



## Alternate Health Corp. (OTCQB: AHGIF, CSE: AHG Target Price: US \$4.65, CAD \$5.89)

We initiate coverage on Alternate Health Corp. (OTCQB: AHGIF, CSE: AHG, "Alternate Health") with a price target of US \$4.65 / CAD \$5.89. Based in Plano, TX, with offices in San Antonio, Toronto, and Los Angeles, Alternate Health offers a range of solutions for the medical cannabis community, including technology and compliance software, laboratory services, continuing education programs and an emerging life sciences portfolio. Alternate Health is led by an impressive team of executives and advisors, including CEO Dr. Jamison Feramisco, Chairman Dr. Michael Murphy, and Director General Wesley Cark, which should position the company well to identify and execute on future opportunities for growth in the rapidly growing medical cannabis industry. (Full management bios are included at the end of this report). In our view, Alternate Health stands apart in the medical cannabis space in that it offers both considerable upside from exposure to this high growth new sector, as well as a stable base of revenues and impressive adjusted profit from its laboratory testing unit. We see several potential catalysts for the company ahead as it establishes initial revenues for its technology and continuing education solutions, and looks to begin commercialization of its CBD delivery systems in the second half of the year.

### INVESTMENT HIGHLIGHTS

#### Alternate Health supported by stable lab revenues, cash flow

Unlike many public companies in the cannabis space, Alternate Health is supported by an established, profitable revenue stream coming from its San Antonio-based laboratory subsidiary, which specializes in providing toxicology, blood and pharmacogenetic testing services. Alternate Health Labs is an independent clinical lab with over 20 lab technicians and support staff, which management believes has the potential to process up to 150,000 specimens per month with limited additional capital expenditures. The business is currently profitable, and was responsible for approximately \$3.7mn in 1Q17, with management commenting to investors that the unit was operating ahead of expectations. We expect Alternate Health to seek to grow this business by expanding its referral sales network and increasing its capacity utilization over time. The laboratory business is also viewed as a strategic asset in establishing relationships with doctors, patients and service providers, while also providing cash flow to invest in developing portfolio of technology and life sciences solutions for medical cannabis.

#### CanaCard, VIP Patient lead suite of technology solutions

Alternate Health's technology solutions are anchored by the VIP Patient™ Health Record Management System and the CanaCard Patient Management System. VIP Patient™ is a fully integrated cloud-based electronic medical records system. CanaCard is a proprietary software platform that is specifically tailored for the controlled substance space for practice management. It interfaces between doctor, patient, dispensary and licensed producer. Sales activity has begun for these solutions, and Alternate Health expects to report initial revenues in 2017.

#### Initiate coverage with 12-month price target of \$4.65

We initiate coverage of Alternate Health with a price target of US \$4.65 / CAD \$5.89. We see Alternate Health as a highly differentiated conduit for the medical cannabis space given its strong management team and already self-sustaining lab business model, with significant upside potential from new technology and life sciences programs in medical cannabis.

#### Stock Details (7/20/2017)

OTCQB:	AHGIF
CSE	AHG
Sector / Industry	Healthcare / Biopharmaceuticals
<b>Price target</b>	<b>US \$4.65, CAD \$5.89</b>
Recent share price	US \$2.25, CAD \$2.85
Basic Shares o/s (mn)	52.1
Market cap (in US \$mn)	\$117.1
52-week high/low	US \$6.50 / \$1.43

#### Key Financials (CAD \$mn unless specified)

	FY16	FY17E	FY18E
Revenues	0.2	22.3	41.5
EBIT	(1.3)	1.5	4.1
Net income	(1.4)	1.0	3.6
EPS (\$)	(1.8)	1.5	3.8

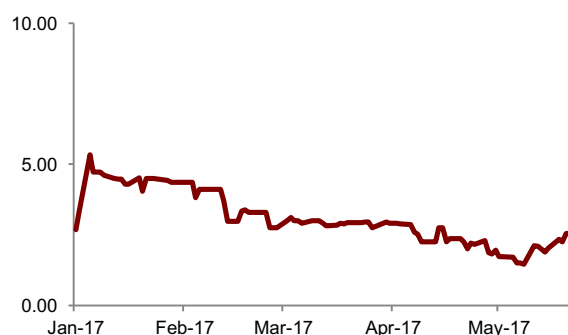
Source: SeeThruEquity Research

#### Key Ratios

	FY16	FY17E	FY18E
Gross margin (%)	100.0	81.0	73.7
Operating Margin (%)	(771.3)	4.5	8.6
Net margin (%)	(955.7)	6.8	9.2
P / Revenue (x)	808.3	6.7	3.6
EV/Revenue (x)	732.2	6.0	3.2

Source: SeeThruEquity Research

#### Share Price Performance (US \$)



Source: Yahoo!Finance

## SUMMARY TABLE

Figure 1. Summary Table (Pricing data as of July 20, 2017)

Share data		Balance Sheet data (1Q17)		Key personnel:	
Recent price (USD):	\$2.25	Total assets:	30.9mn	CEO	Dr. Jamison Feramisco, MD, PhD
Price target (USD):	\$4.65	Total debt*:	0.0mn	Chief Financial Officer	Michael English
52-week range:	6.50 - 1.43	Equity:	26.5mn	Chief Operating Officer	Thomas Bartlett
Average volume:*	6,280	W/C:	10.5mn	Auditor	BDO Canada LLP
Market cap (USD):	\$117.1mn	ROE:	-10%		
Book value/share:	\$0.51	ROA:	-8%		
Cash/ basic share	\$0.21	Current ratio:	3.7		
Dividend yield:	0.00%	Asset turnover:	0.5		
Risk profile:	High / Speculative	Debt/Cap:	0.0%		

\* 30-day average volume (number of shares)

FY December	Estimates				Valuation	
	Rev (C\$m)	EBITDA (C\$m)	EPS (C\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2017E	22.3	1.5	0.03	6.4x	5.7x	73.6x
2018E	41.5	4.1	0.06	3.4x	3.1x	42.8x
2019E	58.9	6.7	0.07	2.4x	2.2x	38.2x
2020E	77.0	11.9	0.12	1.8x	1.7x	22.2x
2021E	95.8	21.3	0.20	1.5x	1.3x	13.5x

Source: SeeThruEquity Research, All estimates in CAD

## INVESTMENT THESIS

We initiate coverage on Alternate Health Corp (CSE: AHG, OTCQB: AHGIF "Alternate Health") with a price target of CAD \$5.89 / USD \$4.65. Alternate Health offers a range of solutions for the medical cannabis community, including technology, laboratory, education, research and compliance, among others. Alternate Health is an international company headquartered in Plano, Texas, with offices in Los Angeles, San Antonio, and Toronto. The company listed shares on the CSE under the ticker AHG in January 2017, via a reverse merger, and recently became quoted on the OTCQB this spring, under the ticker AHGIF. Alternate Health raised CAD \$11.1mn in public offerings completed in 1Q17, and through several acquisitions and strategic agreements over the last six months is now positioned as a cash flow positive, revenue-generating company with solutions that span many core areas of the medical cannabis value chain, including: Laboratory Testing, Technology Solutions, Education, and Life Sciences. Led by CEO Dr. Jamison Feramisco, Chairman Michael Murphy, and Director General Wesley Clark, Alternate Health has accumulated an impressive team of executives and strategic advisors (full bios included at the end of this report), which should position it well to identify and execute on future opportunities for growth.

We see Alternate Health as a highly differentiated conduit for participating in the broad growth opportunity for medical cannabis. Unlike many industry peers, Alternate Health offers stable revenues and positive operating cash flows through its laboratory segment, which can be reinvested in growing new products and solutions in its medical cannabis business. Moreover, the company is in the process of commercializing its CBD delivery systems business, with revenues expected to begin in 3Q17, and is offering a suite of technology and compliance products with an attractive SAAS-based pricing model, which offers attractive, predictable revenues with high margins, and is expected to begin generating revenues in coming months.

**Alternate Health Labs provides revenue and stable cash flow in short run**

Alternate Health’s results in the short run will be driven by Alternate Health Labs, a wholly owned subsidiary company located in San Antonio, which specializes in providing toxicology and blood testing services. Alternate Health Labs is an independent clinical lab with over 20 lab technicians and support staff. The labs business already has significant scale, as it processes over 20,000 samples per month and has eight hospital outreach contracts, generating \$3.7mn in revenue in 1Q17. Moreover, there is significant room for growth, as management indicated that the unit has capacity to process approximately 150,000 specimens per month with minimal additional capital investment. The lab’s capabilities include the examination of substances through urine toxicology in both quantitative and qualitative screening and confirmation; the company also does full blood screening and pharmacogenetic screening. Alternate Health Labs was started in 2016 and acquired by Alternate Health in February 2017.

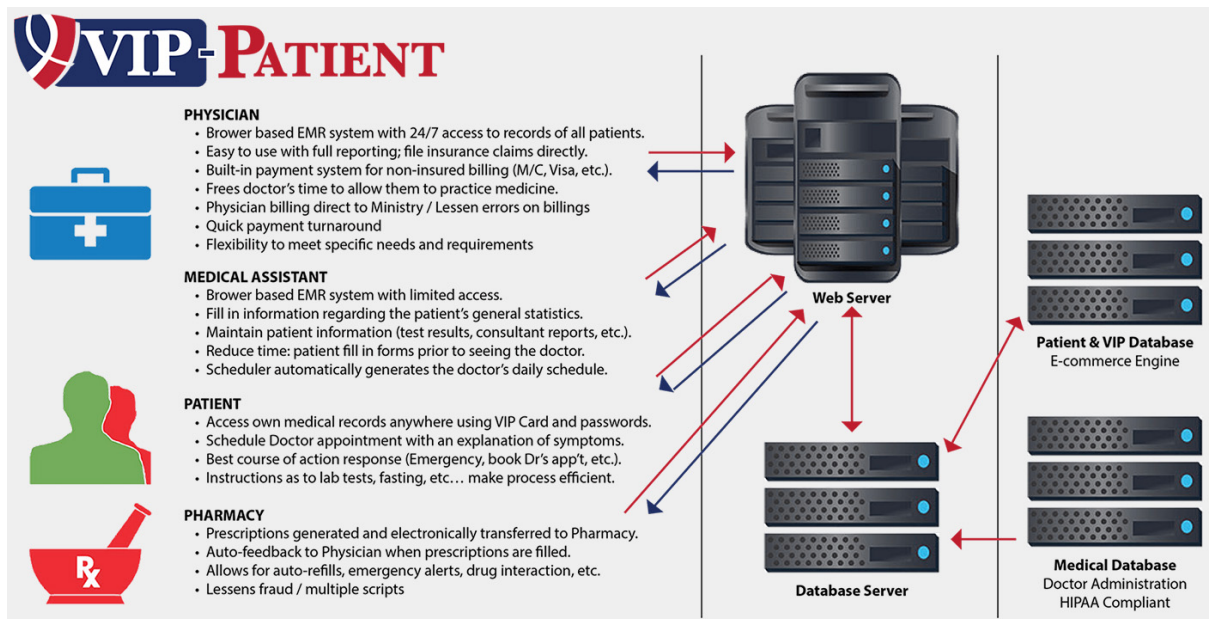


Alternate Health also sees strategic value in its laboratory unit, as the laboratory testing market is in transition, and labs provide an integral link in the patient care value chain, including touching most healthcare providers and generating data that can be used to improve patient outcomes. Additionally, Alternate Health Labs should provide revenue and cash flow to help drive investment in the company’s expanding portfolio of medical cannabis initiatives. In 1Q17, Alternate Health Labs generated cash and contributed \$3.7mn to company revenues, with management stating that the business was tracking ahead of internal expectations.

**VIP Patient, CanaCard lead impressive array of revenue-ready technology solutions**

Alternate Health’s technology solutions are anchored by the **VIP Patient™ Health Record Management System** and the **CanaCard Patient Management System**. VIP Patient™ is a fully electronic medical records system. VIP Patient has applications for the benefit of physicians, patients, and pharmacies, as illustrated in the graphic below, and is differentiated from legacy electronic medical records systems in that it is a cloud-based system made to be used on mobile devices. Additionally, VIP Patient is device agnostic, and has been specifically designed with a focus on data security, ease-of-use for outpatient clinics, and cloud interoperability.

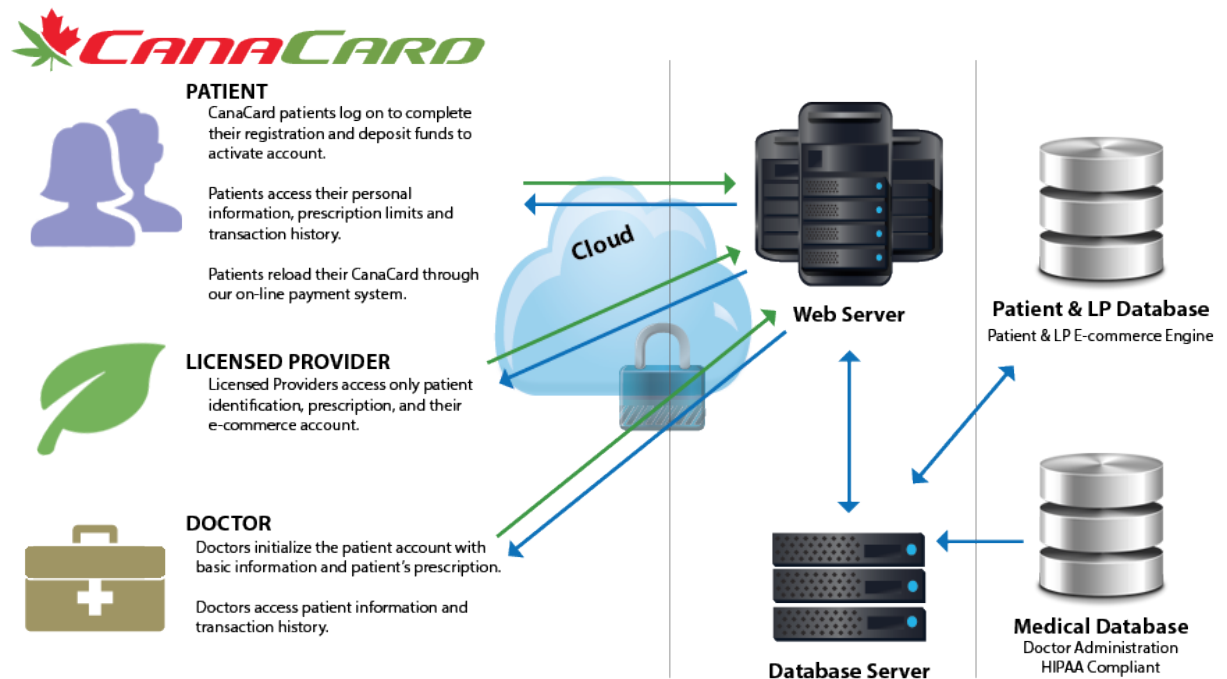
Figure 2. VIP Patient Overview



Source: Company Materials

The other core piece of Alternate Health’s technology solution strategy is CanaCard. CanaCard is a proprietary software platform that is specifically tailored for the controlled substance space – including cannabis. CanaCard is also a practice management solution that includes revenue cycle management, an e-commerce transaction and payment processing engine, regulatory and compliance monitoring, and patient prescription monitoring. CanaCard is intended to be synergistic with VIP Patient; it is a cloud-based solution with robust management features for doctors, patients, and licensed controlled substance providers, as illustrated in Figure 3 below.

Figure 3. CanaCard Overview



Source: Company investor materials

We note that CanaCard and VIP Patient are technology solutions that are synergistic, revenue-ready, and are being commercialized through a software as a service (SAAS) pricing model. SAAS pricing models typically are characterized by an attractive recurring revenue model, with high incremental margins as the business grows and more customers are able to be supported by its core technology infrastructure. Thus, we expect this segment to benefit from positive operating leverage if it can execute on its sales goals. On its 1Q17 investor update call, Alternate Health management stated that CanaCard and VIP Patient sales activities are ongoing, with an internal sales team already building a pipeline and advancing towards what the company described as final conversations with “multiple potential customers.” Initial revenues are expected in 2017, likely by 3Q17, in our view. Indeed, on June 14, 2017, Alternate Health announced a notable new deal in which it agreed to launch the CanaCard Patient Management System with National Access Cannabis (NAC) across Canada. National Access Cannabis operates a network of ten clinics in Canada with a focus on connecting patients with information on the legal treatment options. Alternate Health will install the CanaCard system in each of National Access Cannabis’ ten clinics as well as any future clinics. Revenues will be generated for both NAC and Alternate Health from transaction fees on sales between patients and licensed producers of medical marijuana. The announcement also indicated that Alternate Health would make a CAD \$1mn investment in NAC, which would likely drive expansion of the platform and joint offering.

**New Online Education Initiative a third technology revenue stream**

The third pillar of Alternate Health’s medical cannabis technology solutions is the company’s new online education initiatives. Through its subsidiary, Alternate Health Medical Media, the company has created new

online educational programs designed to educate providers and non-providers about appropriate usage of cannabidiol (CBD). In May 2017, Alternate Health announced that its Continuing Medical Education (CME) program for doctors on Chronic Traumatic Encephalopathy (CTE) and Cannabis was approved by the Accreditation Council for Continuing Medical Education (ACCME) in partnership with the American Medical Association (AMA). Management stated that the course for continuing medical professionals would likely have a list price of approximately \$300, and that the company is preparing to launch another program for non-practitioners, which would have a wider potential audience and a lower price point. Management expects to generate revenue from these programs in 2017, and we look forward to learning more about their reception and the expectations for revenue growth.

### **CBD Delivery Systems and Life Sciences divisions provide possibility for upside**

In addition to Alternate Health's laboratory and technology solutions, the company has several strategic initiatives in its CBD delivery and life sciences programs, which provide meaningful upside potential aligned with the broader growth trend of legal medical cannabis. These include licenses to commercialize nutraceutical formulations of proprietary sublingual tablets and transdermal patch-based cannabidiol delivery methods. In the near term, we expect the most significant driver of growth to come from the commercialization of cannabidiol from a hemp-based CBD to produce legal medicinal products in a state of the art facility using the company's licensed and patented CBD delivery systems. Alternate Health expects to manufacture significant volumes of sublingual, dissolvable pills and patches, which can then be distributed to legal collectives and medical entities in California and internationally. Alternate Health licensed these delivery methods from MediPatch and Sentar Pharmaceuticals, for transdermal and non-pharmaceutical sublingual delivery of CBD and THC. Management expects the 10-year, renewable license agreement for Sentar's sublingual delivery system for administration of nutraceutical CBD and THC in tablet form to begin generating initial revenues as early as 3Q17, with growth rapid growth expected in 2018E and thereafter as Alternate Health leverages its relationships across the value chain of the global legal medical cannabis industry.

Alternate Health is also exploring the use of medical CBD across various disease states, and is initially exploring CBD to treat symptoms related to Zika Virus, PTSD, and CTSE. In May, for example, Alternate Health announced that it had completed a study at the Neubauer Hyperbaric Neurologic Center to explore the effectiveness of a combination treatment of hyperbaric oxygen (HBO) and industrial hemp-derived cannabinoid to alleviate the rare but debilitating chronic post-Zika infection symptoms of pain, fatigue, anxiety, depressive state, and loss of appetite. Management reported positive results from a small sample size and expects to pursue additional, larger studies to further explore the effectiveness of the treatment. We expect the company to advance its life sciences division via a partnership-based approach, and look forward to a more extensive update and timeline from Alternate Health as the company advances these initiatives in the future.

## **COMPETITIVE LANDSCAPE**

Alternate Health operates in the emerging high growth area of medical cannabis, with solutions targeting several areas of the medicinal cannabinoid value chain. Legal cannabis is among the fastest growing industries in the United States. New Frontier and ArcView Market Research estimate that the legal cannabis industry will reach \$24 billion by 2025. The market for cannabis-based pharmaceutical and nutraceuticals is competitive, rapidly emerging, and characterized by many new entrants and a high degree of regulation.

Alternate Health's markets include healthcare information systems and practice management solutions, laboratory testing, continuing education, cannabinoid distribution, and electronic medical records. In the laboratory testing market, the company is a referral lab, and competes against large multinational corporations, such as LabCorp and Quest Diagnostics. While these companies have more financial resources and well-established distribution in the market, Alternate Health has been able to achieve attractive margins in this business with a competitive strategy focused on toxicology and by competing based on providing dedicated high service levels.

In the technology solutions market, Alternate Health competes by differentiation, with its flagship VIP Patient and CanaCare solutions tailored towards controlled substances and cannabis. The company also seeks to establish lasting benefits from its status in the industry from the breadth of services it offers, including its online CBD education platform. Alternate Health believes this combination of an education leader and a provider of medical record, practice management, and compliance solutions, can establish the company as an industry authority to improve its competitive position.

## FINANCIALS AND FUTURE OUTLOOK

### Recent Results

Alternate Health released impressive 1Q17 results on June 7, 2017, with robust revenue growth and positive adjusted cash flow. Alternate Health reported 1Q17 revenues of \$3.87mn versus \$43,720 in 1Q16, placing the company on track to generate 8-digit sales for FY17E. The growth was primarily due to the acquisitions, and particularly the strong performance by the company's newly acquired Alternate Health Labs subsidiary, which generated approximately \$3.7mn in revenue.

According to the company's 1Q17 results announcement, Alternate Health generated positive management-defined, adjusted EBITDA and adjusted net income during the period of \$1.4mn and \$1.1mn, respectively. We were impressed by the adjusted EBITDA margins of approximately 35% generated at Alternate Health in the period. Alternate Health management excluded non-recurring and certain non-cash expenses incurred during the quarter, including \$1.7mn in share compensation, in the calculation of adjusted profitability, resulting in pro forma adjusted EPS of \$0.03 per share. Significant items that resulted in a difference between IFRS and the company's adjusted results include the exclusion of approximately \$1mn in shares granted to secure sales partners in the laboratory space, as well as approximately \$0.6mn related to securing partners for its CBD continuing education platform. On a GAAP basis, the company reported a loss of (\$0.01) per share. The company also generated positive operating cash flow of \$0.22mn.

Overall we were impressed that Alternate Health was able to show adjusted profitability in 1Q17. Led by its lab business, Alternate Health generated annualized revenues of \$15.5mn in the quarter, and management has stated that it is targeting sequential growth throughout the year as it begins to generate revenues from other segments beyond the labs business, such as its CanaCard software, VIP Patient systems, and online continuing education business, as well as from its cannabinoid research and CBD delivery system business in future periods. We believe management will continue to seek to operate the company to be profitable on an adjusted, cash basis in future periods as well, while also continuing to evaluate new acquisitions.

### Key Assumptions

We note that Alternate Health is a company in the early stages of growth. While the company has generated positive operating cash flow and attractive adjusted EBITDA margins in 1Q17, there is no guarantee that it will be able to continue this performance. Additionally, to meet its growth plan, Alternate Health will have to be successful in the sales execution of its technology solutions and continuing education platform. While management has reported interest in these solutions, there is always an element of uncertainty related to the timing and execution of new technology sales. Nevertheless, our analysis broadly assumes that Alternate Health is able to capitalize on the robust growth opportunities in the medical cannabis space, and particularly for commercialization of its CBD patches and sublingual capsules, as well as its wide range of technology solutions such as CanaCard, VIP Patient and online education programs, which offer high margin opportunities for monetization and growth. Also of note, *SeeThruEquity* reports generally do not exclude

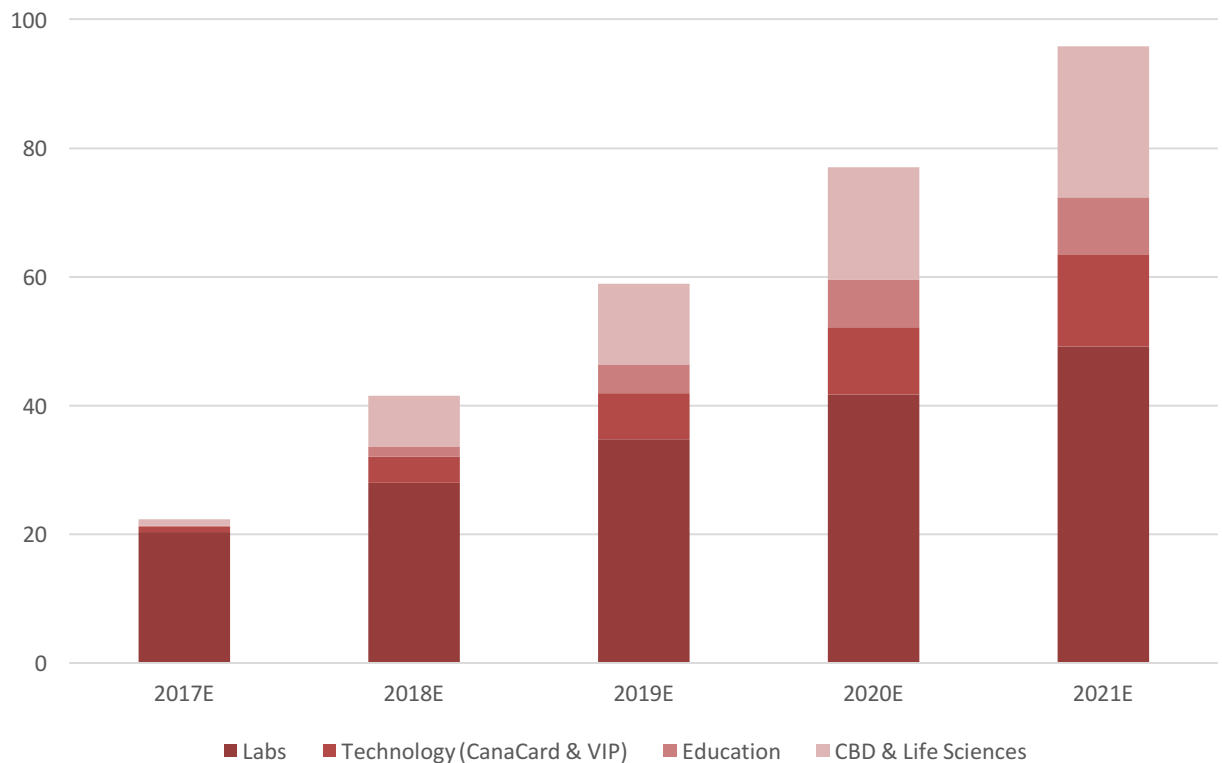
share compensation and one-time charges in the calculation EBITDA and Net Income; therefore, our model assumes Alternate Health approaches its pro forma adjusted profit margins over time.

**Model assumes robust growth**

Our model assumes that Alternate Health is able to expand its laboratory business while also capitalizing on the robust growth opportunities in the medical cannabis market and legal commercialization of CBD through its transdermal patch and sublingual delivery systems. In the lab space, Alternate Health has stated that, with small incremental investment, that it can increase its capacity to 150,000 specimens per month, which would more than double its existing capacity while leaving ample room to grow the business for years to come.

Our forecast calls for overall revenue to grow from \$22.3mn in 2017 to \$77.0mn by 2020E, anchored by its laboratory business, as illustrated in the following table. Alternate Health management also expects robust growth from its CBD delivery systems business in 2018E, with commercialization beginning in 3Q17. Alternate Health licensed these technologies in early 2017, and is expected to aggressively commercialize leveraging channels in online direct sales, partnerships in the medical community, and international distribution. Our estimates call for CBD and Life Sciences to grow from approximately \$1mn in 2017 to reach \$17.5mn by 2020E. In the long run, we are optimistic that Alternate Health has the potential to benefit from its array of technology solutions CanaCard and VIP Patient, as they should benefit as specialized solutions targeting service providers, doctors and patients in the emerging and rapidly growing medical cannabis market in the US and Canada. We have modeled these solutions, combined to generate approximately \$18mn in annualized revenue by 2020E. Our estimates are in CAD, the reporting currency of Alternate Health.

Figure 4. Alternate Health Revenue Estimates by Segment (CAD \$ million)



Source: SeeThruEquity Estimates

### Balance Sheet & Financial Liquidity

We see the balance sheet and financial liquidity as key areas to watch in the healthcare space. Alternate Health ended 1Q17 with a solid balance sheet and what appears to be a healthy, cash-generating core business. The company ended 1Q17 with cash on hand \$11.0mn -- \$0.21 per share --and current assets of \$14.4mn, versus current liabilities of \$3.9mn. The company had shareholders' equity of \$26.5mn, or a book value per share of \$0.51. Included in total assets in approximately \$9mn in investments, the largest component of which is a 20% interest in Clover Trail Capital, LLC, a Texas based investment company that currently has a 40% interest in Sun Clinical Laboratories LLC which refers toxicology and blood samples to Alternate Health Labs for screening. On its call with investors, management indicated that the Clover Trail investment had been accretive to earnings in 1Q17 and that it expected to benefit from future profits in coming periods.

Importantly, Alternate Health generated operating cash flow during the quarter of \$0.2mn, and management expects to continue to generate cash flow in coming quarters as its business grows. The combination of a healthy balance sheet, measurable revenues and positive cash flow does appear to set Alternate Health apart among publicly traded companies in the cannabis space. We believe the company will likely look to deploy its cash balance and future cash flows opportunistically to make complementary acquisitions.



## VALUATION

We valued Alternate Health using a discounted cash flow (“DCF”) model to arrive at a 12-month price target of CAD \$5.89 / USD\$4.65. We felt this method was more appropriate than a comparable company valuation given the emerging nature of the market. Valuations in the sector appear to be focused on the large market potential for cannabis-based products and therapeutics, and not necessarily linked to classical analysis of near term expected sales and earnings. We note that Alternate Health does appear to stand apart from many companies in the sector, generating encouraging fundamental results with defensible revenues and cash flow, as well as material upside potential if the medical cannabis market continues to exhibit robust growth.

### DCF

The following DCF valuation of Alternate Health runs through 2028E. Overall, our forecast assumes that Alternate Health achieves rapid growth in penetrating the large and growing market of doctors, clinics, patients, and licensed providers in the medical cannabis market.

As illustrated in Figure 4 below, we discounted cash flows at a weighted average cost of capital of 15.0%. We used the relatively high discount rate as the model assumes a period of high growth, and Alternate Health is still in the early stages of commercialization. Finally, we assumed a terminal growth rate of 6% at the end of FY2028E to arrive at CAD \$5.89 (US \$4.65), as shown below.

Figure 5. Discounted Cash Flow Summary

CAD \$ mn	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBIT	3.6	6.1	11.3	20.6	30.9	41.9	53.5	71.0	88.4	104.2	120.5
Less: Tax	0.0	2.0	4.0	8.3	12.4	16.9	21.5	28.5	35.5	41.8	48.3
<b>NOPLAT</b>	<b>3.6</b>	<b>4.1</b>	<b>7.3</b>	<b>12.3</b>	<b>18.4</b>	<b>25.1</b>	<b>32.0</b>	<b>42.5</b>	<b>52.9</b>	<b>62.4</b>	<b>72.2</b>
Changes in working capital	0.7	(1.5)	(0.2)	0.4	(0.2)	0.4	0.9	0.3	1.5	0.8	0.9
Depreciation & Amortization	0.5	0.6	0.7	0.7	0.8	0.9	1.1	1.2	1.4	1.5	1.7
Capex	(0.2)	(0.6)	(0.8)	(0.9)	(1.1)	(1.3)	(1.5)	(1.8)	(2.1)	(2.0)	(2.1)
<b>FCFF</b>	<b>4.6</b>	<b>2.6</b>	<b>6.9</b>	<b>12.5</b>	<b>17.9</b>	<b>25.1</b>	<b>32.5</b>	<b>42.3</b>	<b>53.8</b>	<b>62.8</b>	<b>72.7</b>
Discount factor	0.81	0.71	0.62	0.54	0.47	0.40	0.35	0.31	0.27	0.23	0.20
PV of FCFE	3.7	1.8	4.3	6.7	8.3	10.2	11.4	13.0	14.3	14.5	14.6
Sum of PV of FCFE											102.8
Terminal cash flow											911.7
PV of terminal cash flow											183.7
<b>Enterprise value</b>											<b>286.5</b>
Less: Debt											0.0
Add: Cash and Investments											19.8
<b>Equity value</b>											<b>306.3</b>
Basic Outstanding shares (mn)											52.1
<b>Fair value per share (CAD \$)</b>											<b>5.89</b>
<b>Fair Value per share (USD \$)</b>											<b>4.65</b>

Summary conclusions	Key assumptions	
DCF FV (CAD \$ per share)	5.89	Beta 2.0
DCF FV (USD \$ per share)	4.65	Cost of equity 15.0%
Recent price (USD per share)	2.25	Cost of debt (post tax) 9.8%
Upside (downside)	106.6%	WACC 15.0%
		Terminal Growth Rate 6.5%

Source: SeeThruEquity Research, Cash & Investments as of 1Q17

Figure 5. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)					
		USD	14.0%	14.5%	15.0%	15.5%	16.0%
Terminal growth rate (%)	5.50%		5.03	4.66	4.33	4.04	3.78
	6.00%		5.23	4.83	4.48	4.17	3.89
	6.50%		5.47	5.03	<b>4.65</b>	4.31	4.02
	7.00%		5.73	5.25	4.84	4.47	4.15
	7.50%		6.04	5.51	5.05	4.65	4.31
	8.00%		6.40	5.80	5.30	4.86	4.48

Source: SeeThruEquity Research

**Peer Group Analysis**

We also evaluated Alternate Health by using a relative valuation analysis with peer companies in its sector. As stated earlier in this report, we did not use this analysis to determine the price target. The valuations of companies in this industry appear to be heavily influenced by the large market potential of cannabis-based products, rather than classic fundamental analysis. Alternate Health is in the early stages of commercialization, as are its peer companies, and therefore a relative value analysis based on multiples of Market Capitalization over sales appears to be less meaningful to determining the price target.

In our view, the key determining valuation catalyst for Alternate Health is whether it can drive aggressive growth reflective of the large market opportunity, while continuing to show significant cash flow potential, as well as the overall market sentiment toward the cannabis industry. Important events in the near-term to gage this include early sales activity related to Alternate Health's CBD delivery systems, technology solutions including CanaCard and VIP Patient, as well as evidence of traction with its ability to cross sell products with industry partners. Nevertheless, we have included a table of comparable companies for informative purposes, included below.

**Figure 6. Comparable Valuation \***

Company	Stock Ticker	Mkt cap (US\$ mn)	Company Summary	Est Sales (US\$ mn)	Price / Sales
GW Pharmaceuticals	GWPH	\$2,475	Develops cannabinoid prescription medicines using botanical extracts	\$10.5	235.2x
Medical Marijuana	MJNA	\$262	Cannabis and hemp industry holding company	\$10.2	25.7x
INSYS Therapeutics	INSY	\$818	Cannabidiol oral solution; opioid pain spray	\$156.0	5.2x
Zynerba Pharma	ZYNE	\$226	Developing synthetic cannabinoid therapeutics formulated for transdermal delivery.	\$0.2	N/A
Cannabis Science, Inc.	CBIS	\$121	Seeking to develop phytocannabinoid-based pharmaceutical products	N/A	N/A
MassRoots	MSRT	\$42	Online technology platform for sharing cannabis content	\$4.0	10.5x
Aphria	APHQF	\$496	produces supplies & sells medical cannabis in Canada	\$13.3	37.3x
Aurora	ACBFF	\$577	Produces and distributes medical marijuana & cannabis oil products in Canada	\$11.1	52.0x
<b>Average</b>					<b>61.0x</b>
Alternate Health	AHGIF	\$117	Research & Development in cannabis-based bioscience	16.9	6.6x
Premium (discount)					(89.2%)

*All data converted to \$USD*
*Source: Yahoo! Finance, SeeThruEquity Research, intraday data as of June 27, 2017*

## RISK CONSIDERATIONS

### Sales Execution

Alternate Health management is targeting large markets and has stated a goal of achieving robust growth over the next several years. Although our estimates assume the company is generally able to execute on its aggressive growth aspirations, the company is in the early stages of commercialization, and may find it more difficult than expected to meet its sales or profit margin goals, which could impact the valuation of the company.

### Innovation / Technology Risk

The healthcare market is subject to change and innovation, and Alternate Health is exposed to risk that new products are introduced, which may require it to make additional investments in its products and services to remain competitive, or that render its offerings obsolete. The company's compliance technology solutions, in particular, may require further investment in research and development and continued spending to remain current with regulatory requirements, privacy laws, and standards for managing this information securely and electronically. Additionally, the market for developing therapeutics using cannabidiol is growing quickly and characterized by new investment and new companies entering the market, and Alternate Health could be exposed to risk from the innovations of these companies.

### Competition

Alternate Health operates in competitive markets characterized by high growth potential and significant regulation. Its markets include the healthcare information systems and continuing education market, cannabinoid distribution, and electronic medical records. Alternate Health will need to continue to invest in research and development and sales and marketing to ensure its products are differentiated in the markets. Additionally, the market for cannabinoids and cannabis-related products is rapidly evolving with robust growth potential; therefore, Alternate Health may face competition from new companies, or may be seek to make acquisitions to improve its competitive position. Further, the healthcare industry includes many well-established multi-national corporations, which have access to more advanced research and development facilities, more established brand recognition and sales distribution, and substantially more capital than Alternate Health.

### Regulation

Alternate Health operates in a highly regulated industry, and its products provide compliance solutions throughout the medical cannabis industry. The company will be required to continue to invest time and resources to insuring that its solutions adequately provide security, privacy and regulatory compliance over time. Additionally, the regulatory environment for cannabis based therapeutics is evolving, and Alternate Health's market opportunity and growth rates could be affected by changes to the regulation of medical cannabis.

### Evolution of cannabis market

Although the bulk of Alternate Health's current revenues stem from a laboratory subsidiary whose performance is not directly reliant on the continued expansion of legalization of cannabis, and Alternate Health's technology solutions are legal tools that assist in helping industry partners be in compliance with emerging regulations, the performance of the stock will likely be affected by the overall performance of publicly traded companies in the cannabis industry and broader trends towards the legalization of marijuana in the United States.

## Management Team

### **Dr. Jamison Feramisco, MD, PhD, Chief Executive Officer**

Dr. Jamison Feramisco, MD, PhD, is trained in both Internal Medicine and Dermatology and completed his PhD research thesis in the laboratory of Nobel Laureates Drs. Mike Brown and Joe Goldstein at UT Southwestern Medical Center. He has an extensive history of success in founding, funding, and growing numerous healthcare service and technology companies. Dr. Feramisco is the founder and President of Apri Health (formerly Transfuse Solutions), a next-generation healthcare data analytics and change management company based in Dallas, Texas. He also serves as Chief Medical Officer of both Third Eye Health, a technology-enabled medical services company, and Advanced Healthcare Solutions nursing home chain. His former positions include founder and President of Golden Healthcare of Temecula, California, a medical service corporation specializing in home health care designed with the patient's need for personal care and safety in mind; Chief Medical Officer of Scanadu, a cutting edge wearable device company with headquarters at NASA's Moffitt Field, CA.; co-founder and chief medical officer/chief operating officer of Dermlink, one of the first consumer focused tele-dermatology software companies. He has served on the board of multiple healthcare and technology companies and is an active mentor at many of the Bay Area healthcare incubators. Clinically, Dr. Feramisco focuses primarily on three areas of medicine: 1) Hospitalist Medicine - general medical care of hospitalized patients including patient care, teaching, research and leadership related to hospital medicine; 2) Dermatology, the medical care of the skin and its diseases; and 3) Wound Care, the medical care in the prevention of wound complications and the promotion of wound healing. Dr. Feramisco has a successful track record as an entrepreneur and is a respected Angel Investor and consultant for venture capital and private equity.

### **Mike English, Chief Financial Officer**

Mike English has over 30 years' experience working in diverse industries including data security and encryption software, telecommunications, and heavy industrial electric motors and controls. Ten of those years were with a leading software as a service (SAAS) public encryption company where he served as controller and CFO. Under Mike's leadership, the company drastically improved earnings and cash flow while reducing the company's risk profile and improving compliance. They achieved best in class public company audit committee ISS governance ratings. As a Vice President of Finance and Controller in the telecommunications and heavy industrial electric motors and controls industries, Mike managed large groups including director level direct reports in multi-locations, both domestic and international (US, Canada, UK, Germany, Italy and Israel). In addition to accounting and reporting responsibilities, a major part of his role included implementing and integrating enterprise wide software (SAP) across several manufacturing divisions. Over a career that spans auditing, controllership, financial systems and senior executive financial management, Mike's experience reaches across technical accounting, financial reporting and disclosure controls, risk avoidance, multi-location, SEC reporting, public company corporate governance, equity compensation, manufacturing cost accounting and includes HR and benefits, IT, facilities management and strategy. Mike earned a BA in English with a concentration in business from John Carroll University and an MS in Accountancy from DePaul University. He is a CPA and is a member of the Ohio Society of CPA's.

### **Tom Bartlett, Chief Operating Officer**

Tom Bartlett has over thirty years of private equity, investment banking, corporate advisory, and operating experience. Throughout his career, Tom has financed, advised or served in executive management capacities to drive growth and value appreciation of businesses operating across a spectrum of industries and business models. Prior to joining Alternate Health Corp. as its Chief Operating Officer, Tom served as the President and CFO of an insurance services company where Tom was directly responsible for executing multiple acquisitions and financings for the business in addition to overseeing the overall operational and financial functions of the company. In his capacity of COO at Alternate Health, Tom is primarily responsible

for implementing and directing growth and diversification strategies across the AHC platform. Tom has a BBA in finance and management from Baylor University.

**Marcelin O'Neill, Corporate Secretary & Compliance Officer**

Marcelin O'Neill is currently a Director and CEO of Cervantes Capital Corp., and also presently the Compliance Officer and Corporate Secretary of Alternate Health Corp. Ms. O'Neill served as a Director of Jagercor Energy Corp. from December 2011 to May 2014, and as Chief Financial Officer and Corporate Secretary of Jagercor, from July 2013 to May 2014. She served as a director of Brandenburg Energy Corp. from February 2008 to February 2013, and as Chief Financial Officer and Corporate Secretary from August 2010 to February 2013. Ms. O'Neill served as the Vice President of Corporate Affairs of Mandalay Resources Corporation from April 2009 to March 2010, and from April 2007 until May 2008, she served as a director of Mandalay. Since 1994 Ms. O'Neill has worked with such companies as Augusta Resource Corporation, Westcoast Energy Inc., and the Lundin Group. In 1987, Ms. O'Neill graduated from the British Columbia Institute of Technology, where she studied Business Management, and has successfully completed the CSC and the CPH, both with honors. Ms. O'Neill is the managing director of Accrete Consulting Inc., a company which provides corporate governance and management services to public companies. With over 23 years of experience in public company management, Ms. O'Neill brings a varied scope of knowledge to the companies with which she works.

## Non-Executive Board Members

**Dr. Michael Murphy, MD, PhD, Chairman**

**General Wesley K. Clark, Director**

**Adam Desmond, Director**

**James Griffiths, Director**

**James E. Tykoliz, Director**

**J. Bernard Rice**

## FINANCIAL SUMMARY

**Figure 7. Income Statement**

Figures in CAD \$mn unless specified	FY16	FY17E	FY18E	FY19E	FY20E
<b>Revenue</b>	<b>0.2</b>	<b>22.3</b>	<b>41.5</b>	<b>58.9</b>	<b>77.0</b>
YoY growth	9.8%	12043.3%	86.3%	42.0%	30.7%
Cost of sales	0.0	4.2	10.9	14.6	18.2
<b>Gross Profit</b>	<b>0.2</b>	<b>18.0</b>	<b>30.6</b>	<b>44.3</b>	<b>58.8</b>
Margin	100.0%	81.0%	73.7%	75.2%	76.3%
Operating expenses	1.6	17.0	27.0	38.2	47.5
EBIT	(1.4)	1.0	3.6	6.1	11.3
Margin	(771.3%)	4.5%	8.6%	10.4%	14.7%
<b>EBITDA</b>	<b>(1.3)</b>	<b>1.5</b>	<b>4.1</b>	<b>6.7</b>	<b>11.9</b>
Margin	(718.9%)	6.7%	9.8%	11.4%	15.5%
Other income/ (expense)	(0.8)	0.6	0.3	0.3	0.3
Profit before tax	(2.2)	1.6	3.8	6.4	11.5
Tax	(0.4)	0.1	0.0	2.0	4.0
<b>Net income to Common</b>	<b>(1.8)</b>	<b>1.5</b>	<b>3.8</b>	<b>4.3</b>	<b>7.5</b>
Margin	(955.7%)	6.8%	9.2%	7.3%	9.7%
<b>EPS (per share)</b>	<b>(0.06)</b>	<b>0.03</b>	<b>0.06</b>	<b>0.07</b>	<b>0.12</b>

Source: SeeThruEquity Research.

**Figure 8. Balance Sheet**

Figures in CAD \$mn, unless specified	FY16	FY17E	FY18E	FY19E	FY20E
Current assets	0.9	21.8	32.6	44.5	59.2
Other assets	1.4	16.2	11.7	11.9	12.2
<b>Total assets</b>	<b>2.3</b>	<b>38.1</b>	<b>44.3</b>	<b>56.4</b>	<b>71.4</b>
Current liabilities	0.4	5.2	7.4	11.0	14.2
Other liabilities	0.5	0.0	0.0	0.0	0.0
Shareholders' equity	1.4	32.9	32.9	45.4	57.2
<b>Total liab and shareholder equity</b>	<b>2.3</b>	<b>38.1</b>	<b>40.3</b>	<b>56.4</b>	<b>71.4</b>

Source: SeeThruEquity Research

**Figure 9. Cash Flow Statement**

Figures in CAD \$mn, unless specified	FY16	FY17E	FY18E	FY19E	FY20E
Cash from operating activities	(0.7)	6.0	8.8	7.4	12.0
Cash from investing activities	(0.4)	0.0	(0.2)	(0.6)	(0.8)
Cash from financing activities	1.3	11.5	0.0	0.0	0.0
<b>Net inc/(dec) in cash</b>	<b>0.1</b>	<b>17.5</b>	<b>8.6</b>	<b>6.8</b>	<b>11.2</b>
Cash at beginning of the year	0.4	0.6	18.1	26.7	33.6
<b>Cash at the end of the year</b>	<b>0.6</b>	<b>18.1</b>	<b>26.7</b>	<b>33.6</b>	<b>44.8</b>

Source: SeeThruEquity Research

## About Alternate Health Corp.

Alternate Health Corp. (CSE:AHG, OTCQB:AHGIF) is an international medical cannabis company that uses best in class technology, research, education, production and laboratories to increase the awareness, regulatory compliance, and appropriate usage of cannabinoids in modern medical practices. The company is strategically positioned in all facets of the medical cannabis value chain through the innovative integration of proprietary technology and know-how, acquisitions and partnerships, deep direct knowledge of and experience with improving patient outcomes, and management expertise.

Alternate Health is well positioned to reinvest internal operating cash flow in its platform over the long term, creating an attractive investment profile for its shareholders. The company is headquartered in the Dallas-Fort Worth Metroplex with operations in Los Angeles, San Antonio and Toronto. [www.alternatehealth.ca](http://www.alternatehealth.ca)





## Contact

Amit Tandon  
SeeThruEquity  
[www.seethruequity.com](http://www.seethruequity.com)  
(646) 495-0939  
info@seethruequity.com

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