They are not the much more valuable “recurring monthly revenue” described below. Consider the following points:

- A patient in Canada who, either voluntarily or at his general practitioner’s (GP’s) urging, opts to have a technician at a PharmaChoice pharmacy scan a suspect area of skin with MedX’s equipment pays \$100 out of pocket to the pharmacy for that service. In rough terms, approximately \$20 of that fee is remitted to MedX.

Under Canadian health care rules, the patient does not pay the dermatologist anything out of pocket to read and analyze the five high-definition images sent to him. The dermatologist is compensated by the Government Health-Care Plans work in assessing the scans.

- Pharmacies which have opted to participate in the PharmaChoice-MedX program have averaged about three users per non-weekend day since the program began a month ago. Assuming this usage level holds, and assuming 23 non-weekend days per month, a representative individual pharmacy could realize about \$5,000 of monthly net cash flow from using a MedX SIAscope™ unit to provide scanning services to its customers. This degree of cash flow suggests that an individual pharmacy’s payback period for purchasing the MedX equipment is only about 5-6 weeks.
- Based on the same assumptions, MedX’s recurring cash flow, per adopting PharmaChoice pharmacy, should be around \$1,300 per month.
- If MedX’s management’s estimates regarding consistent additions to the rolls of PharmaChoice pharmacies which purchase MedX’s technology and offer the service to customers are correct, it is possible that the number of such adopting pharmacies could reach around 250 by year-end 2023 and perhaps 500 by sometime in 2024. That would imply that MedX’s relationship with PharmaChoice pharmacies could potentially generate about \$350,000 in MedX monthly recurring cash flow (around a \$4 million annualized pace) by late 2023 and about \$700,000 in such monthly cash flow (about an \$8 million annualized pace) sometime in 2024.

MedX’s Cost Structure: Based on MedX’s reported 1Q 2023 results, its monthly operating costs are around \$265,000 per month (\$792,000 incurred in 1Q 2023 *divided* by three). See **Table 1**. This suggests that MedX could fully cover these costs when it penetrates about 200 PharmaChoice pharmacies, which could be achieved sometime this fall.

As of March 31, 2023, MedX had \$5.2 million of debt (primarily convertible debt) and around \$0.7 million of cash. Consequently, the company’s net debt is about \$4.5 million.

Table 1: MedX Health Corp. -- Selected Financial Data

(in Canadian Dollars)

	<u>1Q 2023</u>	<u>4Q 2022</u>
Operating Expenses:		
Selling, General and Administrative	\$741,014	\$916,686
Product and Software Development	<u>\$51,452</u>	<u>\$214,515</u>
Total	\$792,466	\$1,131,201

	<u>3/31/23</u>	<u>12./31/22</u>
Balance Sheet Data:		
Cash	\$679,060	\$142,496
Total Debt (primarily convertible debt)	\$5,216,207	\$4,997,545

MedX's Relationship with Health Partners (OH) Ltd. in the United Kingdom represents another significant opportunity: In March 2022, MedX announced it had entered into a Memorandum of Understanding with Health Partners to establish a pilot program. Health Partners is a fast-growing, privately-owned corporate health, treatment, and primary care services company in the UK. Under the MOU, MedX's SIAscopy and HD Camera equipment would be piloted in two of Health Partners' 137 clinics across Great Britain. Health Partners' corporate clients have approximately 2.1 million employees who are able to access health services at these 137 clinics.

MedX's pilot program in the United Kingdom is just commencing. If the trials at the Health Partners facilities prove to be successful, MedX's SIAscopes™ and DermSecure™ screening platform will be made available at the Health Partners clinics to the employees of all of their clients. In addition to the revenue generated from the hardware sales, that step could create another giant monthly recurring cash flow stream for MedX.

Phototherapeutic Medical Devices: MedX also produces non-invasive devices that use low-level laser and light-emitting diode (LED) technology to aid in a patient's rehabilitation from injury and for use in dentistry. The Health Canada and FDA-approved phototherapeutic products, which treat a patient's pain, tissue damage, swelling and inflammation, are sold to clinics, hospitals, long-term care facilities and dental practices in Canada and the United States.

MedX's 2022 and 2021 revenue from the sale of therapeutic laser devices were \$249,000 and \$381,000, respectively – having been negatively affected by the COVID epidemic, and are now anticipated to grow back to pre-COVID levels.

Strong, Investor-Oriented Management Team:

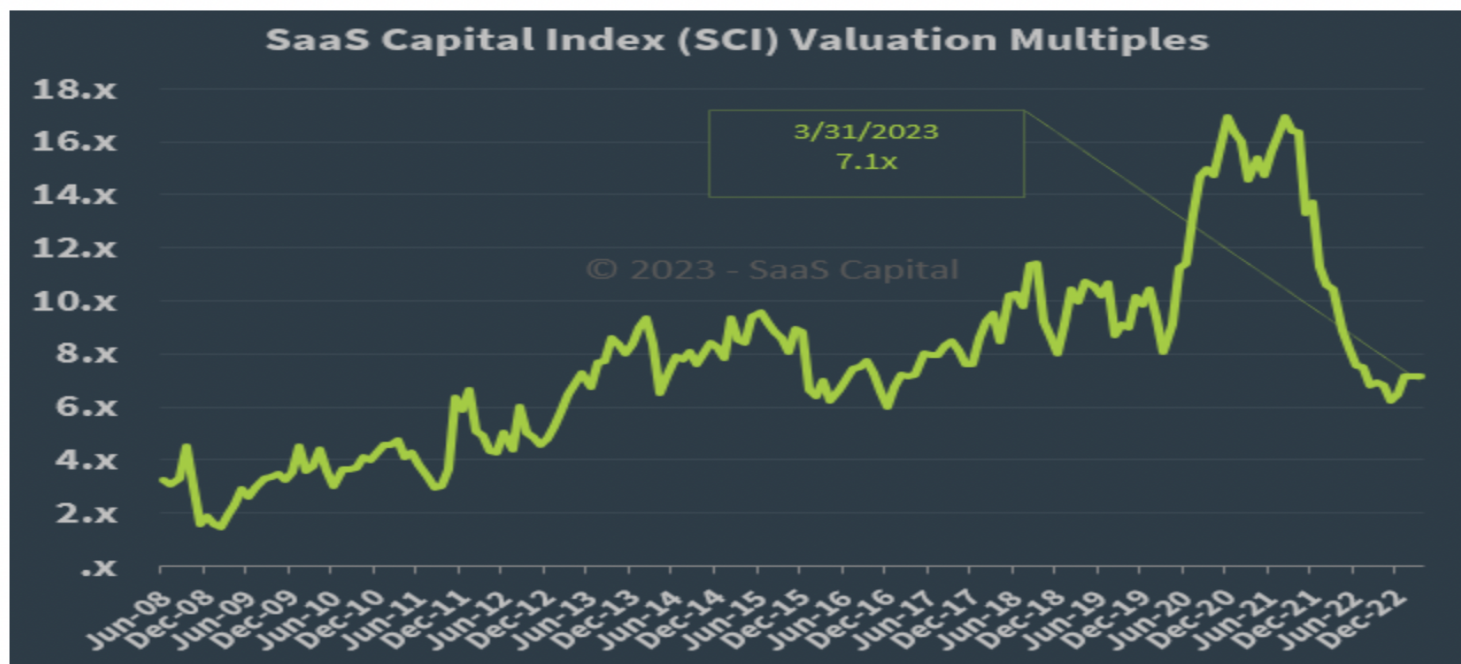
Stephen Lockyer was named MedX's CEO in May 2023. He has significant venture capital experience with early-stage technology companies. To indicate his confidence in MedX, Mr. Lockyer invested \$1.4 million in MedX's common stock and pledged not to take a salary until the company reached profitability.

Mike Druhan is President of MedX's key Dermatological Services unit. Mr. Druhan has a thirty-year history of working with emerging technology companies. He has been with MedX since 2011, principally working on the enhancement of the SIAscopy technology, the development of the DermSecure platform and commercializing MedX's offering..

Valuation Considerations: Based on the potential MedX penetration into PharmaChoice pharmacies only (as outlined above), MedX's Software-as-a-Service (SaaS) annual recurring revenue run rate could reach about \$8 million at some point in 2024. Note especially that this figure *excludes* any potential additional SaaS revenue from MedX's relationship with Health Partners, or from any possible similar future partnership involving a U.S.-based healthcare company.

Figure 4 shows that, as of March 31, 2023, the average SaaS company traded at just over a 7x multiple of enterprise value (EV) to current annual run-rate revenue. This 7x multiple falls at the lower end of the multiple range seen in the public markets over the last ten years and is doubtless higher now after the stock market's rally in 2Q 2023. Another factor: investors tend to assign a higher revenue multiple to a company for which the costs of the software development have already largely been incurred, and a lower valuation to a company in which substantial further development costs seem likely. MedX, having already expended significant capital on development, falls in the first of these categories, not the second.

Figure 4: Average Enterprise Value - to Annual Recurring Revenue Multiples for SaaS Companies



Source: SaaS Capital.

So, while acknowledging the possible conservatism using this 7x multiple, it is conceivable that MedX's enterprise value could reach about \$56 million sometime in 2024. After backing out MedX's net debt of about \$4.5 million, this suggests a stock market valuation of around \$51 million, equivalent to about \$0.25 per share, could be achieved in 2024.

Investment Summary: MedX, a company which investors have yet to discover, appears to have a significant opportunity to generate highly prized SaaS recurring revenue from at least two healthcare-related entities. Such revenue is generally accorded high multiples by investors, and MedX could soon be valued according to this methodology.

If MedX can achieve the pace of penetration into PharmaChoice pharmacies which it expects -- and has experienced over the past month -- and if investors begin to place even a discounted valuation multiple to its recurring revenue run rate, it is possible MedX shares could be revalued to much higher levels. Importantly, such a revaluation could even be more pronounced if MedX's agreement with Health Partners in the UK were to progress in much the same way the PharmaChoice accord has.

In addition, the clinical data which MedX collects regarding the skin conditions encountered by its users could prove quite valuable over time to health care companies which rely on artificial intelligence. MedX is forbidden from providing personal information regarding its patients, but various acquired skin condition clinical data could allow the development of future technologies which can even more accurately diagnosis melanoma.

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