BEACON Securities Limited

Skylight Health Group Inc. (SHG – C)

December 08, 2020

Compelling Vehicle To Capitalize on US Healthcare

- Skylight Health Group (formerly CB2 Insights) operates a US multi-state health network comprised of physical multi-disciplinary medical clinics providing a range of services from primary care, sub-specialty, allied health and laboratory/diagnostic testing.
- The company owns and operates a proprietary electronic health record system that supports the delivery of care to patients via telemedicine and other remote monitoring systems integrations.
- The company has a patient roster (including pending acquisitions) of over 130k patients across 15 states and over 30 clinics.
- Skylight's mission is to offer accessible and affordable healthcare to millions of patients, focusing on improving patient health outcomes.
- Skylight's key growth initiatives include:
    - expanding insurable primary and other medical services to CB2's legacy base of medical cannabis patients, which could significantly increase its annual revenue per patient (from $150 per patient per year currently to potentially $500 - $1,000 per patient per year),
    - introducing new services into its existing primary care clinics, which could likewise significantly increase revenue per patient,
    - addressing the market for uninsured Americans with a telemedicine-only urgent care annual subscription (priced at $199 per year),
    - acquisitions, which expands the company's geographic footprint and brings new medical services, which it can introduce to its existing healthcare network.
- The company has grown aggressively over the past year with 4 acquisitions having been announced in Q4 2020 alone. The company currently has a $20M revenue-rate, is cash flow positive, has ~$7M in net cash, and a strong acquisition funnel of over $50M in revenues.
- Applying the telehealth, diversified healthcare group average of ~12x next fiscal year sales get us a $1.40 target for Skylight, which prompts us to initiate coverage with a Speculative Buy rating.
- We view acquisitions and evidence of the company's ability to cross-sell primary care services into its legacy patient roster (once payor credentialing and contracting are completed) as key catalysts for the stock.

Initiating Coverage

Speculative Buy $1.40

Recent/Closing Price	$0.92
12-month Target Price	$1.40
Potential Return	52%

Estimates (C$)

YE: Dec	FY19	FY20E	FY21E
Revenue (M)	13.4	13.3	21.0
EBITDA (M)	-2.8	0.1	1.3

Valuation

	FY19	FY20E	FY21E
EV/Sales	12.0x	12.1x	7.7x
EV/EBITDA	n/a	n/a	n/a

Stock Data (M)

Shares O/S (Basic)	159.8	
Shares O/S (FD)	182.7	
Market Cap (Basic)	$147.0	
Market Cap (FD)[1]	$168.1	
Cash	$7.6	$0.04/sh
Debt	$0.9	$0.00/sh
EV	$161.3	

Company Description

Skylight Health Group (formerly CB2 Insights) operates a US multi-state health network comprised of physical multi-disciplinary medical clinics providing a range of services from primary care, sub-specialty, allied health and laboratory/diagnostic testing.

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Stock Performance

Who They Are and What Do They Do?

- Skylight Health Group (formerly CB2 Insights) operates a US multi-state health network comprised of physical multi-disciplinary medical clinics providing a range of services from primary care, sub-specialty, allied health and laboratory/diagnostic testing. The company owns and operates a proprietary electronic health record system that supports the delivery of care to patients via telemedicine and other remote monitoring systems integrations. The company has a patient roster (including pending acquisitions) of over 130k patients across 15 states and over 30 clinics. The company has 155 employees including over 50 healthcare providers. Skylight went public via an RTO in 2018.

- Skylight's key growth initiatives include expanding insurable primary and other medical services to CB2's legacy base of medical cannabis patients, which could significantly increase its annual revenue per patient, introducing new services into its existing primary care clinics, which could likewise significantly increase revenue per patient, addressing the market for uninsured Americans with a telemedicine-only urgent care annual subscription, along with acquisitions.

- The company has grown aggressively over the past year with 4 acquisitions having been announced in Q4 2020 alone. The company currently has a $20M revenue-rate, is cash flow positive, has ~$7M in net cash, and a strong acquisition funnel of over $50M in revenues.

- We are initiating coverage with a Speculative Buy rating and $1.40/sh target price. We view acquisitions and evidence of the company's ability to cross-sell primary care services into its legacy patient roster (once payor credentialing and contracting are completed) as key catalysts for the stock.

Transformation Into A Multi-Specialty Healthcare Network

- Skylight Health Group (formerly CB2 Insights) was founded in 2014 as an electronic data collection and patient management platform. The company's initial focus was on developing a comprehensive technology platform, driven by artificial intelligence and machine learning algorithms, that healthcare practitioners sought to help integrate cannabinoid-based treatment options into routine clinical practice.

- In 2017, the company shifted plans to own a network of medical cannabis evaluation and education clinic groups as a way to standardize the quality of care and improve on the ability to research health outcomes. Between 2017 and 2019, the Company acquired 4 clinic groups in the US (Canna Care Docs, Relaxed Clarity, MedEval Clinics and New Jersey Alternative Medicine), which enabled the Company to grow both organically and by way of acquisition to over 100,000 patients across 12 states on an annualized basis.

- During this time, the company found that there was a need amongst its patients for both conventional and alternative medicine, which ultimately led to the company's decision in late 2019 to create Skylight Health Group to house and consolidate healthcare services (including CB2's traditional medical cannabis certification business and primary and other medical service offerings) into one integrative health brand.

- Over the course of 2020, Skylight has focused on setting up the infrastructure for it to offer insurable medical services, namely payor credentialing and contracting with public (i.e. Medicaid / Medicare) and private payors, along with further expanding its network across the US with 4 more primary and specialty care clinics.

Huge Market Opportunity And Very Fragmented

- The US medical market is a massive with national health expenditure at $3.6 trillion in 2018 or 17.7% of US Gross Domestic Product.
- Of this figure, Medicare and Medicaid spending was $750B and $597B respectively, private health insurance spending was $1.23B, and out of pocket spending was $376B.
- Physician and clinical services expenditures, which is the market that Skylight is addressing, was $726B.
- According to Skylight, over 70% of outpatient medical care is operated by smaller groups of localized practitioners, which offers a compelling consolidation opportunity to generate improved efficiencies, economics of scale, quality of services and quality of care.
- The US medical services operating model also allows for re-investment of dollars towards patient care and not clinician compensation, which results in more operating margins at scale, improved services to patients while achieving attractive net margins.

Skylight's Growth Thesis

- Skylight's overall growth thesis is predicated on several observations:
  - The Primary Care physician is the Gatekeeper of all healthcare services
  - A multi-disciplinary clinic focuses on complimentary services built around the needs of a primary care patients
  - Patients experience a new type of healthcare where all their outpatient medical needs collaborate to help them under one roof
  - Scale your support services across offices and utilize telemedicine to bolster access
  - Maximize share of services and share of insurable revenue by complementing physical clinics with telemedicine offerings → 80/20 rule
  - Although telemedicine services 80% of patient services, in-clinic services generate over 80% of the clinical revenue, hence the importance of maintaining a brick and mortar medical clinic footprint

Skylight's Current Footprint:

Colorado	Connecticut	Delaware	Illinois
Maine	Maryland	Massachusetts	Missouri
Pennsylvania	New Jersey	New York	Rhode Island
Tennessee	Texas	Washington	

Three-Pronged Growth Strategy

We believe that Skylight's growth will be driven by three key initiatives.

1) Expansion of Services To Existing Customer Base

- Over the coming year, Skylight plans to offer traditional and conventional treatments (i.e. insurable primary care services), alongside alternative focused approach to its roster of patients originating from CB2's legacy medical cannabis evaluation and education clinic groups (~100,000 patients across 12 states).
- The company currently earns about $150 per patient per year from the aforementioned 100,000 patient roster based on 1 visit per year. With the expansion of insurable primary care services, Skylight expects this to increase to 3 – 4 visits per patient on average, which could increase economics to over ~$500 – 1,000 per patient per year.
- The company believes that ~70% of its legacy patient roster also have some form of medical insurance and that the vast majority would opt in for primary care services if given the option.
- In order to move forward with this initiative, the company will be focused on completing credentialing and contracting with public and private payors in the states that it plans to provide primary care services (~3 – 6 month process per state). We understand this process started in late 2020 with some payor groups in certain states having been completed.
- The company also believes adding complimentary services within its existing primary care network (represented by 4 recent clinic acquisitions servicing ~37,000 patients, although this will expand as its legacy clinics are able to offer insurable primary care services) could increase patient economics to ~$2,000 – 5000 per patient per year.

Three-Pronged Growth Strategy (continued)

2) Subscription to Uninsured Patients

- Skylight plans to enter the market for 40M largely uninsured and underinsured Americans who are impacted by the high cost of healthcare.
- The company plans to address this market with a telehealth-only annual subscription service for urgent care needs.
- The company plans to offer this service for $199 per year for new patients and $150 to the 100,000 patients from its legacy service offering.
- We understand this legacy patient base, who Skylight is servicing via telehealth (due to the COVID pandemic) until some of its brick and mortar clinics re-open in Q1 2021, is already being enrolled (grandfathered) into the $150 subscription plan (i.e. they will have the option to use urgent care services as needed).

Three-Pronged Growth Strategy (continued)

3) Growth Through Acquisitions

- The company currently has a pipeline of acquisition opportunities representing over $50M in revenues, which will help it to expand into new states and new medical services (which it will introduce into other clinics in its network).
- The company plans to further bolster organic growth in each of these acquisitions through the delivery of its telehealth platform, introduction of complementary billable services, improvement to the cost structure through technology, workflow optimization and centralization of key functions.
- In Q4 2020 alone the company has announced 4 acquisitions, which has enabled the company to expand into 3 new states and added over 37,000 new patients to its traditional patient roster.

Skylight Health Group Recent Acquisitions

Date	Clinic	State Location	Patient Roster	Consideration (C$)		Revenues (C$)	EBITDA (C$)	EV/Sales	EV/EBITDA
07-Oct-20	Maverick Country Medical	Texas	10,300	0.98	Cash	1.6	0.29	0.6x	3.4x
28-Oct-20	Tacoma-based medical clinic	Washington	10,000	0.37	Cash	0.7	0.1	0.5x	3.7x
05-Nov-20	APEX Family Medical	Colorado	5,000	2.3	Cash	2.5	0.5	0.9x	4.6x
03-Dec-20	Perimeter Pain and Primary Clinic	Tennessee	12,000	1.03	Cash	2.2	0.4	0.5x	2.6x

Source: Company filings, Beacon Securities

Beyond Clinical Options - Technology and Data Analytics

- Skylight's primary technology platform, Sail, is a proprietary electronic database management and health record platform designed to standardize and optimize the workflows and management of the company's clinical operations.
- This platform has also been licensed to customers who operate similar businesses in other markets.
- Skylight has also amassed one of the industry's largest patient registries seeking out and using integrative treatments, conventional medications and alternative therapies.
- Patient recruitment for clinical trials remains one of the highest costs and time barriers for companies and researchers in the clinical trial processes. With a large and growing patient registry, and technology developed to help researchers quickly target, identify and recruit patients into clinical trials, the company sees this as a growing value to customers in the US in the life sciences and pharmaceutical industry. The company intends to pursue research opportunities that can evolve to new revenue channels.
- Today, technology and data analytics, as well as contract and research, represent a small portion of revenues (~$61k in Q3 2020), although the company believes there are opportunities to grow this over the coming years.

Financial Analysis

- Skylight recently reported Q3 2020 results, which included revenues and EBITDA of $3.3M and $331k. The company's EBITDA calculation deducts capitalized R&D ($116k) and capitalization of lease payments ($234k). Last year, the company reported $4.2M and negative $369k respectively. The y/y decline in revenues reflect a change in regulations in its New Jersey Alternative Medicine clinic in Q3 2019, which reduced the number of times (medical cannabis) patients were expected to be seen from 4 times a year to one.
- Note that Q3 results did not include contributions from 4 acquisitions, which were announced subsequent to quarter-end, which are expected to add an additional ~$7M in revenues and ~$1.3M in EBITDA. Two of these acquisitions will generate revenues (partially) in Q4 with the other two expected to close in early Q1 2021.
- Gross margins were 71% and FCF was $263, which includes operating cash flow of $614k, capitalized R&D of $117k and lease-related payments of $235k. This was the company's second straight quarter of positive FCF (Q2 was $487k) after previous periods of losses.
- The company ended the quarter with $6.3M in cash and $6.3M in debt. Cash in the quarter was boosted by a $5.14M equity financing (at $0.15/sh with a $0.20/sh half warrant).
- Subsequent to quarter-end, the company raised another $5.75M in gross proceeds (at $0.47/sh). It extinguished a US$3M promissory note by issuing 10,412,250 shares (to Merida Capital) at $0.38/sh (it also paid accrued interest of US$72,987 in cash). The company also deployed ~$4.7M in closed and pending acquisitions (see previous page).
- Pro-forma we estimate that cash and debt now stands at ~$7.6M and ~$870k respectively.

Initiating Coverage With a Spec Buy Rating and $1.40 Target

- In terms of our forward estimates, we have modeled only modest organic revenue growth in CY21e to factor some patient growth in clinics acquired over the past quarter, along with early primary care cross-selling in its legacy clinics. The company expects to start re-opening some of its clinics in Q1 2021 and over the course of 2021 as payor credentialing and contracting are completed.
- We have not included CY22e estimates pending further evidence of the company's ability to hit payor credentialing/contracting milestones and also evidence of the company's ability to cross-sell primary care services into its legacy 100,000 patient roster, along with evidence of success of its subscription services into the uninsured marketplace.
- We are modeling gross margins of 69% for CY21e, which is down slightly from CY20 to reflect the inclusion of 4 recent acquisitions, which we believe are operating at a slightly lower gross margin than the company's legacy business. We expect the company to be modestly EBITDA profitable in the 6% range. We do not model any taxes payable given the company's ~$9M in tax losses.
- Applying the telehealth, diversified healthcare group average of ~12x next fiscal year sales results in a $1.40 target for Skylight, which prompts us to initiate coverage with a Speculative Buy rating.
- We view acquisitions and evidence of the company's ability to cross-sell primary care services into its legacy patient roster (once payor credentialing and contracting are completed) as key catalysts for the stock.

Key Financial Forecasts

Skylight Health Group - Financial Forecasts				
	Q4 CY20e	**CY19**	**CY20e**	**CY21e**
Revenue	3,393,740	13,423,747	13,336,367	20,952,555
Gross profit	2,375,618	9,323,075	9,235,808	14,457,263
Gross margins	*70.0%*	*69.5%*	*69.3%*	*69.0%*
EBITDA	24,462	-2,768,258	122,315	1,294,099
EBITDA margins	*0.7%*	*-20.6%*	*0.9%*	*6.2%*

Source: Company filings, Beacon Securities

Comparable Analysis

North American TeleHealth Comparable Analysis					
				EV/Sales	
	Ticker	**S/O (M)**	**Mkt Cap ($M)**	**FY1**	**FY + 1**
Comps					
Canadian Technology Acquisition Co					
WELL Health	WELL-CA	172	1,181	21.9 x	12.4 x
Teladoc	TDOC-US	145	28,986	26.6 x	15.3 x
CloudMD	DOC-CA	178	373	21.8 x	8.5 x
1Life Healthcare	ONEM-US	133	4,839	12.5 x	9.6 x
Oak Street Health	OSH-US	241	12,996	14.6 x	10.0 x
American Well	AMWL-US	200	5,781	19.7 x	17.8 x
Average				***19.5 x***	***12.3 x***
Skylight Health Group	SHG-CA	183	172	12.4 x	7.9 x

Source: FactSet, Company filings, Beacon Securities

Risks To Our Analysis

Regulatory Risk – The company is dependent on its relationships with the "Skylight Health PCs", which are affiliated professional entities that the company does not own, to provide healthcare services, and the company's business would be harmed if those relationships were disrupted or if the arrangements with the Skylight Health PCs become subject to legal or regulatory challenges. A prohibition on the corporate practice of medicine by statute, regulation, board of medicine, attorney general guidance, or case law, exists in certain of the U.S. states in which the company operates. These laws generally prohibit the practice of medicine by lay persons or entities and are intended to prevent unlicensed persons or entities from interfering with or inappropriately influencing providers' professional judgment. Due to the prevalence of the corporate practice of medicine doctrine, including in certain of the states where the company conducts its business, it does not own the Skylight Health PCs and contracts for healthcare provider services for its members through administrative services agreements ("ASAs") with such entities. As a result, the company's ability to receive cash fees from the Skylight Health PCs is limited to the fair market value of the services provided under the ASAs. To the extent the company's ability to receive cash fees from the Skylight Health PCs is limited, the company's ability to use that cash for growth, debt service or other uses at the Skylight Health PC may be impaired and, as a result, the company's results of operations and financial condition may be adversely affected.

Risks To Our Analysis (continued)

The company's ability to perform medical and digital health services in a particular U.S. state is directly dependent upon the applicable laws governing the practice of medicine, healthcare delivery and fee splitting in such locations, which are subject to changing political, regulatory and other influences. The extent to which a U.S. state considers particular actions or relationships to constitute the practice of medicine is subject to change and to evolving interpretations by medical boards and state attorneys general, among others, each of which has broad discretion. There is a risk that U.S. state authorities in some jurisdictions may find that the company's contractual relationships with the Skylight Health PCs, which govern the provision of medical and digital health services and the payment of administrative and operations support fees, violate laws prohibiting the corporate practice of medicine and fee splitting. The extent to which each state may consider particular actions or contractual relationships to constitute improper influence of professional judgment varies across the states and is subject to change and to evolving interpretations by state boards of medicine and state attorneys general, among others. Accordingly, the company must monitor its compliance with laws in every jurisdiction in which it operates on an ongoing basis, and the company cannot provide assurance that its activities and arrangements, if challenged, will be found to be in compliance with the law. Additionally, it is possible that the laws and rules governing the practice of medicine, including the provision of digital health services, and fee splitting in one or more jurisdictions may change in a manner adverse to the company's business. While the ASAs prohibit the company from controlling, influencing or otherwise interfering with the practice of medicine at each Skylight Health PC, and provide that physicians retain exclusive control and responsibility for all aspects of the practice of medicine and the delivery of medical services, there can be no assurance that the company's contractual arrangements and activities with the Skylight Health PCs will be free from scrutiny from U.S. state authorities, and the company cannot guarantee that subsequent interpretation of the corporate practice of medicine and fee splitting laws will not circumscribe the company's business operations.

Risks To Our Analysis (continued)

State corporate practice of medicine doctrines also often impose penalties on physicians themselves for aiding the corporate practice of medicine, which could discourage providers from participating in the company's network of physicians. If a successful legal challenge or an adverse change in relevant laws were to occur, and the company was unable to adapt its business model accordingly, the company's operations in affected jurisdictions would be disrupted, which could harm its business.

Risks to Growth/Financing Risk – While the company has been successful in acquiring a portfolio of clinics and is currently cash flow positive with net cash on the balance sheet, there is potential dilution risk if the company wishes to accelerate its M&A growth plans. The company is also still in the very early stages of executing on its primary care cross-selling initiatives, which introduces execution risk and also risk around completing payor credentialing and contracting to be able to bill these services back to public and private payors.

Achieving Payor Enrollment / Medical Credentialing Milestones – Skylight's ability to cross-sell insurable medical services to the patient roster from its legacy clinics is predicated on its ability to successfully achieve payor credentialing and contracting milestones, which it is currently undertaking (the company expects its first legacy clinics to start offering insurable primary care services in Q1 2021). Any delays in achieving these milestones could impact our forward growth expectations.

Risks To Our Analysis (continued)

Changes to PIPEDA/HIPPA Legislation – Regulations under PIPEDA/HIPAA governing the confidentiality and integrity of protected health information are complex and are evolving rapidly. As these regulations mature and become better defined, the company could be impacted. Achieving compliance with these regulations could be costly and distract management's attention from its operations. Any failure on the company's part to comply with current or future regulations could subject it to significant legal and financial liability, including civil and criminal penalties. In addition, development of related federal and state regulations and policies regarding the confidentiality of health information or other matters could positively or negatively affect the company's business.

Revenue recognition for subscription plans – The company has historically recorded revenues from its legacy medical cannabis clinic business on a per visit basis. However, with the company now moving this patient base to a $150 annual subscription plan (to include urgent care), it is unclear to us whether the company will have amortize this fee over a 12-month period versus recognizing upfront. If it is the former, then there is a risk of revenue volatility (due to timing of revenue recognition) as the company builds up its base subscription-based patients. However, we do not believe this will have an impact on existing patients from recent acquisitions, which are largely billed for insurable services.

General practitioners becoming more comfortable providing alternative medical treatment – CB2's legacy business could be impacted if GPs become more comfortable prescribing alternative medical treatments (which would require a co-pay by patients). Skylight's decision to expand its offering to include conventional / traditional insurable medical treatments is in direct response to this potential risk.

Seasoned Management Team

Pradyum Sekar, CEO & Co-Founder, Over 15 years experience in Canadian Healthcare in technology, practice management and large multi-disciplinary health centers.

Kash Qureshi, President & Co-Founder, Over 20 years experience in Canadian Healthcare in technology, wellness development practice management and commercial banking.

Dan Thompson, Chief Corporate Officer, Over 20 years experience in healthcare, retail and technology industries with a focus on marketing and communications in both public and private companies.

Raheel Lalani, VP Finance, Qualified CPA with over 12 years of progressive experience in accounting and finance across professional services, industry and public company environments. Formerly associated with one of the big 4 accounting firms.

Pam Galassini, Chief Business Development Officer, Over 20 years experience in the pharmacy benefit management, insurance payor insights and pharmaceutical manufacturer industries including at Medco Health Solutions.

Stephanie Gluchacki, SVP, Compliance, Over 10 years experience in the US healthcare sector with multi-state management of medical clinics with a focus on governance, regulations and financial management.

Dr. Richard Koff, Medical Director, Over 25 years experience in the US healthcare sector as a primary care and family medicine specialist as well as a leader in alternative and complementary treatments and therapies.

Board of Directors

Norton Singhavon (Chairman), Former founder and partner of Doventi Capital with extensive experience in capital markets, M&A activity and consolidation.

Peter Cummins, Former Johnson & Johnson Executive with leadership roles in research & development, innovation and regulatory affairs globally.

Tom Brogan, Former founder of Brogan Consulting – now IQVIA (IQV – US, NR) – now a $11B global healthcare technology and research firm.

Pradyum Sekar, CEO & Co-Founder of Skylight

Kash Qureshi, President & Co-Founder of Skylight

Capital Structure

Skylight Health Group - Capital Structure		
	Shares	
Basic shares outstanding	159,751,508	- Includes recent $5.8M financing at $0.47/sh and extinguishment of promissory note
Warrants	26,204,946	- Weighted average exercise price of $0.24/sh
Options	7,842,261	- Weighted average exercise price of $0.19/sh
FD	**193,798,715**	- Without considering exercise prices

Source: Company filings, Beacon Securities

- Management and directors own ~30% of shares outstanding
- Merida Capital is a ~15% shareholder

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As at November 30th, 2020	#Stocks	Distribution
BUY	57	67.1%
Speculative Buy	18	21.2%
Hold	0	0.0%
Sell	0	0.0%
Under Review	9	10.6%
Tender	1	1.2%
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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