

Desautels Capital Management

Industry Overview

TMT

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TMT Overview

SECTION I



DCM TMT Holdings

A clean slate

Technology



Media



Telecommunications



With only two holdings after this summer, TMT has a big year ahead

Technology Overview

Brief overview of the sector and its constituents

Overview

Technology has been driving TMT's performance over the last 12 months. It can be further divided into three subsectors: software, hardware & semiconductors

Software

- Development and marketing of Internet and application software
- IT professional services & consulting
- Data processing and hosting
- Strongly shifting towards recurring business models

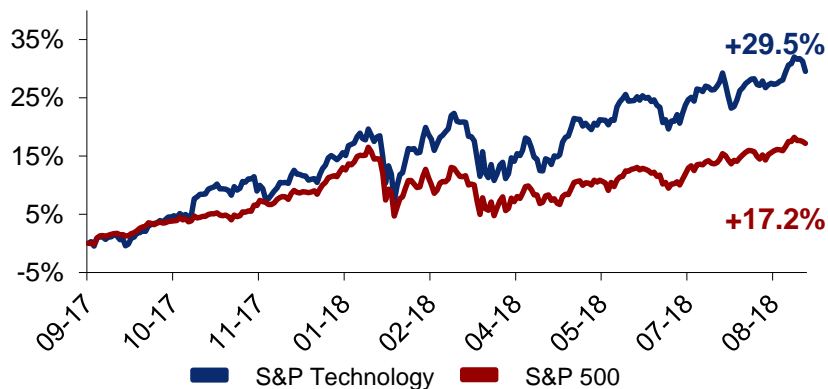
Hardware

- Design, manufacturing and assembly of components for computers, tablets and phones
- Storage hardware, from phones to data centers
- Electronic components for various apparels

Semiconductors

- Substances that can conduct electricity under very specific conditions
- Includes companies that create actual semiconductors and others that manufacture the components

Sector Performance



Key Constituents

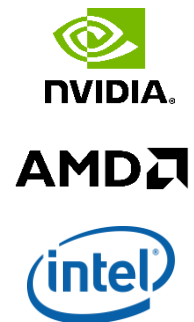
Software



Hardware



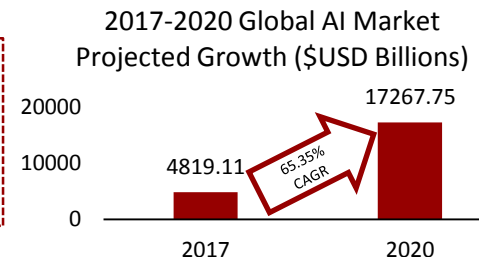
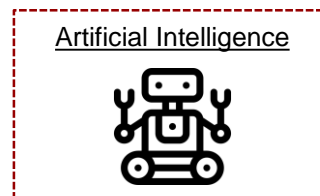
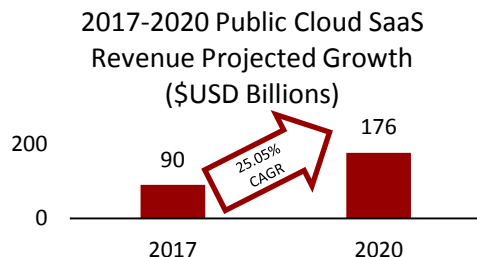
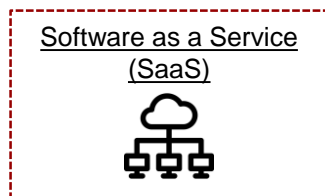
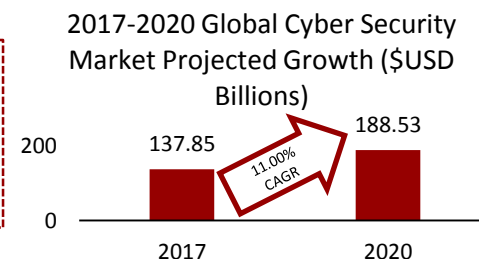
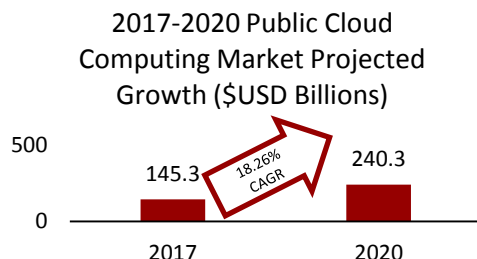
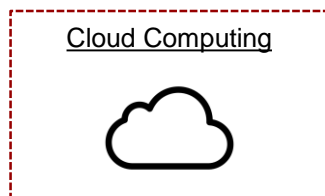
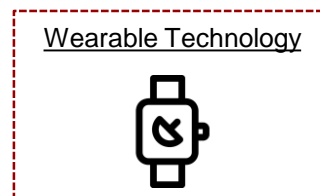
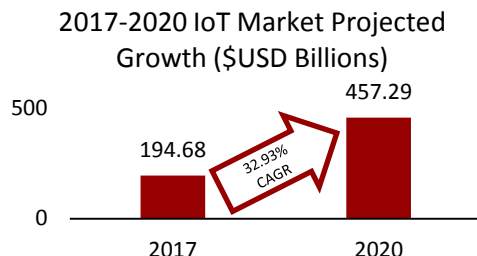
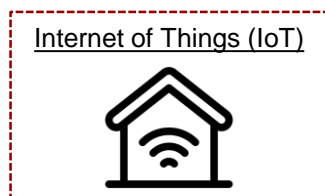
Semi-conductor



Source: CapitalIQ 09/06/2018, BIWS, Deloitte

Key Trends in Tech

Current TMT trends focus on interconnection



Connecting devices and storing data over the Internet opens the possibility for more convenient living

Source: Freepik, SAP, Statista, IBM, datamation.com, pcmag.com, onlinetech.com, Cisco, Technopedia, Investopedia, Forbes, information-management.com

Tech Disruptions So Far...

Healthcare poised for disruption

FIG



Consumers



Healthcare



“Medical costs are the tapeworm of American economic competitiveness”

“About 50 years ago, healthcare was 5 percent of GDP. Now, it’s about 17%.”

- Warren Buffet at Berkshire’s Hathaway annual meeting in May 2018

Technology is continuing to follow the trend of industry disruption

Source: Forbes, Advisory Board, HGP

Technology in Healthcare

SECTION II



Why Invest in SaaS

The future of technology lies in software

Semi-Conductors

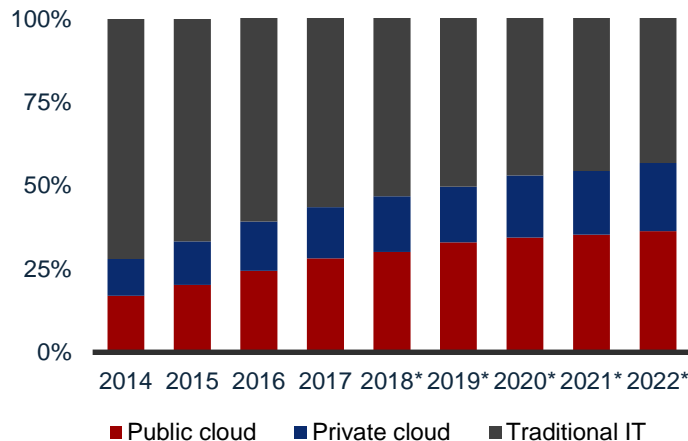
- Negatively affected by a reduction in free-trade, as most of the manufacturing is done offshore
- Extremely stretched valuations when comparing growth, maturity, and margins

Hardware

- Negatively affected by a reduction in free-trade, as most of the manufacturing is done offshore

Software

Worldwide IT spending breakdown



Cloud computing has been disrupting the IT industry, but the market is aware of this

Need to find secondary trends

SaaS companies use cloud computing in order to disrupt every industry possible

- Leads to sticky, recurring revenue
- Very high margins with strong operational leverage, leading to exponential bottom-line growth as SaaS companies reach new customers

Software is technology's sub-sector with the best potential, and it is moving to the cloud

Source: Statista

Criteria

Healthcare SaaS stood out as a vertical poised to benefit from the key trends in technology

Industry	IoT	Cloud	SaaS	Cybersecurity	AI	Wearables
3D Printers	⊗	⊗	⊗	⊗	⊗	
Autonomous Vehicles	⊗	⊗		⊗	⊗	
Drones	⊗	⊗		⊗	⊗	⊗
InsurTech	⊗	⊗	⊗	⊗	⊗	⊗
Healthcare SaaS	⊗	⊗	⊗	⊗	⊗	⊗

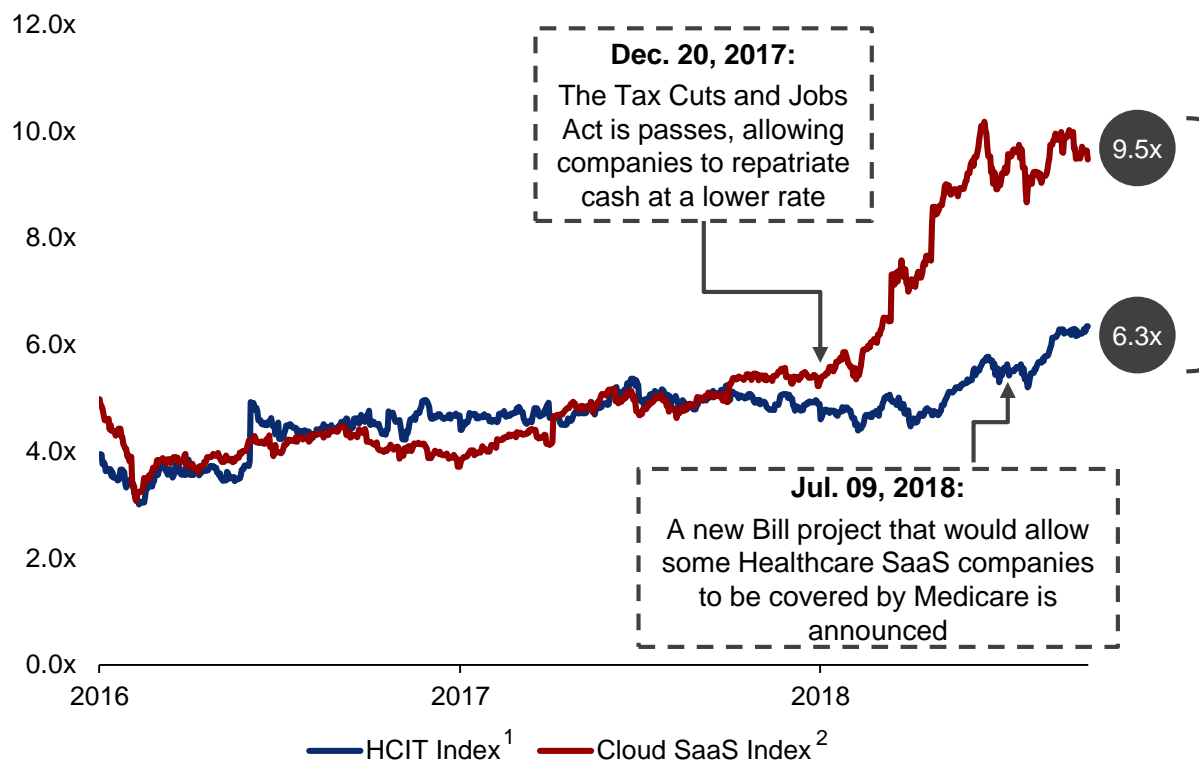
The healthcare SaaS market is poised for growth as it includes several recent disruptive technologic innovations

Source: Freepik, FinDev Gateway, Forbes, information-age.com, futurism.com, the Register, informationsecuritybuzz.com, cloudtweaks.com, itproportal.co, sculpteo.com, rapidreadytech.com, techemergence.com, Wall Street Journal, 3dprint.com, iotforall.com, techemergence

Healthcare SaaS vs. Enterprise SaaS

Healthcare trades an EV/Revenue discount of ~3x, despite growing at a 7% higher CAGR

EV/Revenue Multiples, 2016-2018



Revenue CAGR, 2016-2018

General SaaS: ~22% CAGR

Health SaaS: ~29% CAGR

EV/Rev. Multiples: ~3.0x delta

Health SaaS companies are trading at a ~3.0x discount to the SaaS market as a whole, which is unwarranted due to:

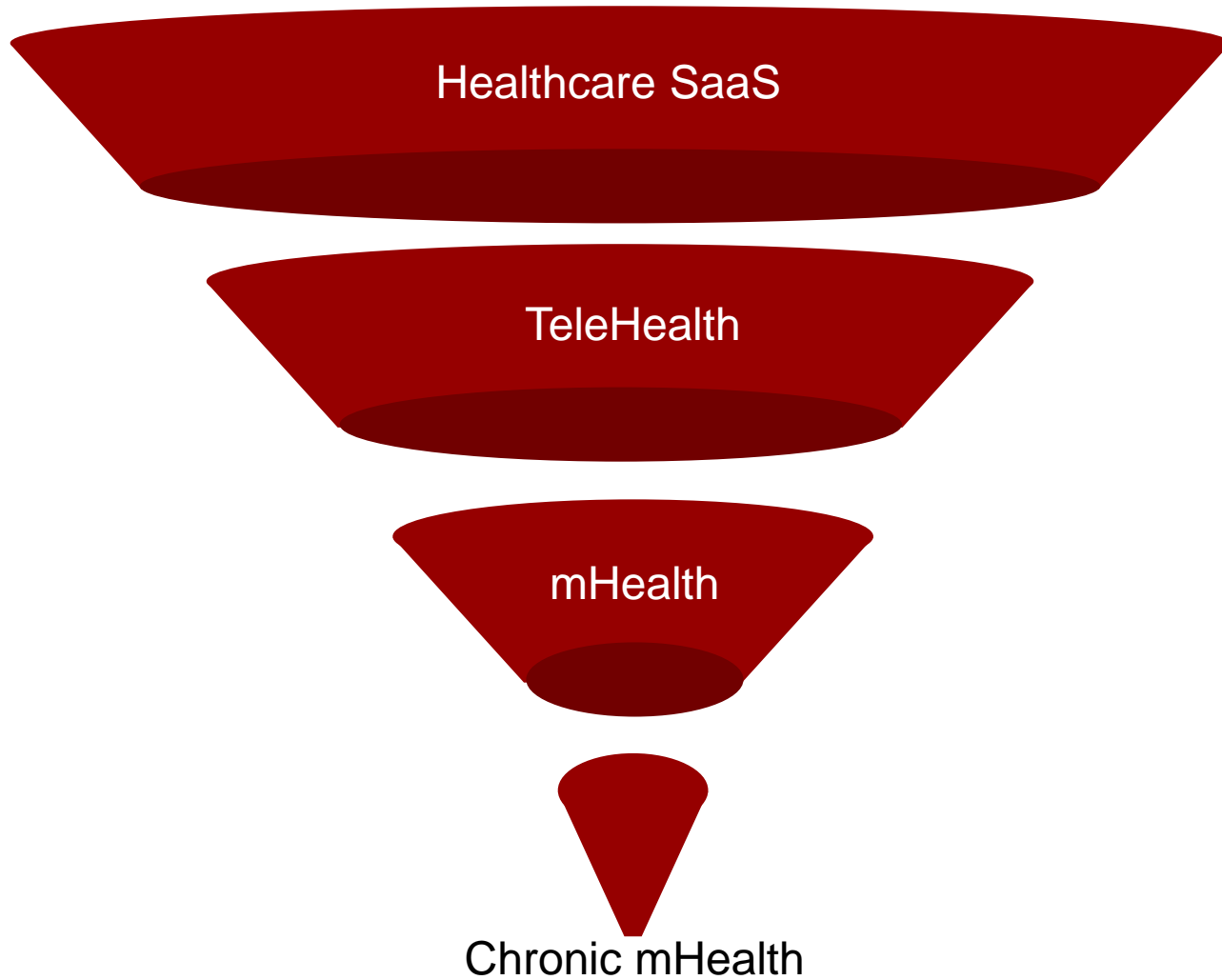
- 1) Higher growth
- 2) Similar margins
- 3) Risk Unwarranted

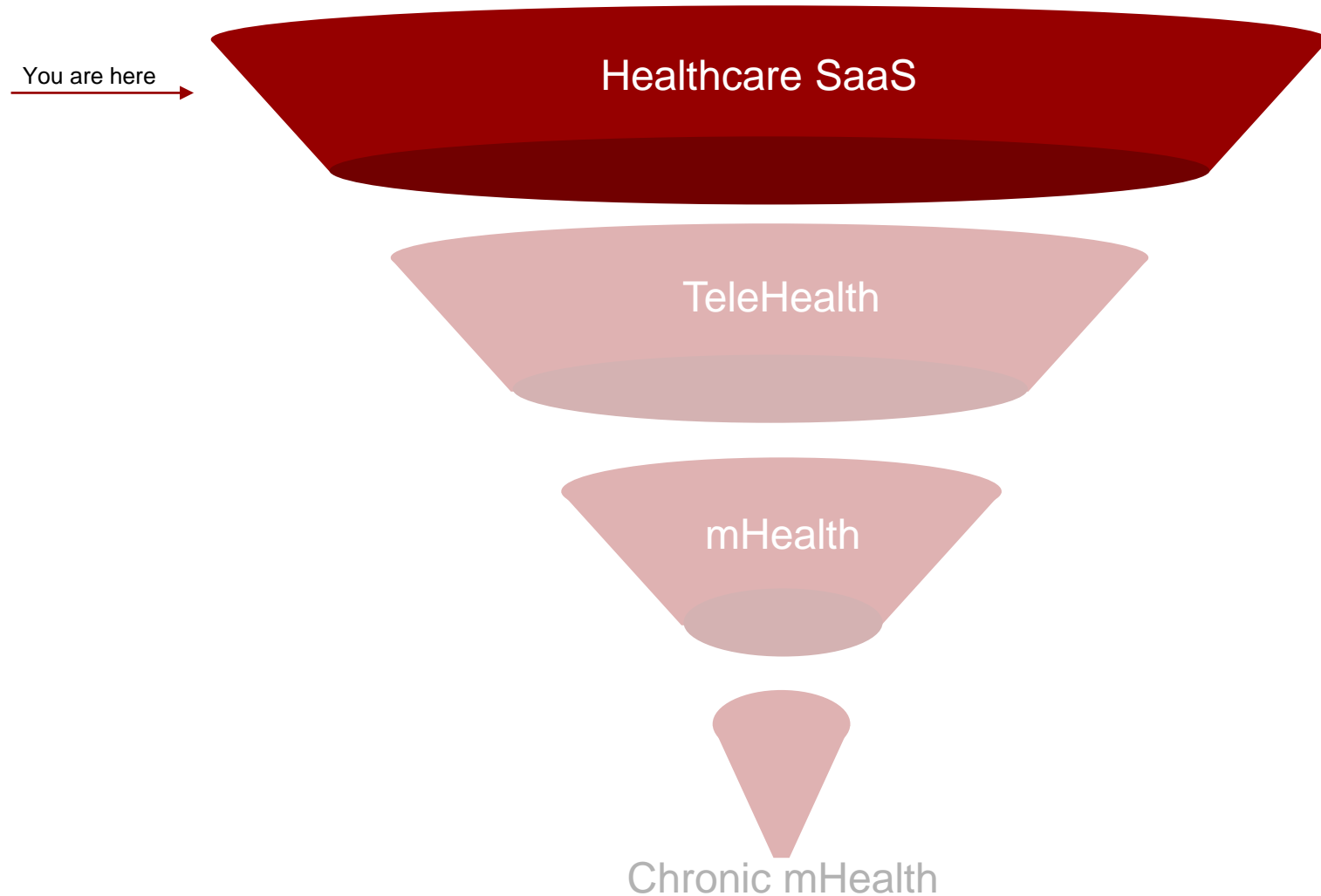
The HCIT Index tracked the Cloud SaaS Index closely until late 2017, where we saw a divergence of ~3 turns – TMT wanted to dive deeper and understand if this dislocation is warranted and how we can generate out-sized returns from this

¹ Includes 37 companies in the healthcare information technology (SaaS) sector with market caps ranging from \$100mm-\$20Bn

² Includes 30 companies in the enterprise SaaS sector with market caps between \$500mm-\$15Bn

Source: DCM Indices, Bloomberg, CapIQ





Why Healthcare SaaS?

Technology disrupting another industry

Healthcare SaaS companies currently trade at a discount to the SaaS market as a whole

EV / Revenue

Enterprise SaaS: ~9.5x
Healthcare SaaS: ~6.3x

Growth %

Enterprise SaaS: 22%
Healthcare SaaS: 29%

Margin %

Enterprise SaaS: 26%
Healthcare SaaS: 20%

Causes

1

Reimbursement Uncertainty

2

Nascent Industry

3

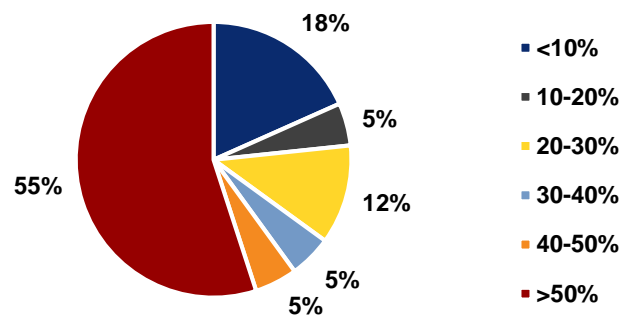
Slow adoption rate & heavy regulations

5-Yr Levered Betas

US Technology: 1.00
Enterprise SaaS: 1.18
Healthcare SaaS: 1.15

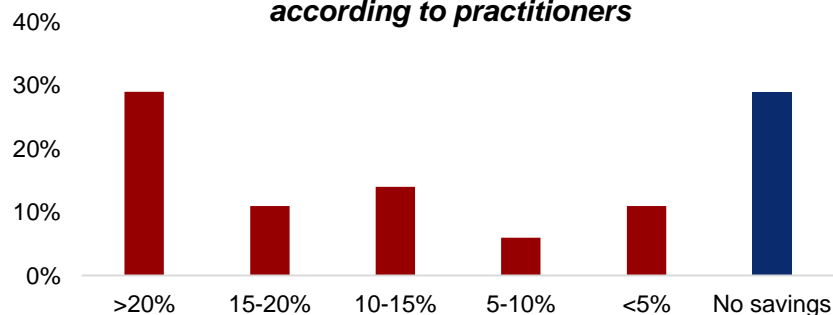
Adoption rate will start increasing

US telemedicine customer retention rate



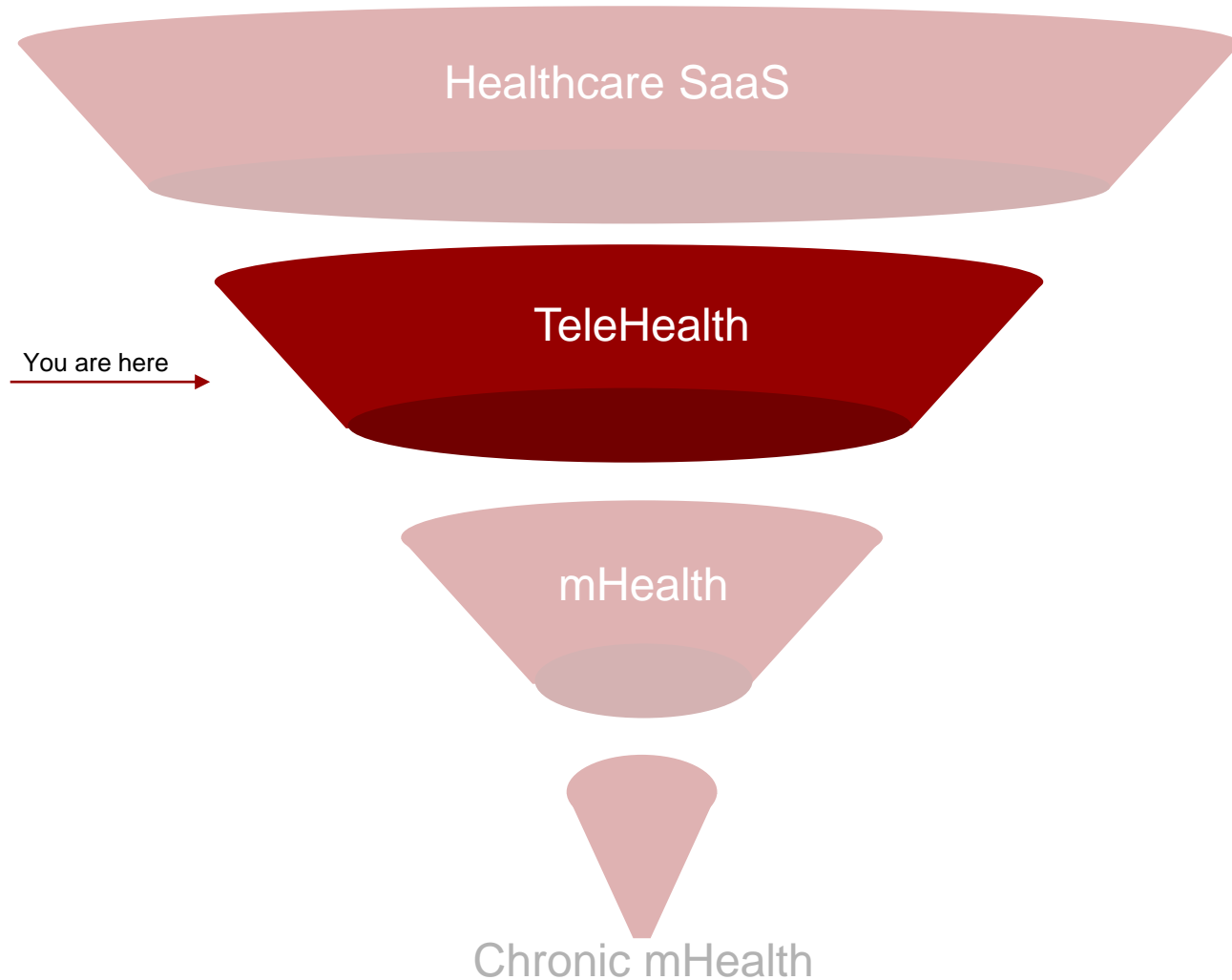
Significant cost savings

Cost savings from using health SaaS according to practitioners



Healthcare SaaS companies currently trade at a discount to the SaaS market, which is not warranted

Source: Healthcare Growth Partners, Statista, Bloomberg, CapIQ



The TeleHealth Sub-Sector

Where technology and healthcare unite

mHealth

Telemedicine

1

Short consultations with health professionals via phone or chat

Either a price per consultation or subscription fee



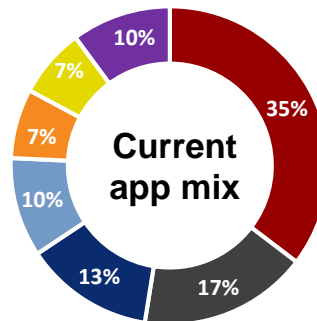
2

AI is allowing this industry to move towards “no-doctor” platforms

Mostly subscription-based revenue models

“3 M” Apps

Manage, Monitor & Modify exercise, diet, sleep & general health



- Fitness
- Lifestyle & Stress
- Diet & Nutrition
- Disease-Specific
- Women's Health
- Medication Reminders
- Other

Administration

1

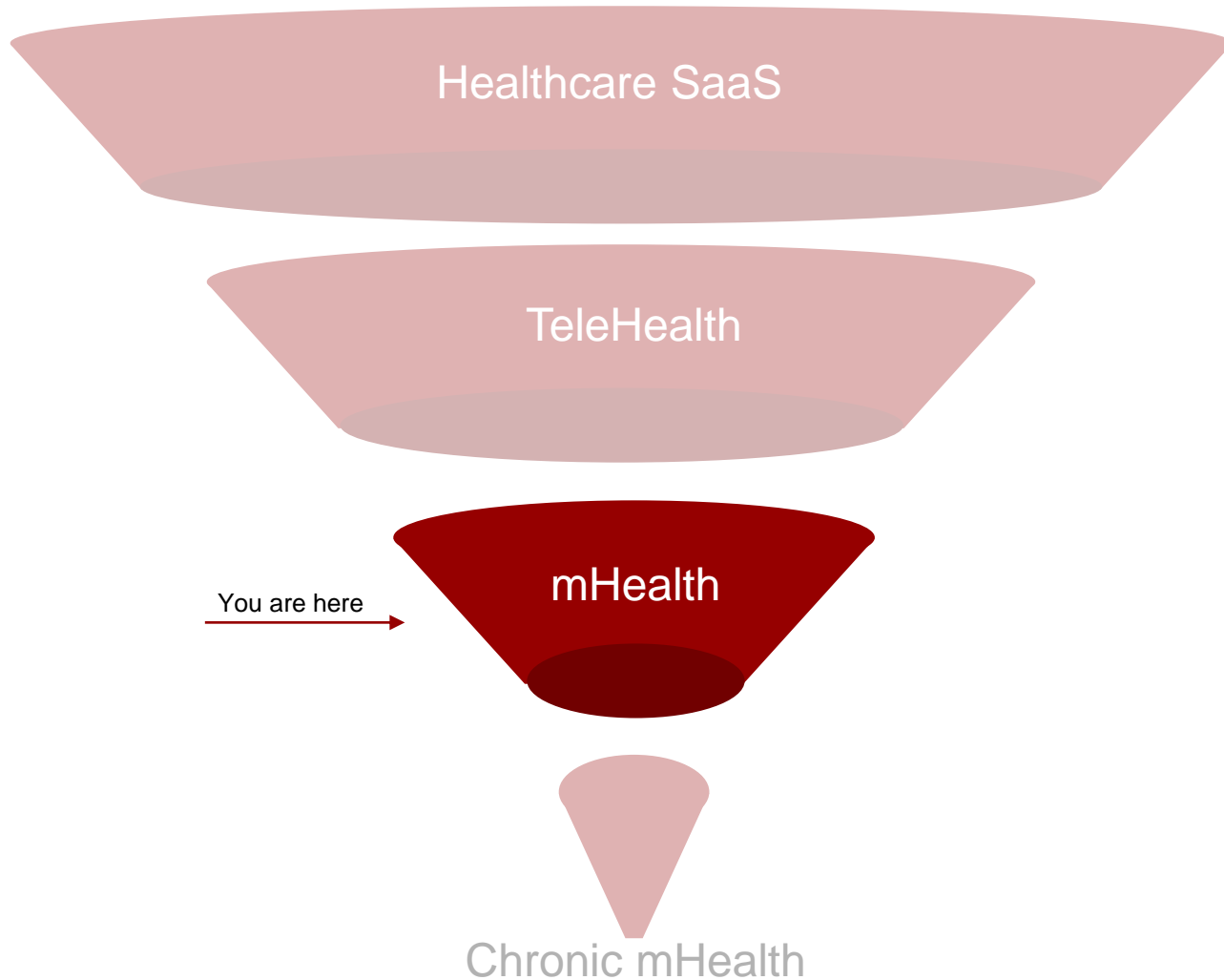
- Various ERP platforms
- Bed management
 - Admission management

2

- Health information management
- Communication
 - Security

There is an interesting investment opportunity in the in-home care industry, especially for chronic diseases

Source: Capterra, Statista, IBISWorld



Why mHealth?

Listening to Warren Buffet paves the way to success

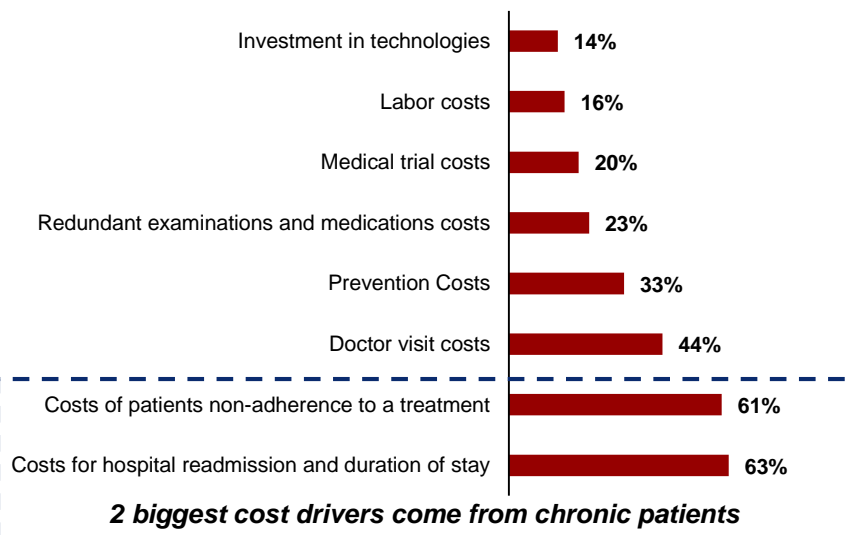


“Medical costs are the tapeworm of American economic competitiveness”

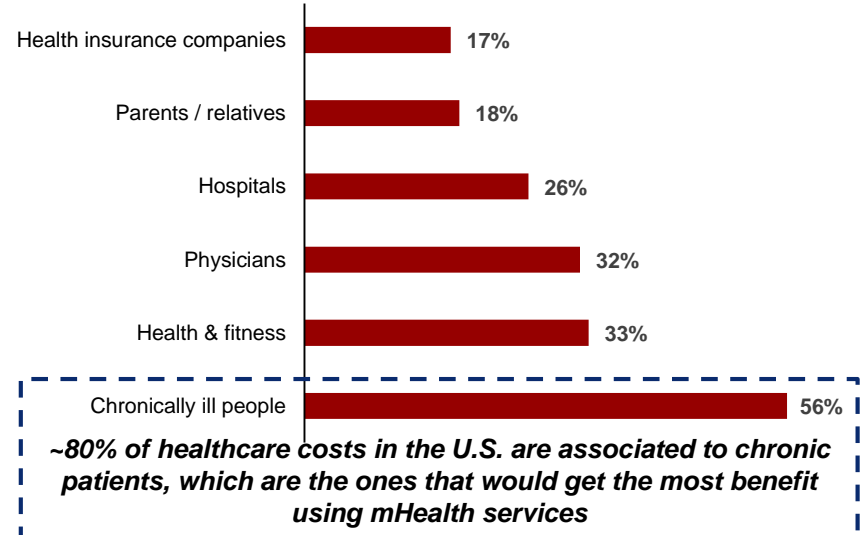
“About 50 years ago, healthcare was 5 percent of GDP. Now, it’s about 17%.”

- Warren Buffet at Berkshire’s Hathaway annual meeting in May 2018

Cost drivers on which mHealth will have the highest impact

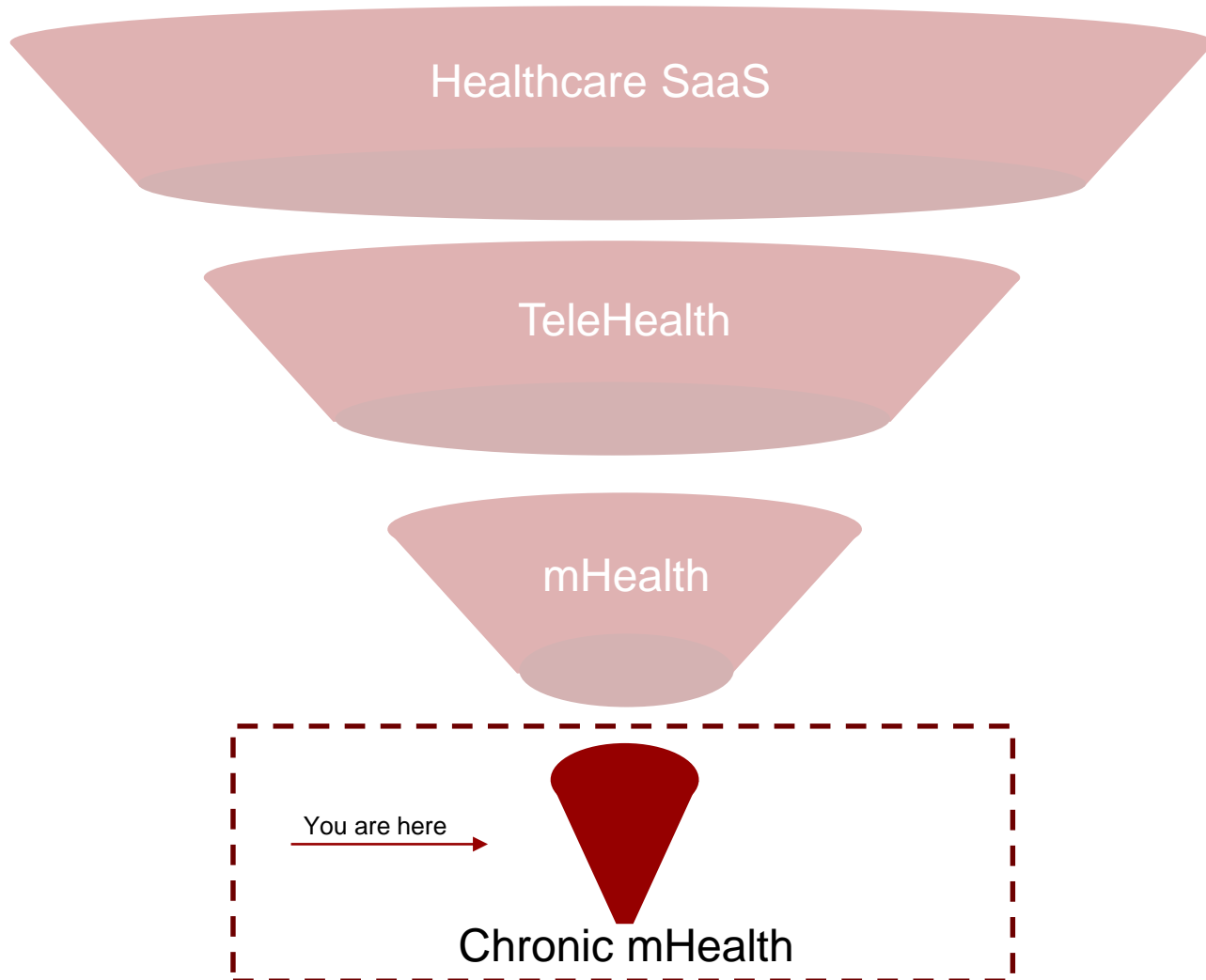


Main user groups targeted by mHealth apps



As always, technology is the key to resolve all of society’s problems

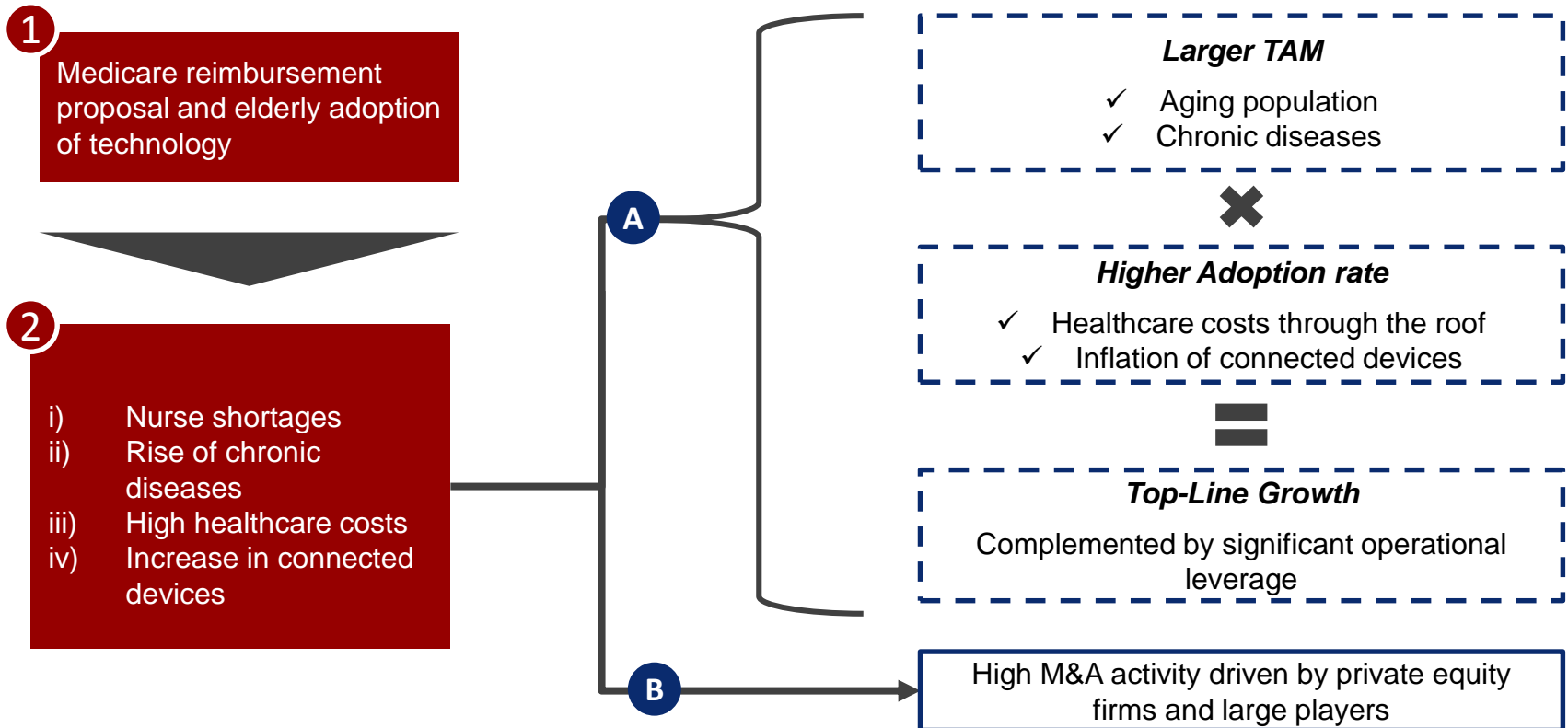
Source: Statista, Advisory Board, HGP, Forbes



Chronic Disease-Oriented mHealth is Prime for Disruption

Get ready for some change

Problem Statement: **80%** of healthcare costs associated with chronic patients, yet only **10%** adoption of remote monitoring for chronic care



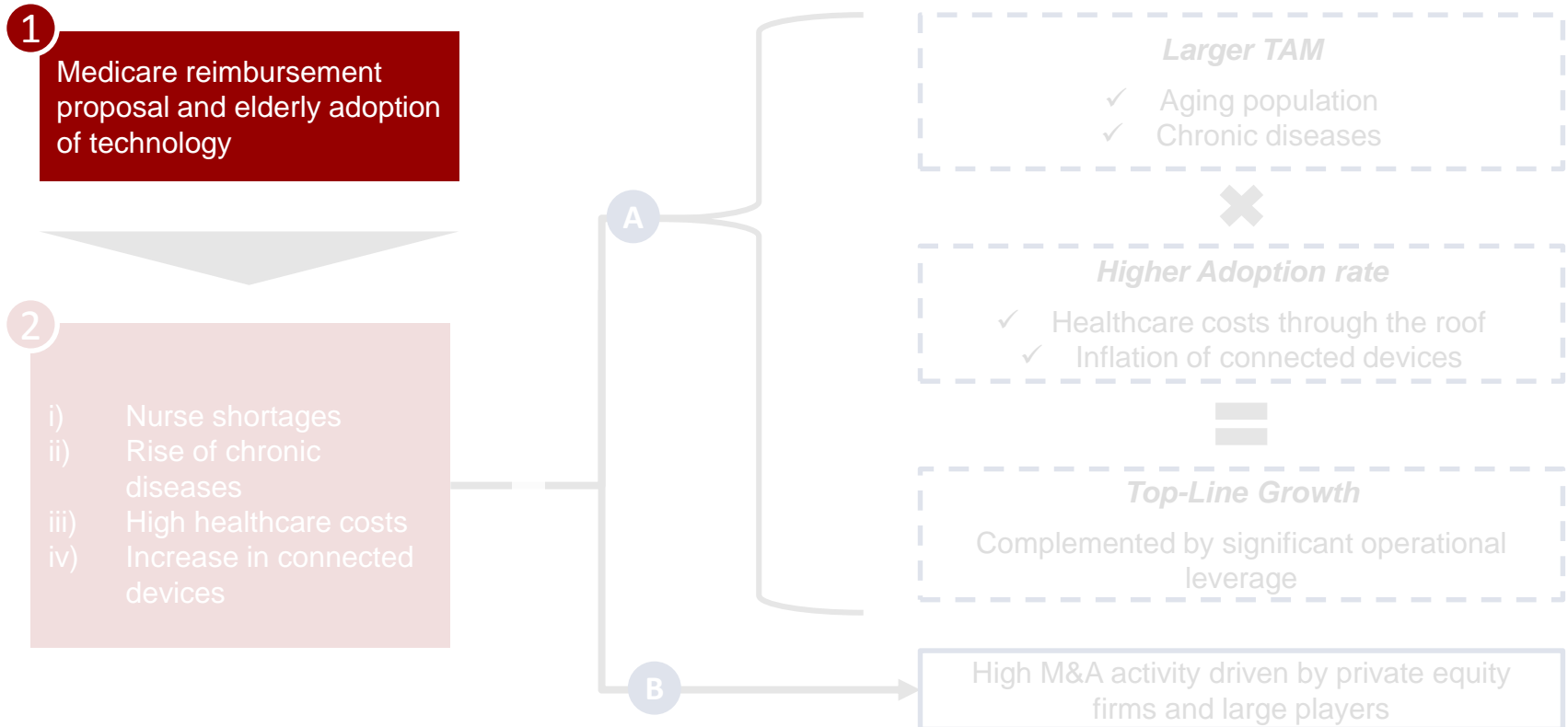
The market is missing that the Medicare reimbursement bill and a larger TAM and higher penetration rate will lead to significant growth in this nascent industry

Source: Advisory Board, Reliq

Thesis 1 Medicare and Adoption of Technology

Get ready for some change

Problem Statement: **80%** of healthcare costs associated with chronic patients, yet only **10%** adoption of remote monitoring for chronic care



The market is missing that the Medicare reimbursement bill and a larger TAM and higher penetration rate will lead to significant growth in this nascent industry

Source: Advisory Board, Reliq

Thesis 1 Medicare and Adoption of Technology

Right now is a good time to be over 65 years old

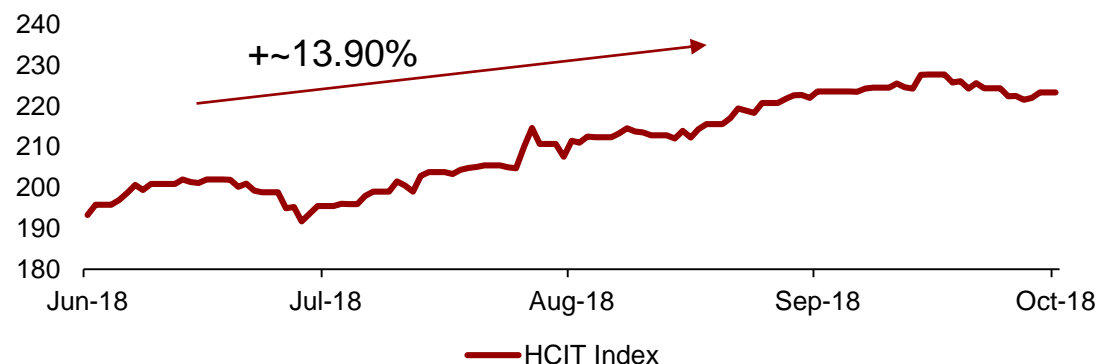
1

Medicare reimbursement bill and elderly adoption of technology

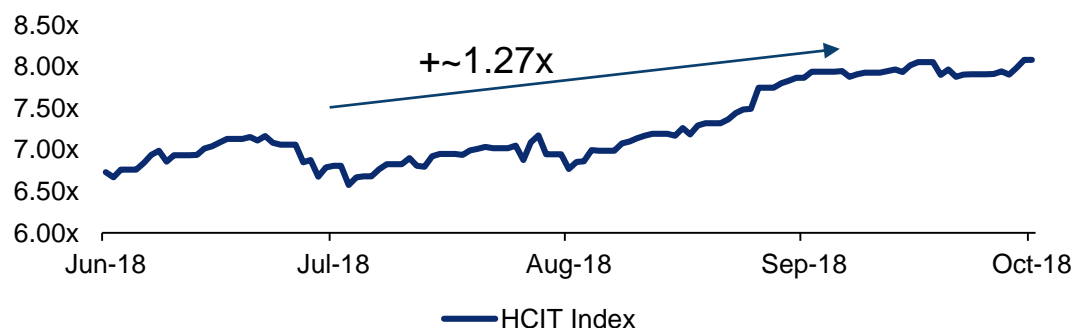


Despite the #1 headwind of adoption for mHealth in process of being mitigated, we only saw a timid response from capital markets, with respect to Healthcare SaaS companies – we believe this vertical is still undervalued despite strong growth and fundamentals

HCIT Index Performance Since Bill Proposal



EV/Revenue Multiple Since Bill Proposal



The Medicare reimbursement bill could have an enormous effect on the chronic mHealth industry and markets have not priced this in yet

Source: <https://www.cdc.gov/chronicdisease/about/costs/index.htm>, REACH Health, "2017 U.S. Telemedicine Industry Benchmark Survey."

Understanding Medicaid and Medicare

These two programs were started to provide healthcare coverage to Americans in need

Medicare

- Federally run
- Covers 65+ adults and certain people with disabilities
- Contains overlapping subsections
- Limited coverage for time spent in nursing facilities

Medicaid

- Run jointly by federal and state gov'ts
- Targets lower income Americans
- States set parameters for eligible candidates
- Includes required coverage

Original Medicare

Part A – Hospital bills

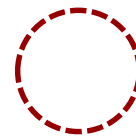
Part B – Doctor's visits/Screenings

Part C – Privatized custom plans

Part D – Prescription medication

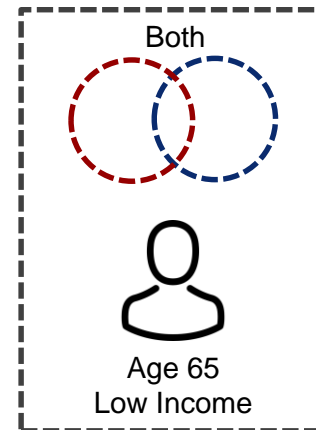
Dual Qualification

Medicare



Age 65

Both



Age 65
Low Income

Medicaid



Low income

Medicare and Medicaid vary in terms of coverage, demographic scope and administration

Proposed Medicare changes could serve as major tailwind to teleHealth

Recent CMS proposals could serve as tailwinds for teleHealth companies

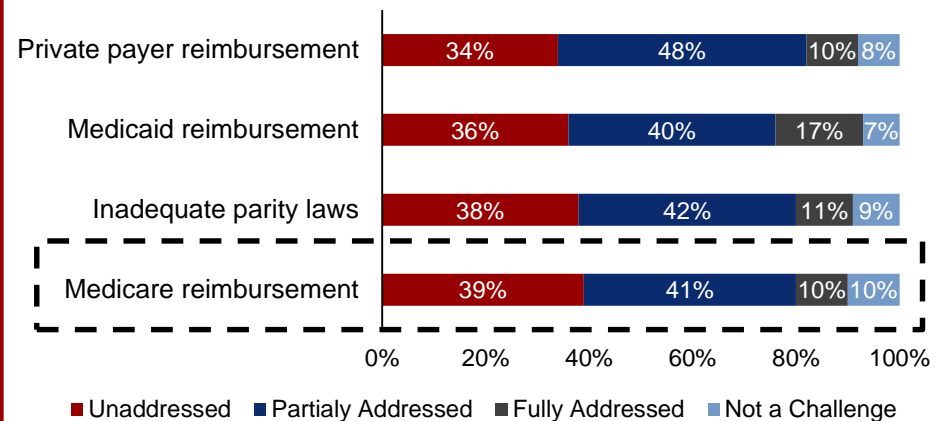
Before

- Coverage for “Interactive Telecommunication Systems” only
- Only rural area originating sites eligible for reimbursement
- Patient homes ineligible as originating sites

After

- No geographic/facility restrictions
- Additional treatments covered
- Final policy anticipated in November

Greatest Issues Facing Telemedicine Programs (From 2017 Survey)



Telehealth reimbursements comprised only 0.005% of total Medicare Part B reimbursements in 2016

CMS proposal could increase scope of telehealth reimbursement

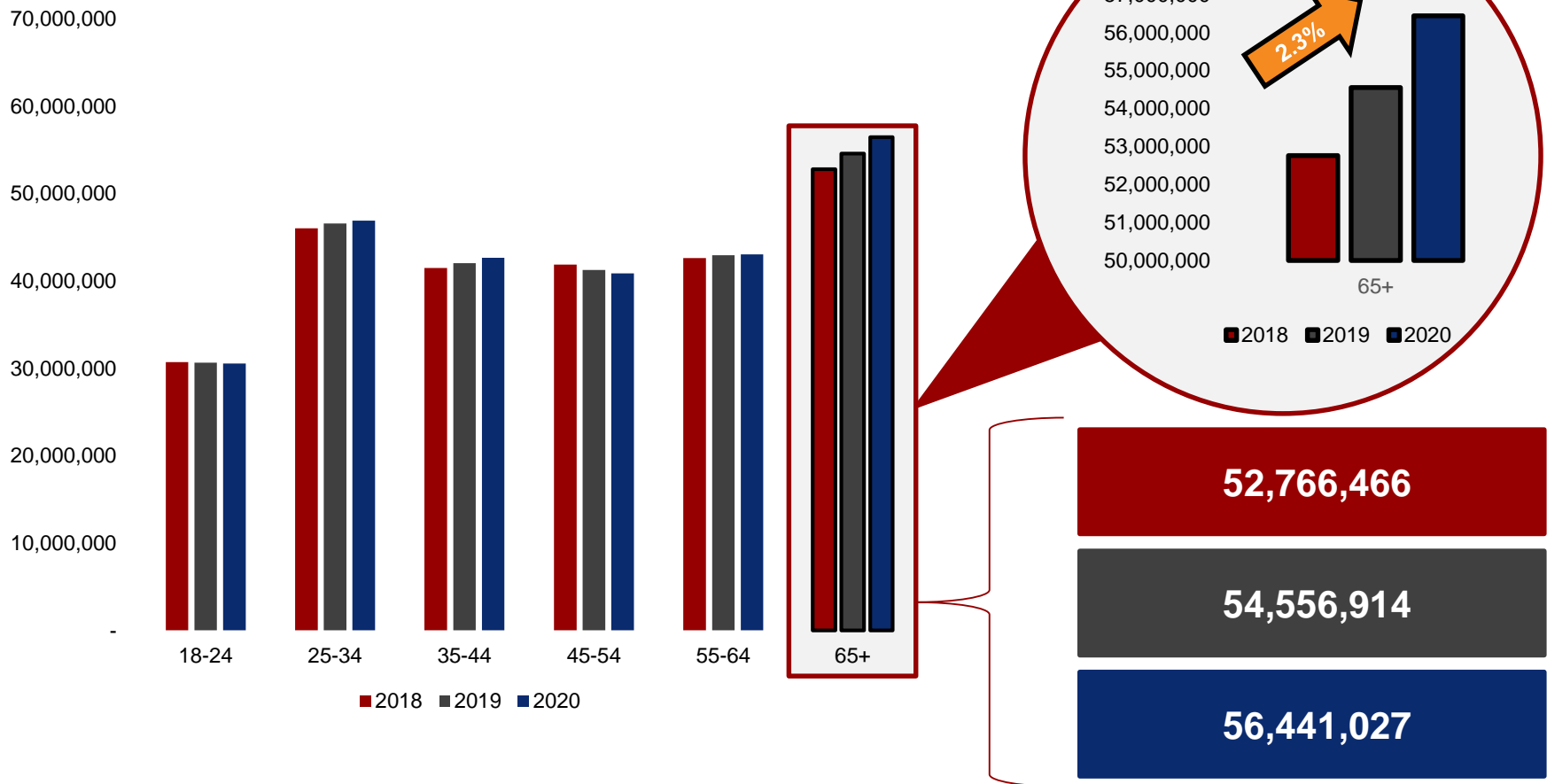
Increased scope for Medicare reimbursements will incentivize healthcare providers to invest more in Telehealth

Source: Advisory Board, Federal Register, Health Data Management, telequality, Beacon Securities

Growing Population in the 65+ Cohort

People are living longer in the US meaning more Medicare eligibility

Projected Population of US by Age Group

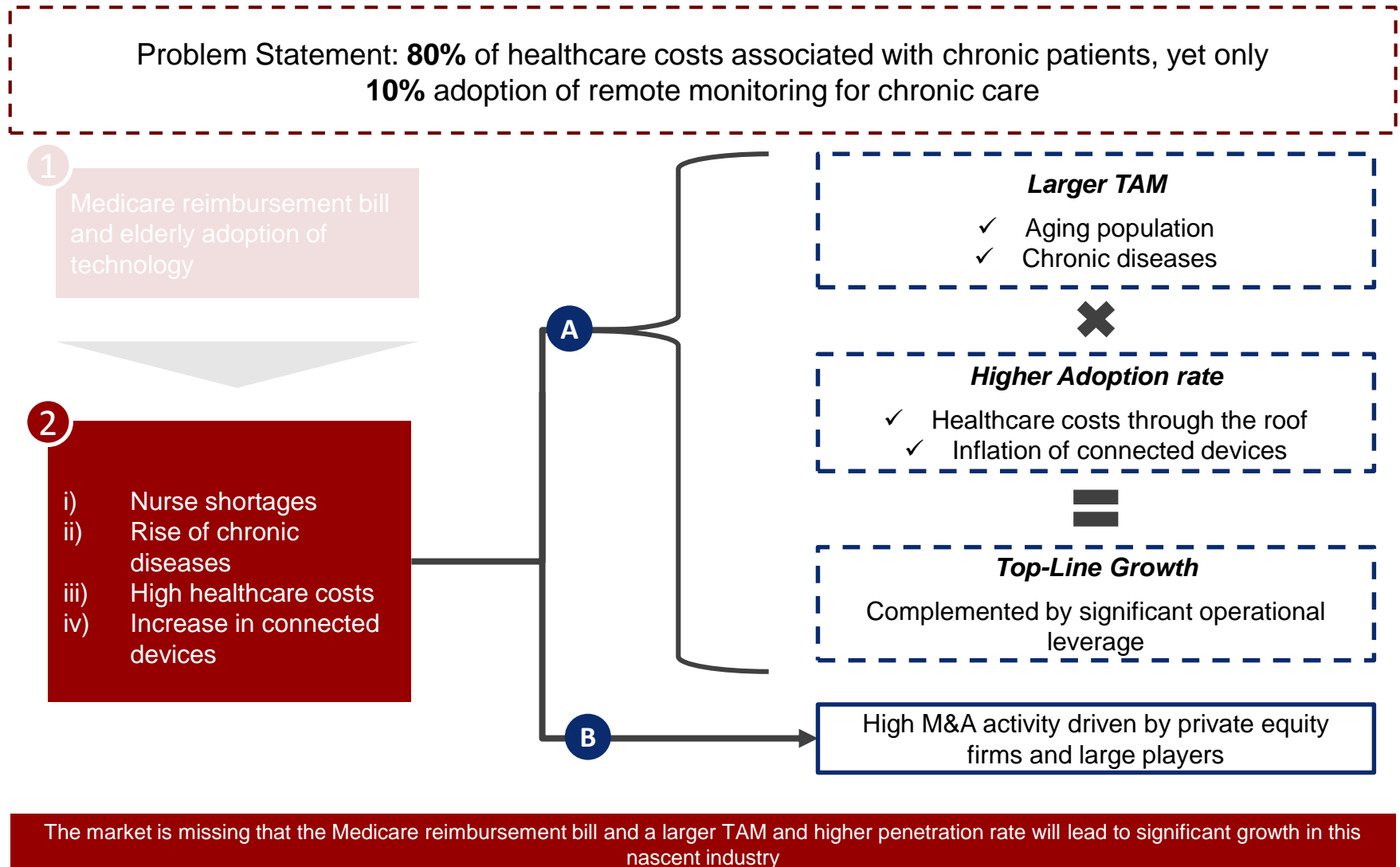


The 65+ cohort is projected to see the largest growth over the next 3 years, increasing the Medicare-eligible population

Source: US Census, Tradingeconomics.com

Thesis 2 Chronic mHealth TAM Understated

Get ready for some change



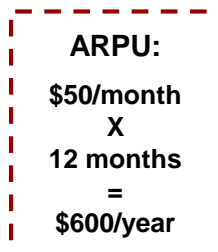
Source: Advisory Board, Reliq

mHealth TAM

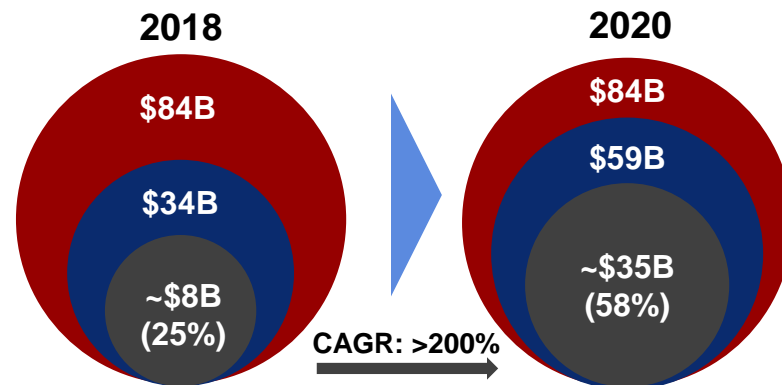
Derivative of the mHealth TAM for patients with chronic diseases

mHealth TAM assuming 100% penetration rate

North Americans with chronic diseases:
~140M



Penetration rate currently priced in by the market



Factors leading to higher mHealth adoption rate

- 1 Nurse shortage
- 2 High healthcare costs
- 3 Rise of chronic diseases
- 4 More connected devices

TAM assuming 100% penetration
 Total mHealth market (according to market)
 Chronic disease-oriented mHealth market (10% adoption rate in 2018 and 40% adoption rate in 2020)

2018

The current adoption rate for chronic mHealth is 10% which gives a TAM of \$8B. This represents 25% of the total mHealth market

2020

Assuming an adoption rate of 40%¹ in 2020, the TAM for chronic mHealth will be \$35B. This represents 58% of the expected mHealth total market, which makes sense considering more than half mHealth companies are targeting chronically-ill patients

This represents a TAM CAGR of over 200%

As adoption rate increases, the TAM for the chronic mHealth industry will increase at a CAGR of over 200%

Healthcare costs are through the roof

Healthcare spending... the Dinosaur in the room

\$19.4 Tn

US GDP in 2017

\$3.5 Tn

US Healthcare Spending

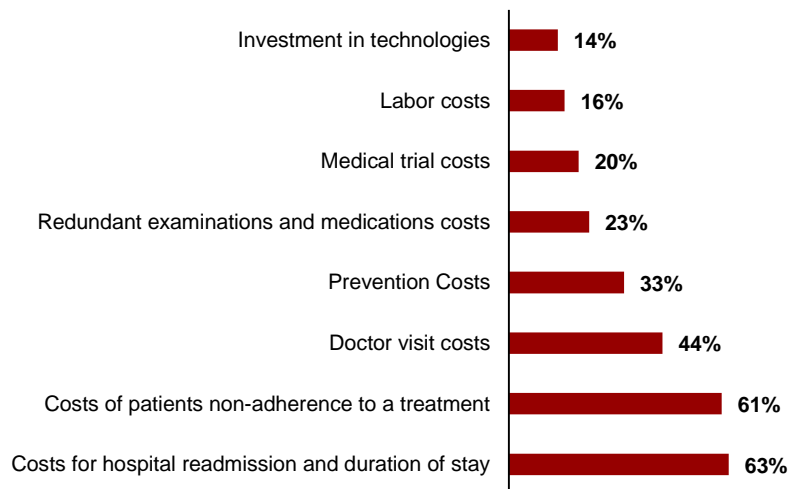
*Grew from 5% to 18% of GDP
in the past 50 years*

\$2.8 Tn

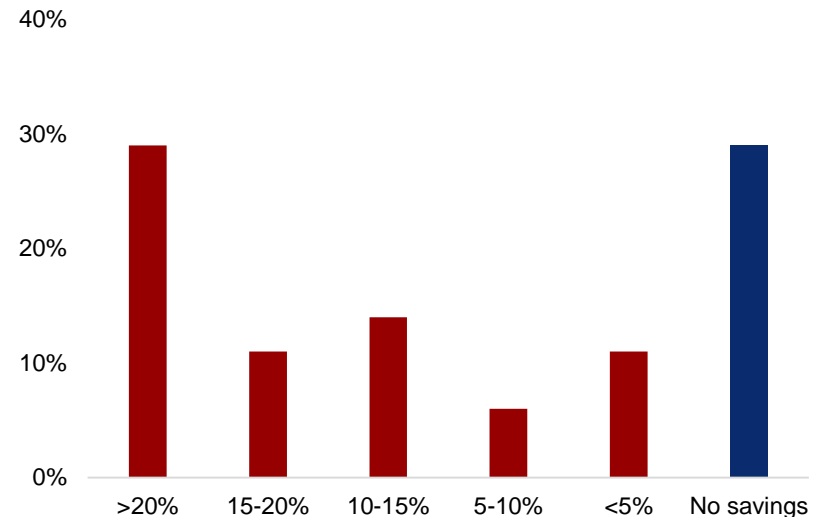
Chronic Disease Spending

*80% of healthcare spending
is on chronic diseases*

Cost drivers on which mHealth will have the highest impact



Cost savings from using HIT from a practitioner's standpoint



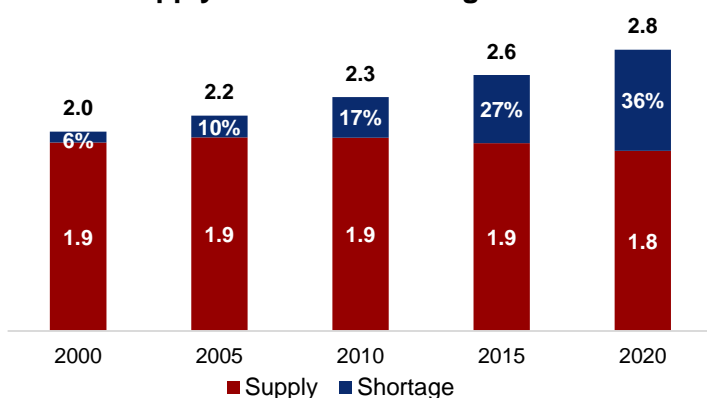
As always, technology is the key to resolve all of society's problems

Source: HGP, Statista, Canada Health Infoway, Advisory Board, Forbes

Nurse Shortage

Too many bankers and not enough nurses

U.S. Supply vs Demand of Registered Nurses



The American Nurses Association estimates that there will be an additional 1.13 million nurses needed in the workforce by 2022

There is also a lack of doctors:

- ✓ Canada is the country with the worse ER waiting times of all top 20 developed countries
- ✓ In the U.S., it takes an average of 24 days to schedule a first-time appointment with a physician – a 30% increase since 2004

Causes

1

Significant proportion of the nurse workforce are nearing retirement age
> 40% is over 50 y/o

3

Nurse shortage has led to longer hours and increases stress levels for present nurses, which increases turnover rates

2

Shortage of nursing school faculties & facilities

4

Aging population leads to more people requiring nursing services

Virtual care and remote monitoring help ease the burden of nurse shortages on hospitals and healthcare organizations

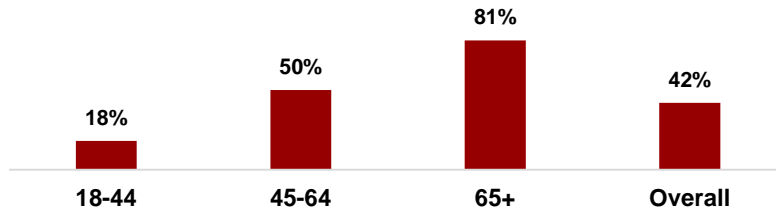
Source: Statista, ANA, American Association of College for Nurses

Rise of Chronic Diseases

The evil of the century

Chronic diseases are the main cause of death in North America

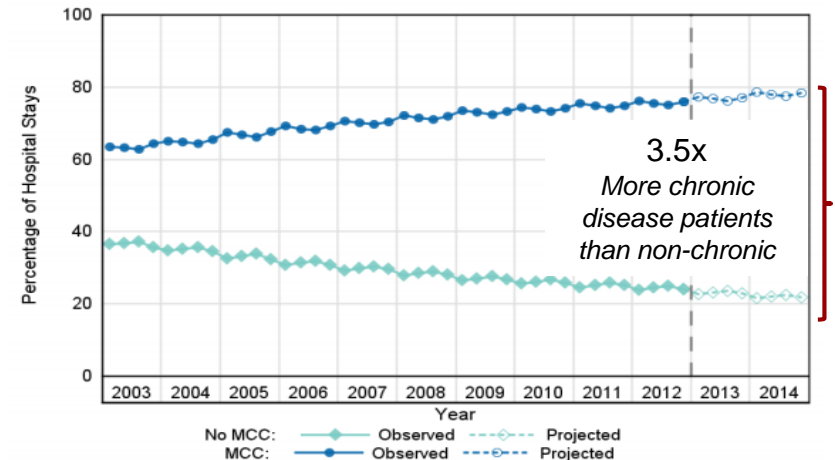
Percentage of U.S. citizens with at least one chronic disease by age bracket



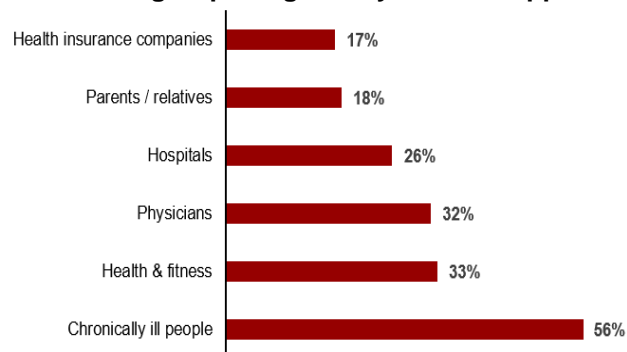
- As the North American population ages, a larger proportion of people will be affected by chronic diseases
- In the U.S., over 80% of healthcare costs are associated to chronic diseases
- The main causes of chronic diseases are having a sedentary lifestyle and unhealthy alimentation

Chronic diseases account for a majority of healthcare costs

Percentage of hospital stays by presence of MCC (multiple chronic conditions)



Main user groups targeted by mHealth apps



mHealth companies primarily target chronically ill people by:

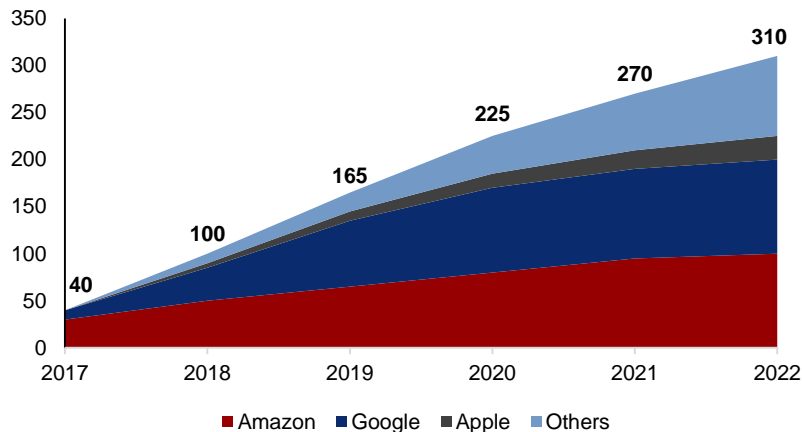
- 1) Reminding them to take their pills
- 2) Monitoring their health without going to a care center
 - Particularly relevant for diabetics (in fact, the average hospital stay cost for certain diabetes complications are ~\$10,000!¹)
- 3) Regularly touch base with their physicians without having to go to a clinic/hospital

More Connected Devices

Technology is everywhere

Smart speakers are becoming part of every household

Smart speaker installed base (million units)

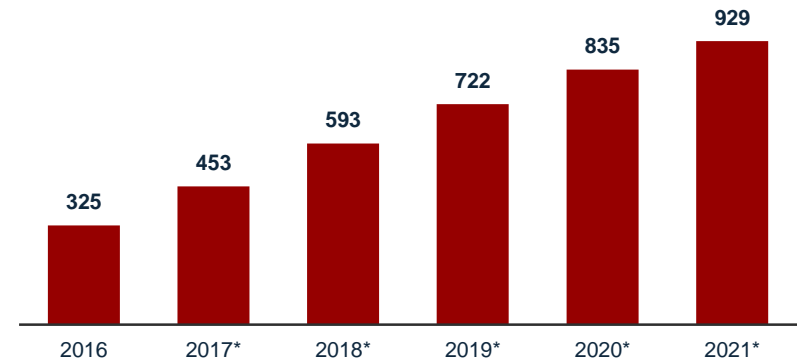


Smart speakers can remind chronically ill people to take their medications, check their blood sugar level, etc.

Positive effect on software HIT companies

IoT to drive growth of smart wearables

Connected wearable devices worldwide (million units)



As technology advances, people become more willing to buy smart wearables that allow them to monitor their health real-time

Positive effect on both hardware and software HIT companies



Diabetes Example

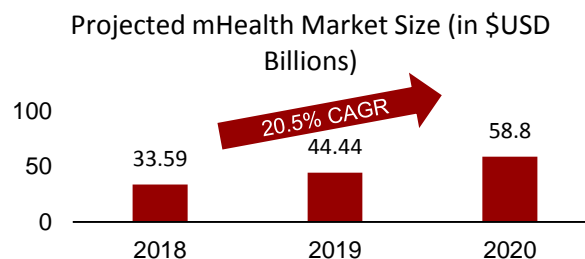
People affected with diabetes can wear a smart patch which is able to monitor the patient's blood sugar level and send an alert whenever it reaches dangerous levels

mHealth Competitive Landscape

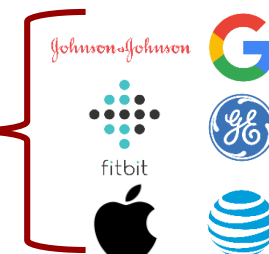
mHealth is a highly fragmented space with a majority of private players

Public mHealth Pure-play Comparison			
Company	Market Cap (\$CAD Millions)	FY2017 Revenue (\$CAD Millions)	Geography
BioTelemetry	2,014	387	United States
Dthera	18	N/A	United States
RELIQ HEALTH TECHNOLOGIES	136	0.2	Canada

Private Competitors	Geography
AgaMatrix	USA
AliverCor	USA
Omada Health	USA
Proteus Digital Health	USA
Livongo Health	USA
Propeller Health	USA
Canary Health	USA
Twine Health	USA
Mango Health	USA
Biogeniq	Canada
Glooko	USA
Firstbeat	Finland
Big Health	Britain
Virta Health	USA



Major players have begun entering the space



M&A deals in the HCIT space announced in the last 3 years had a median EV/Rev multiple in the mid-teens

Why this matters:

- These are only disclosed deals
- Signals potential for significant premiums on acquisitions
- The smart money is betting big on mHealth

A wide range of competitors – both public and private – as well as new diversified entrants have created a highly competitive space

Source: medgadget, Bloomberg 10/02/2018, Philips, mangohealth, Omada Health, Biongeniq, firstbeat, dthera, Big Health, Beacon Securities, Descartes, Capital IQ, Statista, HGP

Risks & Catalysts

Significant risks and catalysts will determine future mHealth performance

Risks

CMS proposal for telehealth reimbursement does not pass

New entrants will use scale to trump current competitors

Adoption will be lower than anticipated

Catalysts

CMS proposal passes, incentivizing providers to adopt Telehealth solutions

New entrants will drive M&A, increasing valuations

State Medicaid programs recognize broader scope of Telehealth for reimbursement

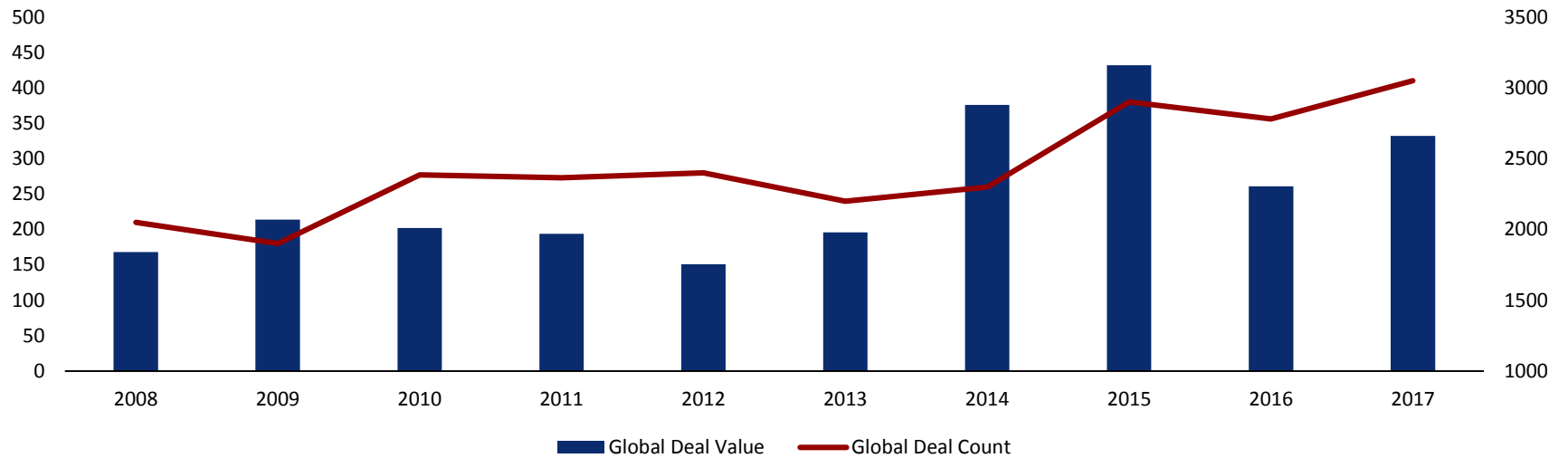
Bonus: M&A Sandwich



Healthcare IT M&A

Global Healthcare M&A Trends

Healthcare M&A Activity



Main Acquisition Themes

Category leadership

Leveraging R&D capabilities

Buying HCIT assets to improve efficiency

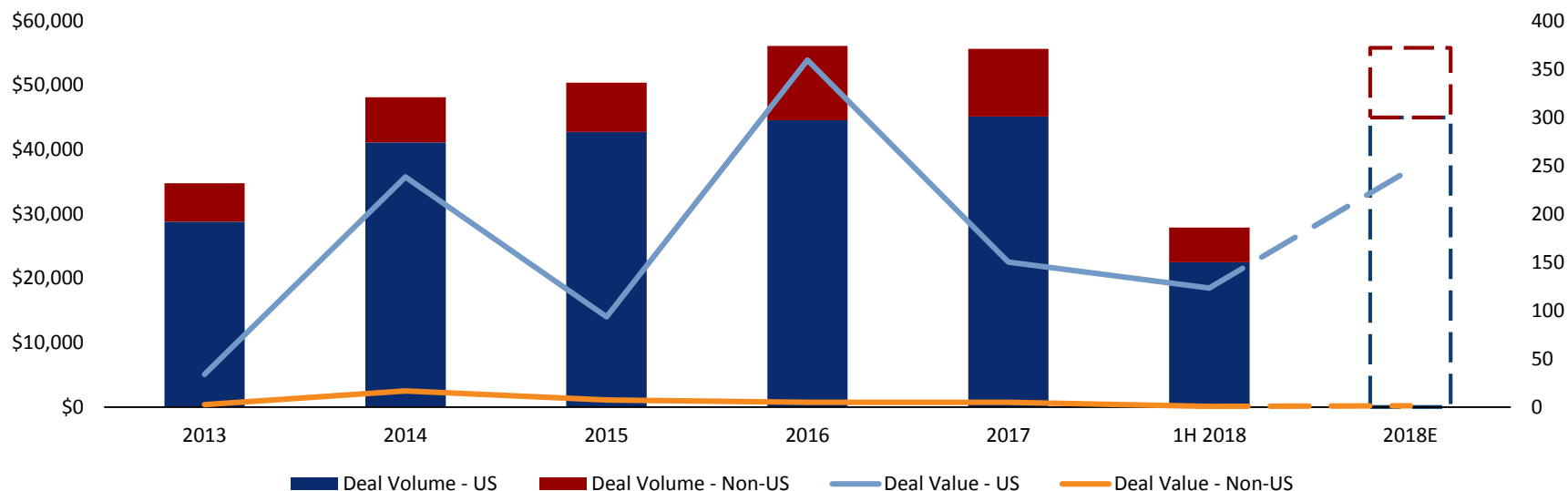
Diversification over industry sectors

Source: Bain Research, Dealogic

Healthcare IT M&A

Drivers behind Telemedicine M&A

Health IT M&A Activity

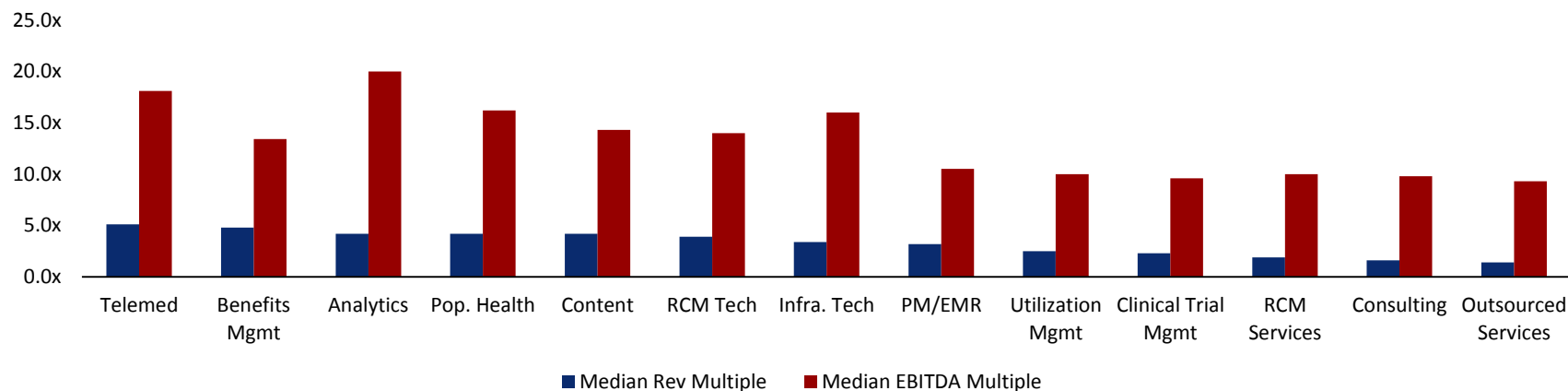


*“The telehealth industry is **fragmented** and health systems demand a **single telehealth** platform that can overcome interoperability challenges, ensure data management continuity, and scale from a single physician office to a multi-hospital enterprise” – Joseph DeVivo, CEO of InTouch Health*

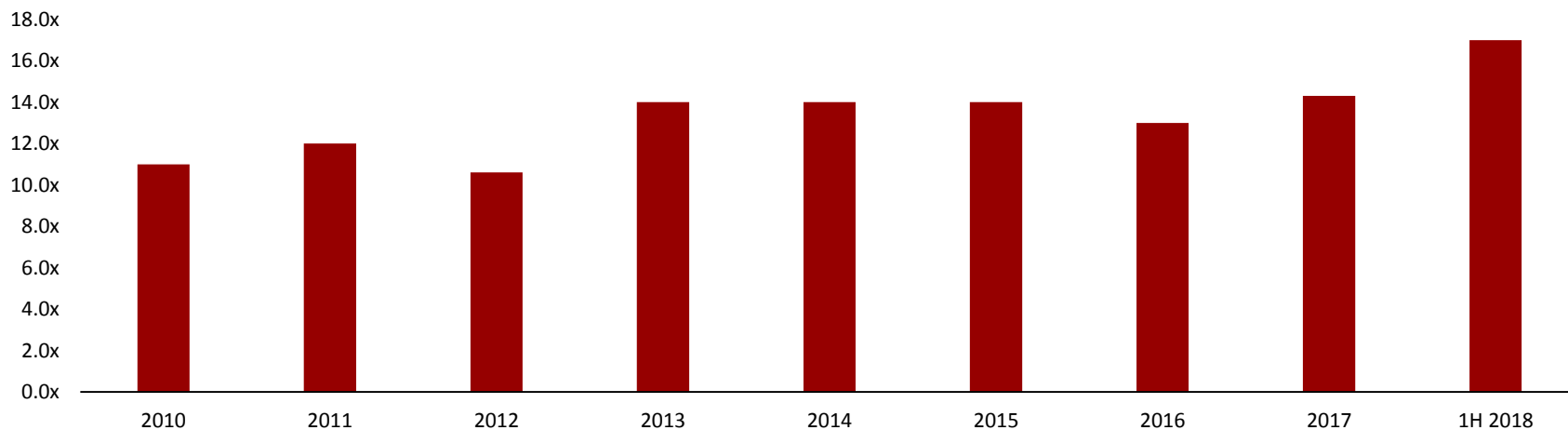
Healthcare IT M&A

Healthcare IT M&A Valuations

M&A Transaction Multiples per Sub-Sector (2013 – 1H 2018)



Median Transaction Revenue Multiples for Healthcare IT Software



Valuations for public HIT transactions have been on the rise, and Telemedicine is valued particularly highly

Source: Healthcare Growth Partners Research, Bain Research

Mini-Pitch – Reliq Health Technologies

SECTION III



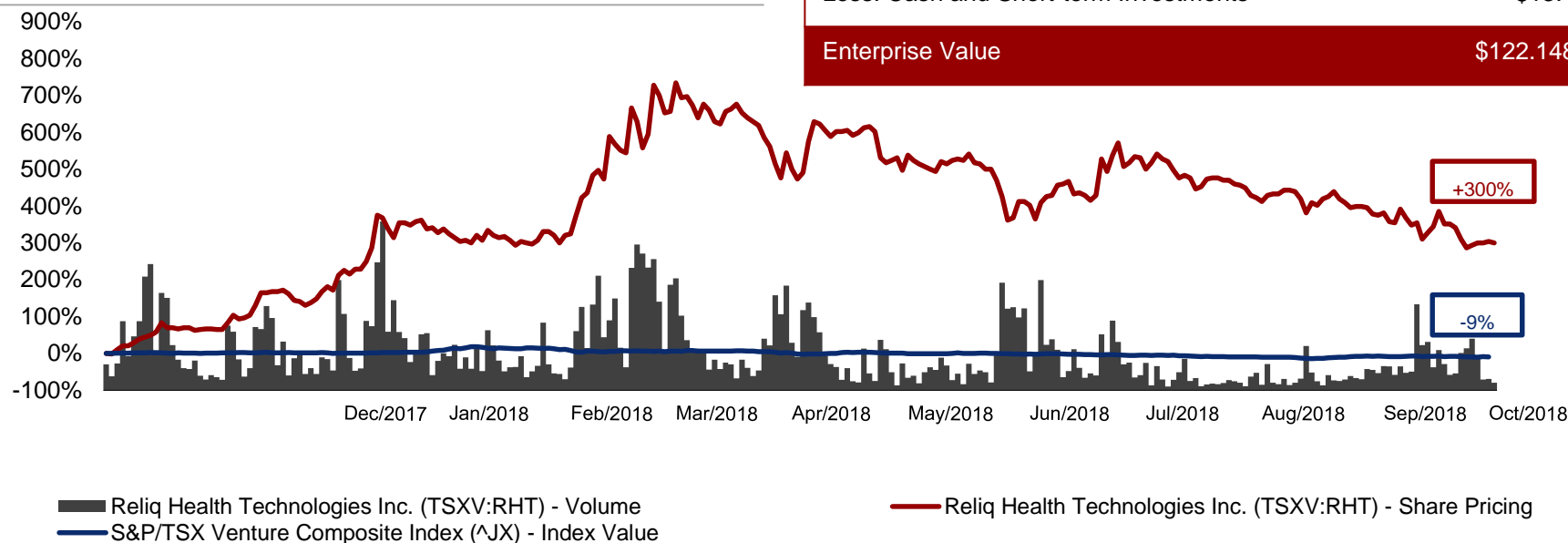
Mini-pitch: Reliq Health Technologies (RHT)

A current mHealth player poised for big things

Overview

- Reliq Health Technologies creates in-home SaaS healthcare products. Reliq is based in Hamilton, ON but has operations in the US and Canada
- The company's core product is iUGO Care, a comprehensive home healthcare system that leverages sensors, wearables, voice technology, mobile apps and computer programs to create a "virtual hospital ward"
- Reliq's patient fee is US\$50 per month
- The company's projected operating margins are growing at a fast rate (~31% EBITDA margin FY19)

LTM Performance



Performance (in millions CAD except per share values, as at 9/6/2018)

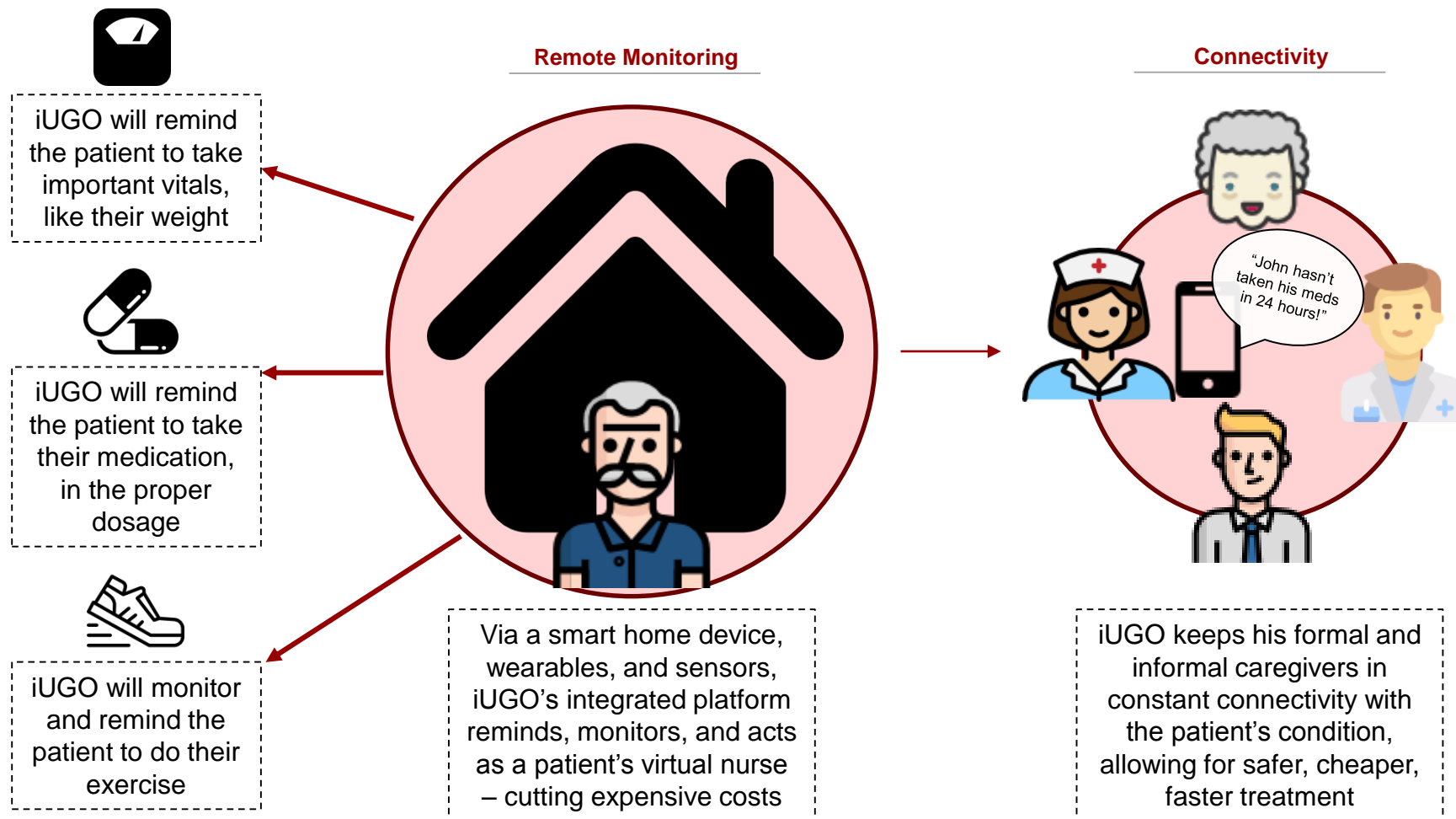
Current Price	\$1.18
Shares Outstanding	114.637
Market Cap	\$135.271
Add: Total Debt	\$0.0
Add: Value of Preferred Shares	\$0.0
Add: Minority Interests	\$0.0
Less: Cash and Short-term Investments	\$13.1
Enterprise Value	\$122.148

Reliq is one of many competitors in the mHealth space, but their product and operating leverage differentiate them

Source: Bloomberg 10/02/2018, Beacon Securities, Globe Newswire

How iUGO Works?

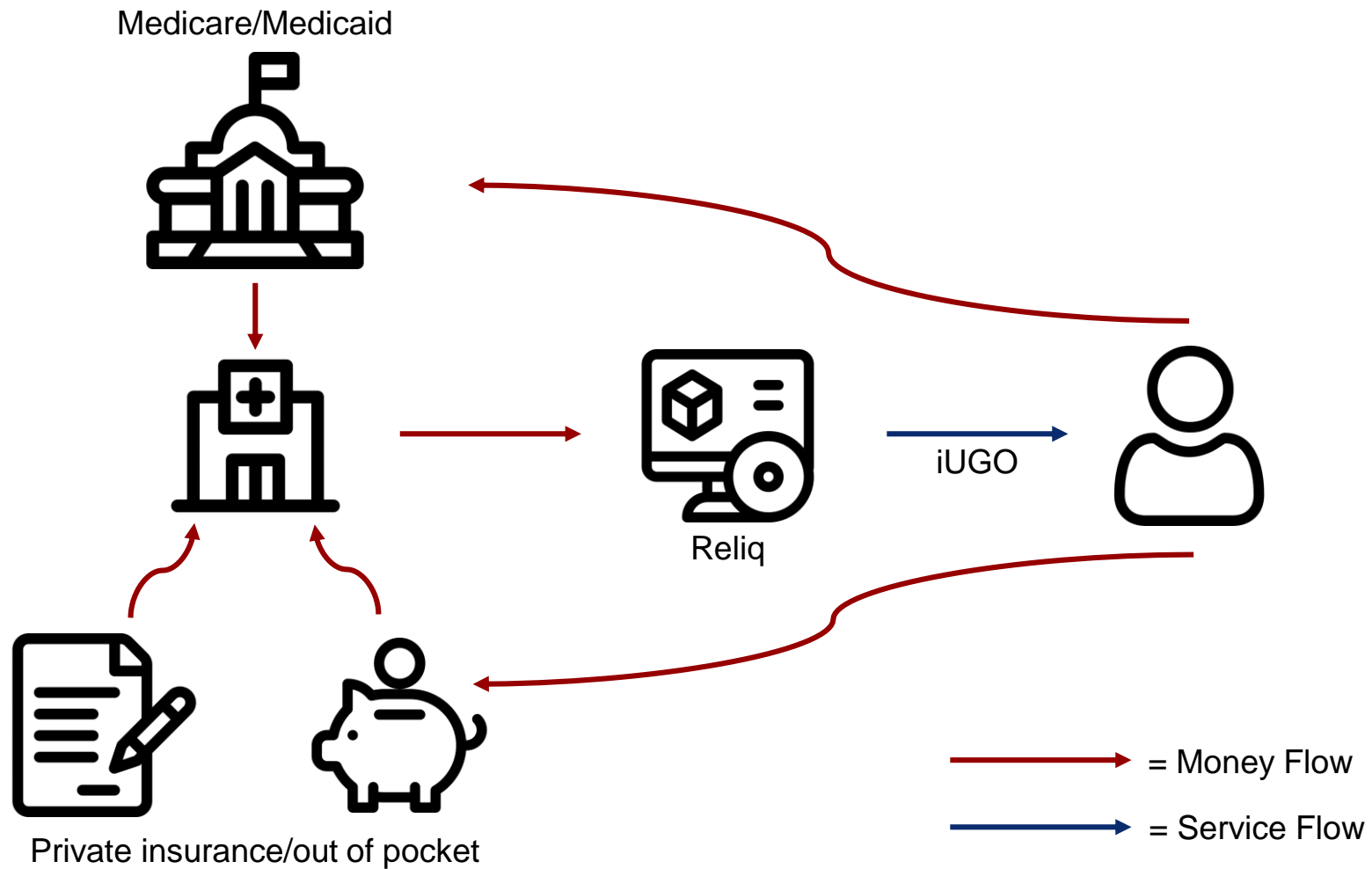
A Virtual Ward That Solves Healthcare's Biggest Issues



iUGO's easy-to-use, holistic remote monitoring services, complimented with their connectivity platform, make them a strong player in this nascent industry

Reliq Value Flow Model

The patient directly or indirectly pays for iUGO depending on their insurance/Medicare/Medicaid coverage



Hospitals pay Reliq to provide iUGO to patients, which is then reimbursed by Medicare/Medicaid or paid for out-of-pocket/by insurance

Source: Company filings, Freepik, Beacon Securities

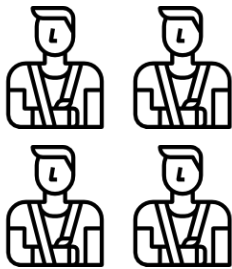
Investment Theses

Minimal coverage has lead to the market missing two fundamental underpinnings that will bolster RHT's performance



Hedged Against Medicare Bill Proposal

- Currently, a majority of their services are covered by Medicare – the new bill will serve as a marginal benefit
- The bill proposal and the ultimate decision surrounding it will act as a catalyst



Massive Pipeline Not Accounted For

- Reliq currently has 50,000 patients in their backlog
- The market is only pricing in 31% of patient adoption / penetration

Valuation

mHealth is a fragmented market, with only a few pure-play mHealth companies

Overview		Operating Metrics				Valuation Metrics	
Company Name	EV (\$mm)	Levered Beta	Revenue Growth	Net Debt / EBITDA	EBITDA Margin	EV/Sales	
		2-Yr	18E-19E	LTM	FY 19E	FY18E	FY19E
Healthcare SaaS							
Allscripts	4,358	1.09	13.34%	14.39x	20.26%	2.17x	1.92x
Benefitfocus	1,276	0.62	7.38%	137.57x	7.45%	4.78x	4.45x
Care.com	622	1.54	19.99%	nm	17.25%	3.42x	2.85x
Cerner	20,694	1.13	13.76%	nm	30.12%	4.02x	3.53x
eHealth	501	2.08	61.45%	1.04x	14.23%	3.16x	1.96x
Evolent Health	2,013	1.58	50.30%	5.44x	6.92%	3.98x	2.65x
HealthEquity	5,428	0.86	10.00%	nm	39.30%	21.02x	19.11x
HealthStream	793	1.41	-5.58%	nm	18.11%	3.12x	3.30x
iRhythm Technologies	2,143	0.81	60.04%	1.45x	nm	17.97x	11.23x
mHealth Pure-Play							
BioTelemetry	2,178	1.24	24.09%	1.93x	26.50%	6.24x	5.03x
Vocera Communications	925	0.56	21.39%	46.59x	12.95%	5.47x	4.50x
Median	2,013	1.13	19.99%	5.44x	17.68%	4.02x	3.53x
25th Percentile	859	0.83	11.67%	1.69x	13.27%	3.29x	2.75x
75th Percentile	3,268	1.47	37.20%	30.49x	24.94%	5.86x	4.77x
Reliq Health Technologies	96	0.41	385.42%	nm	31.76%	20.04x	4.13x
Premium / (Discount)			1828.52%	-	79.62%	398.73%	16.88%

Despite much higher growth, lower leverage (higher bankruptcy costs -> higher required rate of return), and greater margins than their peers, Reliq Health still trades below the 75th percentile – we believe this warrants further investigation as a potential buy

Source: Company filings, CapIQ

Summary: Why Reliq Health Intrigues Us

The key factors that make Reliq an attractive investment are diverse in nature

Only 2 analysts currently cover Reliq



50 000 +
? patients



\$50 per patient



12 months per year



> US\$30M

~1% of shares trade daily signaling adequate liquidity



? = Newer projects + higher than estimated TAM

High potential for M&A based on industry trends



Not solely reliable on CMS proposal outcome



Strong financials (EBITDA margin, proven sales)



Market is undervaluing future revenues



Reliq's CIO: Stephen Samson

- Top 5 white hat hacker in North America
- Has previously worked for:
 - Adobe
 - Major banks
 - US/Canadian military

All of these factors combine to make Reliq an attractive investment

Source: Company's Website, Bloomberg 10/02/2018, Freepik, Beacon Securities

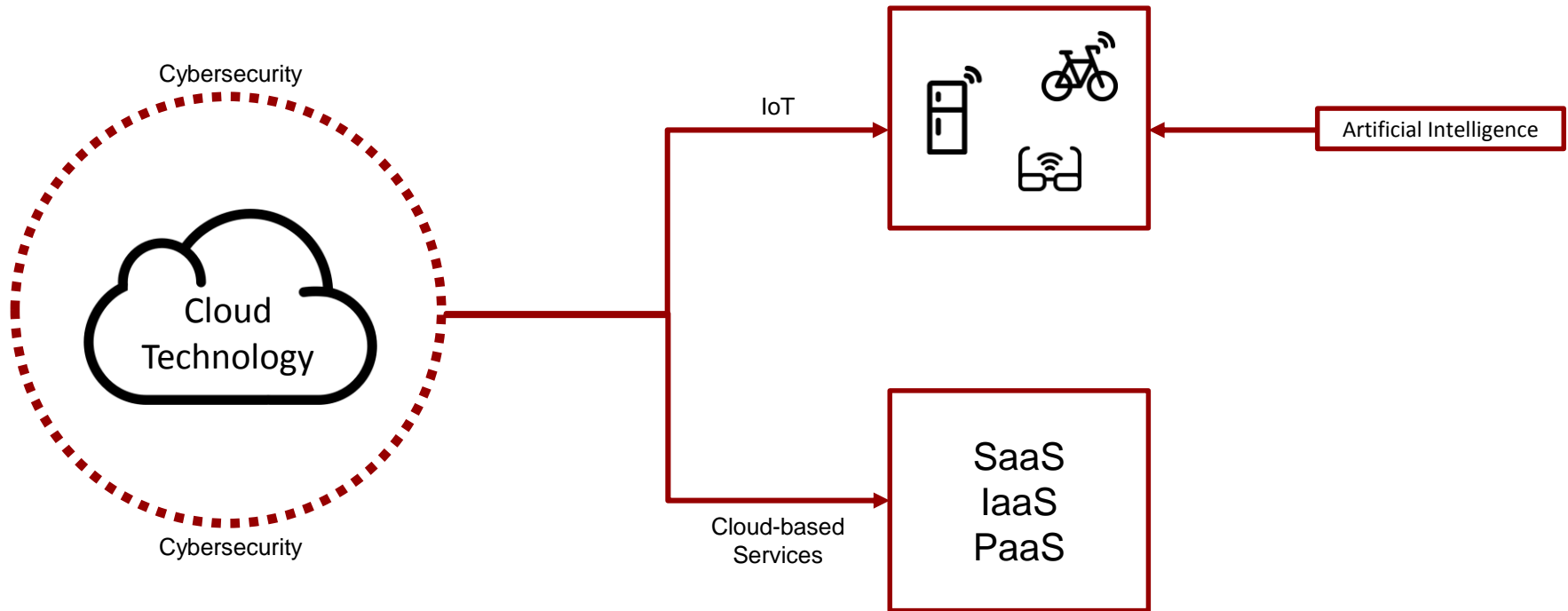
Appendices

SECTION IV



How does it all fit together?

All of these trends come together in an integrated system of interconnectedness



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