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Ethema Health (GRST)	
August 23, 2017 Closing Price: $0.0799	
Stock Sentiment	Bullish
Fully diluted market cap	$11.4M
52-Wk Range	$0.01-$0.08
Cash on Hand	$123K
Total debt	$6.49M
Avg. Volume (3 months)	14K
Book Value per share	$0.066

Conviction Level:

High 9/10

Price Target: $0.24 per share

Ethema Health provides medical and counselling services to patients suffering from substance abuse and addiction. This is a good opportunity for investors who want to invest on the ground floor of an exciting company in the booming behavioural health industry.

There is currently an epidemic of drug and alcohol addiction in the United States. Treatment clinics can have very high margins, and Ethema Health does. This combination makes Ethema Health an investment with potential multi-bagger long term returns.

After demonstrating successful treatment programs in its Muskoka, Canada clinic since 2010, in February, 2017, the company sold the Muskoka clinic's operating assets, but still owns and rents the land and building, and acquired a clinic in Delray Beach, Florida named Seastone of Delray.

Ethema is in the process of acquiring a nearby Florida facility already properly zoned that it will license as a detox facility. There will be strong synergies between the detox facility and the treatment center.

Ethema Health's CEO and CFO, Shawn Leon, has been the director and officer of Ethema Health since November 2010. He's a smart operator, with a history of real estate development and directing public companies. Mr. Leon is a member of the family that founded and runs Leon's Furniture, Ltd (TSE: LNF), the biggest furniture retailer in Canada.

Report Summary

- Ethema Health is a ground floor opportunity in the rapidly growing substance abuse treatment industry. Upside can be substantial, a 10x+ return is possible in the next few years. Downside risk is limited because its assets, primarily its real estate, put its book value at $0.066 per share.
- Seastone is currently operating at

breakeven at only 14% capacity. At the targeted 100% capacity, it's expected to generate about $3M in EBITDA. The treatment center and detox facility combined at near full capacity would generate annual income of about $7M. Add the Muskoka facility rent of $300K, that's $7.3M of annual income. Subtract $1.5M for corporate overhead, and that's $5.8M in annual pre-tax earnings. **That's the potential of this investment.** This doesn't include expansion opportunities which the company plans to do after some years of profitability.

- Our discounted cash flow analysis puts the current value of the stock at $0.24 per share.
- Ethema's CEO, Shawn Leon, successfully ran the Company, formerly known as Greenestone Muskoka, since 2010. He is using his expertise to execute superior treatment programs, intelligent online marketing programs and industry expert recommendations, and efficient enterprise operation at Seastone Delray and its detox facility. This sets the company apart from other treatment centers.
- In a recent SEC filing, it's reported that Mr. Leon and his wife own a whopping 59% of the outstanding shares.
- The current acquisition of a detox facility, only a 25 minute drive from Seastone, is immediately accretive. Detox facilities can be very profitable with high gross and operating margins. After the clients have been detoxed, they usually get further treatment. Ethema can then treat them at the Seastone treatment center. That is the powerful synergy between the two centers.
- Ethema Health will look to uplist to a major exchange after its detox facility acquisition is completed and fully operating.
- The only two other behavioral health publically traded pure plays are Acadia Healthcare (ACHC) and AAC Holdings (AAC). These companies are on a strong uptrend, but neither have the outsized return potential as an investment in Ethema Health.
- An investment in Ethema Health has the potential for outsized returns with rapidly growing drug and alcohol addiction and need for treatment in the United States and especially Florida. There have recently been many articles in mainstream media describing the drug addiction crisis and its growth in the US. The opportunity to help those with addictions and make high returns at the same time adds sizzle to this investment.

Ethema Health Is A Ground Floor Opportunity In A Hot Industry

Ethema Health (GRST) is a company that acquires and runs drug and alcohol treatment facilities. It's a well-positioned business in a lucrative, high margin industry. The company has just acquired a detox facility to go with its Seastone Delray treatment facility in Delray Beach, Florida. That will allow it to market for both facilities, and those in the detox can attend Seastone right after they have recovered from their detoxification. Drug addiction, alcohol addiction, and addiction in general, has reached new levels in the United States and that's part of the significant upside potential of an investment in Ethema Health. This epidemic is very prevalent in the state of Florida, where Ethema's clinics are located.

According to the American Society of Addiction Medicine, 2 million people in the United States are addicted to opioids, and as stated by The Economist, the number of opioid deaths is growing by 15% annually. According to the Addiction Blog, Florida has a severe substance abuse problem and one of the highest overdose mortality rates in the US. It has over 300 illegal methamphetamine labs seized and almost 3,000 drug induced deaths per year. In addition, due to the high population of seniors, Florida prescribes up to 10 times more oxycodone pills than all the other states combined, which in turn causes a major increase in the number of addiction patients throughout the state.

The opiate/heroine epidemic is prevalent nationwide. This article, published on August 2, 2017 on Yahoo News, is titled "Everyone I know is on Heroin". It features a Midwestern city, Middletown, Ohio, where many young people are heroin addicts. It interviews a 36 year old man, Jack Barrett pictured below, who has been a heroin addict for 16 years.

“It’s not an epidemic, it’s a pandemic,” warns a recovering addict quoted in the article.

Alcoholism is also rising in America and is a big problem that treatment and detox centers will help treat. As explained in this article from International Business Times on August 9, 2017, more than 1 in 8 Americans are now alcoholics. National surveys found that alcoholism has risen 49% in the US in just 11 years.

Shawn Leon, the CEO and CFO of Ethema Health, owns about 59% of the outstanding shares, as stated in this SEC filing. That gives him an even stronger incentive to see the company succeed. Mr. Leon is very passionate about treating people’s addictions and helping them to live an enjoyable life.

Ethema Health’s Move From Canada To Florida

Since 2010, Ethema Health, formerly called Greenestone Healthcare, had profitably run Greenestone Muskoka, a substance abuse treatment center located in Muskoka, Canada. This interview of Shawn Leon, posted on YouTube, was made in November, 2015. In the interview, Mr. Leon describes the profitability of Greenestone, and how they have just released excellent 3Q15 financial statements. He explains how Canada is moving from

government supported treatment centers to privately run ones. He explains that he is ready to build on the company's success and expand.

He also explain the company's mistakes, which was over-hiring which caused its costs to prevent profitability for some time, up until 2015. After experiencing good results, they whittled down the staff to the best and brightest. The same plans that Mr. Leon had in Canada he plans to execute in Florida.

With its excellent program and treatment results at Muskoka, the company decided to move to a bigger market, the United States. There's about 14,000 treatment centers in the US, and only a few dozen in Canada. Therefore, to eventually become a large behavioral health company, it needed to transition to the US. Even though Muskoka was successful and profitable, Mr. Leon decided to sell its operating assets to pay off the company's debt before making its next acquisition. On February 14, 2017, Ethema announced the sale of Muskoka's operating assets and the acquisition of Seastone Delray in Florida for $6.5M. With Ethema's book value currently around $0.07 per share, there is limited downside risk for the stock to fall far below that if the company doesn't perform well. Ethema is keeping the Muskoka facility to rent out to the new owners at $26,250 per month, or $315K per year.

As stated in the PR:

The Company sought to expand into the U.S., where it could revolutionize treatment in that country with the skills it acquired in Canada.

Ethema sold the operational assets of Muskoka for CDN$10M, plus an additional CDN$3M to be paid in 2019 if certain performance metrics have been met.

Success In Muskoka, Canada Carrying Over To Delray Beach, Florida

Ethema Health's CEO, Shawn Leon, was a successful operator of the clinic in Muskoka, Canada. One notable success story, is in 2014, Muskoka confirmed treatment of the former mayor of Toronto, Rob Ford. Mr. Ford was addicted to alcohol and crack cocaine. He was reportedly clean after two months on the Muskoka program, and he then returned to his job as the mayor of Toronto.

Seastone Delray is Ethema's partial hospitalization program (PHP) center located in Delray Beach, Florida. It's their first foray into the United States after running a successful full service treatment center in Canada. Mr. Leon wants to replicate the success in Canada, but in the potentially more lucrative market in Florida. The notable differences between the two country's policies are finance related such as payers, insurance and licensing.

Delray Beach is the addiction treatment center of the US. This fact is not necessarily liked by local residents, but they have accepted it. Zoning is a strong barrier to entry because they aren't allowing any more centers to be built, the city feels they have enough. That adds more value to the center as drug addiction is growing in the US, and more so in Florida, at a rapid pace.

Delray Beach in particular is a year round sunny location, and right by the ocean. It's a paradise. Seastone is a nice looking center, you can see pictures on its website here. It's only one block from the beach, and has many nice facilities.

Additionally, patients from the new detox facility will be persuaded to immediately go to the PHP center after they have recovered from their detoxification. In addition to the help of the intelligent internet marketing, this will help to insure that Seastone Delray is always at capacity or close to it.

The Detox Facility Acquisition

Ethema Health is in the process of acquiring a detox facility that's only a 25 minute drive from Seastone Delray. The price and details of the acquisition is already agreed upon by both parties. Currently, Ethema is going through the inspection and verification process to make sure the building is as stated in the agreement. The building was renovated into a detox facility, and is an empty building as of right now. It is a 46,000 square foot building and is expected to be licensed for 20 beds.

Ethema is paying $2M for the building and $1M for the land. Ethema will finance $1 million of the purchase price with a mortgage at a 7% rate. Ethema will raise the rest of the purchase price with a new equity issue which is expected to be at most a new issue of 20 million shares (at $0.10 per share minimum issue price).

The company already has everything in place to get the detox facility up and running as soon as the inspection is over. They'll be ready to open within a few weeks after closing the acquisition. Mr. Leon already knows who the senior staff is going to be, as well as the head nurse and doctor. The furniture and equipment is also all ready to be purchased and placed.

Also, the Company had just refinanced its Muskoka facility in late July. That added a total of $1M in cash to the balance sheet. $500k will go towards the expenses and capital expenditures for the detox facility. The other $500k will be used for corporate expenses, including marketing.

This is a wise acquisition because it's accretive to the Seastone facility. The detox center is more inpatient than Seastone. It's for patients that are addicts looking to detox themselves and there's a professional medical staff to treat them when they go through their inevitable withdrawals.

The Detox Facility is more similar to a hospital than Seastone. The clients come in, they are sick, and they stay in bed for 3-7 days. It has a doctor and a nurse practitioner on staff, and there are nurses on watch 24/7. The patients are generally put on some kind of medication and are constantly monitored. It's a much more labor intensive center than PHP's like Seastone Delray. But with it being a higher level of service, it charges the insurance companies more and is potentially more profitable. Detox facilities charge 3-4 times per patient what PHPs like Seastone charge.

However, there is also more risk in managing a detox center. For example, with alcoholics, they can sometimes have seizures which could cause death if not treated properly. But deaths are an expected risk in a detox facility, and there is insurance to protect the business from a catastrophe or lawsuits.

After a patient has recovered from the detox center, they can immediately go to a PHP like Seastone. Ethema Health will try and get the patients from the Florida Detox to make a natural transition to Seastone.

The Background Of Ethema Health's CEO, Shawn Leon

Part of the appeal of investing in Ethema Health is an investment in the leadership of Shawn Leon, the Company's Chairman, CEO, President, and CFO. His executive profile can be

found on Bloomberg here. Mr. Leon has been the President/CEO of Ethema Health since November 29, 2010 and since August 19, 2015 he has also acted as the CFO. Mr. Leon is 58 years old and has held various managerial and owner positions in companies over the years. He has been active in real estate development and has been the Principal Owner of various industrial and commercial developments.

Mr. Leon is a member of the family that founded and runs Leon's Furniture, Ltd (TSE: LNF), the biggest furniture retailer in Canada. Shawn Leon's brother, Edward Leon, is the President of Leon's Furniture, as shown on the company's Yahoo finance profile page here.

I have found that Leon is a very clever and effective manager. While researching Ethema for this report, I interviewed one of Ethema's largest shareholders. He said:

Yea, Shawn is a smart operator. It's just blocking and tackling very granular things. It's with any small business if you know the nuances, you know what you're doing, and Shawn knows how to do it.

Ethema Health's Strategy To Beat the Competition – Have Excellent Treatment

As is well known, a drug or alcohol addiction is very tough to overcome. Most treatment centers are ineffective for the long term, and a patient will go right back to using after they leave the inpatient center. Therefore, if a clinic is effective, then word will get out quickly and patients will flock to it. Ethema Health's goal is to develop a great reputation for curing addictions.

Said Mr. Leon:

The effectiveness of treatment has a lot to do with the people that you have providing the treatment, and the types of things you do with the client and for the client that isn't required by the licensure. The level of care that we have in Florida is by license standards the same as other drug rehab facilities but I'd say we have better quality therapists, better behavioral health techs, and we provide more therapeutic community to the client than most treatment centers do.

Seastone Delray treats patients more like human beings instead of addicts or prisoners in jail. For example, they organize activities such as a group dinner where the patients would cook and eat together. Then they might go out for a movie after, or even an AA or NA meeting, but always accompanied by behavioral health techs. This gets the clients back in the community and mimics real life as much as possible. They don't want to just "lock them up" and then the day they get out of treatment, they go back to their old addictive ways. Seastone assesses each patient as they come in and get acquainted with the center, and they judge how much responsibility and freedom they should give on a case by case basis.

According to Leon, one of the advantages of Florida over Canada is there's a big supply of very qualified labor. There's a huge base to draw your staff from. In that base there's a lot of improperly trained, not very good workers but there are also a lot of good ones.

Said Mr. Leon:

We have a lot of people who want to come work for us, but there's a limit we can only have so many people. The labor rates are also more competitive due to the large supply of qualified employees. That's great for margins.

Ethema Health's Financials

On August 21, 2017, Ethema Health filed its Q217 financials. You can see its Q117 financial filings here. The following is its reported Q117 balance sheet on the left, and the fair value adjustments on the right:

GREENESTONE HEALTHCARE CORPORATION BALANCE SHEEETS	Actual Q1 2017	Fair Value Adjustments to Q1
ASSETS		
Cash	$122,861	$122,861
Net working capital		
Other Current Assets (Restricted Cash)	75,131	75,131
Accounts receivable	262,490	262,490
Prepaid expenses & supplies	25,759	25,759
Due from Sale of Subsidiary	1,192,584	3,192,584
Intangible Asset	1,438,525	1,438,525
Land	2,500,000	2,500,000
Building	8,328,117	9,828,117
Depreciation and amortization		
Total assets	13,945,467	17,445,467
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities		
Accounts payable and accrued liabilities	479,676	479,676
taxes payable	371,424	371,424
Deferred Revenue	0	0
Related party notes	2,035,747	2,035,747

Bank	47,212	47,212
Other	0	0
Derivative Liability	183,048	183,048
Muskoka Mortgage	3,042,972	3,042,972
Seastone Mortgage	2,997,500	2,997,500
New Facility Mortgage		
Notes payable, Series L	405,498	405,498
Total liabilities	9,563,077	9,563,077
Stockholders' deficit		
Common stock; $.01 par value, 100,000,000 shares authorized	1,087,389	1,087,389
Other comprehensive income	0	0
Additional paid-in capital	18,815,316	22,315,316
Accumulated deficit	(15,520,315)	(15,520,315)
Total stockholders' surplus (deficit)	4,382,390	7,882,390
Total liabilities and stockholders' deficit	$13,945,467	$17,445,467
Shares outstanding-basic	108,738,835	108,738,835
Shares outstanding-fully diluted	143,293,483	143,293,483
Book value per share	$0.040	$0.068
Book value per share–fully diluted	$0.045	$0.066

Book Value and Share Count Calculations

			Book value Equity	BV/Share	Revised BV Equity	BV/Share
Total Shares outstanding	108,838,835		4,382,390	0.040265	7,882,390	0.067829
Shares to be issued for consulting	4,000,000					
Shares to be issued for convertible notes	12,500,375		375,011		375,011	
Total	125,339,210					
Warrants outstanding at .03	17,954,073		538,622		538,622	
New equity shares	20,000,000		2,000,000		2,000,000	
Total	163,293,283		7,296,023	0.0446805	10,796,023	0.066114

As shown, the detox center wasn't acquired in Q117, and isn't listed on the balance sheet. It shows a line of "new facility mortgage", but it's blank. The agreement to acquire the detox facility was in late July, 2017.

The financials above in yellow are the fair value adjustments. In the SEC filing, it shows stockholders equity of $4.4M. That puts the book value per share at only about $0.045. The book value and share count calculations are shown after the balance sheet numbers.

Both of the Q117 and Q217 financial reports are unaudited, and some of the values of the assets are overly conservative by the accountants, according to Ethema Health's CEO Shawn Leon. With the adjustments, the book value is boosted considerably from $0.045 per share to $0.066 per share in Q117 and Q217. I received this information after speaking with Mr. Leon. It is the opinion of White Diamond Research that the adjustments are the correct valuations of the assets. The following are the justifications for the adjustments:

Due from Sale of Subsidiary

$2M was added back to the Due from Sale of Subsidiary. Ethema will be paid $3M as a performance bonus if Muskoka does well for its new owners. Because there is a risk that Muskoka won't perform well, the accountants didn't realize the full $3M. Mr. Leon said that he checked with the new owners, and knows the clinic is currently doing well, and expects that the full performance bonus will be earned, so that's why I added the $2M.

Building

The Muskoka facility was only valued at $8.3M CDN in the Q117 SEC filing. There was a year old appraisal of the building plus the land at $10M CDN. The accountants thought the value would be less if it was appraised today. However, after the Q117 was filed, Ethema Health did another appraisal of the building and it was appraised at close to $10M CDN again, so I adjusted it up $1.5M.

Seastone Delray's Excellent Margins

Seastone Delray has a very lucrative cost structure. It's at break even with only 5 clients, or 14% capacity. The following financial numbers are estimates of Seastone Delray's monthly revenues and expenses. They show the average monthly fees per client, and the variable and fixed costs of the facility.

Average Collection per Client (per month)	$19,250
Variable Costs	
Marketing 11%	$2,117
Food 1.6%	$300
Billing 2%	$385
Average Collection Net Variable Costs	$16,448
Total Fixed Costs	$74,000
# Clients Required To Break Even	4.5
Max Capacity	32
Percentage Of Capacity To Break Even	14%

As shown above, it only takes five clients for the facility to break even. That shows the profitability of the Company's cost structure. At almost full capacity, the returns will be tremendous. The following are the returns if the facility reaches almost full capacity, at 30 clients. The goal of the facility is to reach as close to full capacity as possible of 32 clients.

Clients x Net Variable Costs – Fixed costs = Profit
30 x $16,447.50 - $74,000 = $419,425

That's a profit of over $400K per month at near capacity. At $400K per month, that equals a total annual profit of $4.8M. Take out 35% for taxes, and we have: $4.8M x .65 = $3.12M per year in net income from the Seastone center.

The food cost is low. Seastone gives patients a $65 weekly food card so they can buy the food they will need to cook for the week. If they want more food, they can use their own money. There are 4 people in each unit that share a kitchen. Additionally, the center provides group meals 2-3 times per week.

The marketing expense is primarily internet marketing. The marketing strategies are described in the next section of this report. Once the detox facility is operating, that will cut down the marketing costs dramatically. This is because the costs will be divided between the two centers, and clients can go from one facility to the other.

Ethema Health is currently in the process of acquiring a detox facility. The following are estimates of the detox facility's revenues and expenses.

(in $'000)	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023
Contrib margin from:											
Florida Expansion								1500	3000	4000	4000
Muskoka Rental Income	26.25	26.25	26.25	26.25	26.25	315	315	315	315	315	315
Seastone Delray	33.9	70	110	130	150	2500	3268	4000	4200	4200	4200
Florida Detox	0	0	0	150	250	1800	2500	2800	2800	2800	2800
Net Contrib. Margin	60.15	96.25	136.25	306.25	426.25	4615	6083	8615	10315	11315	11315

The above numbers estimate that the detox facility will be gaining clients towards the latter half of Q4, 2017. After all of the inspections and verifications are finished and the detox facility is acquired, the company expects it to start taking new patients in late October to early November. I expect Q417 to reach between 5%-10% capacity. Then 2018 will have about 65% capacity. 2019 should have 80%+ capacity if everything goes smoothly with the facility and the marketing is successful.

At full capacity, it shows $9M in gross revenue, and a contribution margin of about $4.4M. The operating margin of almost 50% is high. Mr. Leon said he was conservative with the operating margin, because many investors might be skeptical that it's so high. So it could be more than 50% operating margin. However, it's small facility, only 4,600 square feet. Therefore, it might prove difficult to reach capacity of 20 clients in 20 beds and still be able to charge $1,000-$2,000 per bed per day. Therefore conservatively, the pretax income combination of these two centers comes to around $7M at their peak capacity. Add to this, the rental income from the Muskoka treatment center of $300K, and we have $7.3M per year in net contribution margin. Subtract $1.5M of annual corporate overhead, and the total is about $5.8M per year in income. Subtract 35% income tax, and we have a total of $5.8M x 65% = $3.77M annual income.

Assigning a PE of 10, that's a market cap of $37.7M. With 163M fully diluted shares outstanding expected in October 2017. That represents 125M shares after debt conversion, plus 20M for the detox facility acquisition, plus 17M in outstanding warrants. $37.7M/163M comes to a per share price of about $0.23 per share. If one assigns a PE of 20, that's a market cap of $75.4M, or a value of about $0.46 per share. That's 5.7x the current share price of $0.08 per share.

Our Ethema Health Price Target Is $0.24 Per Share

Our discounted cash flow analysis values GRST at $0.24 per share. The following are the projections and steps taken to arrive at that price target.

(in $'000)	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023
Contrib margin from:											
Florida Expansion								1500	3000	4000	4000
Muskoka Rental Income	26.25	26.25	26.25	26.25	26.25	315	315	315	315	315	315
Seastone Delray	33.9	70	110	130	150	2500	3268	4000	4200	4200	4200
Florida Detox	0	0	0	150	250	1800	2500	2800	2800	2800	2800
Net Contrib. Margin	60.15	96.25	136.25	306.25	426.25	4615	6083	8615	10315	11315	11315

The above shows the net contribution margin (income) from each facility. I put my projections out to 2023, and from there include a terminal value of perpetual free cash flow to the firm. As shown above, I assume in the model that Ethema Health will have a successful 2018 and 2019, and at the end of 2019 acquire another facility in Florida. Revenues from that facility will begin in 2020. It's likely that Ethema will expand further, but for the model I only included one Florida expansion acquisition. By 2020, Seastone Delray and the Florida Detox center generate income at near capacity but never at full capacity for an entire year. As the Florida Detox center is small, I believe it would be unlikely to be near capacity for a lengthy period of time. But as both facilities gain a good reputation after years of being in business and successfully treating clients, I believe it will have a healthy constant influx of new clients.

This next segment shows expenses, Capex, and free cash flow (FCF) to the firm. It also shows the discounted cash flow valuation based on the outstanding shares in September, 2017 of 163 million. This is the total diluted share count after issuing 20 million shares of at least $0.10 apiece for the Florida detox building acquisition.

Corporate expenses		26.8	26.8	202	300	45	1200	2000	1550	1650	1650	1650	
Income		33.35	69.45	-65.75	6.25	381.25	3415	4083	7065	8665	9665	9665	
taxes @ 35%		11.6725	24.3075	-23.0125	2.1875	133.4375	1195.25	1429.05	2472.75	3032.75	3382.75	3382.75	
Net income		21.6775	45.1425	-42.7375	4.0625	247.8125	2219.75	2653.95	4592.25	5632.25	6282.25	6282.25	
Capex				100	300	100	150	4000	300	250	200	200	Terminal value of FCF
FCF to firm					-295.938	147.8125	2069.75	-1346.05	4292.25	5382.25	6082.25	6082.25	73000
Diluted shares o/s (in millions)			143.2	163.2	163.2	170	200	220	260	270	280	290	
return per share					$0.001	$0.0018	0.010349	-0.00612	0.016509	0.019934	0.021722	0.020973	
			DCF Valuation										
					WACC	14%							
					Years from date of va		1	2	3	4	5	6	Perpetuity
					Discount factor		1.14	1.2996	1.481544	1.68896	1.925415	2.194973	
					PV of FCF in $000)		1815.57	-1035.74	2897.146	3186.724	3158.93	2770.991	33257.82
					PV of 1-6 Year CFs		12793.62						
					PV of terminal CFs		33257.82						
					Total PV of cash flow:		46051.44						
					Net Debt		7000						
					Net Equity		39051.44						
					#O/S shares		163						
					Value/share:		**0.239579**						

The above financial numbers go with the segment contribution margin above it. Capex and corporate expenses are higher in 2019 because that's the year where foresee another acquisition is made, as shown in the Florida expansion section. The corporate expenses include everything not included in the segmented income above. Corporate expenses include the interest expense on the mortgages, depreciation and amortization, salaries, consulting fees, accounting etc. The Terminal value of FCF, is the discounted cash flow in perpetuity starting in calendar year (CY) 2024. Below that, in the discounted cash flow (DCF) analysis, that number is discounted back to the beginning of 2018.

I believe a weighted average cost of capital (WACC) of 14% is appropriate. Despite being a

developing company, I don't believe this to be a risky investment. It doesn't take much capacity for the facilities to be profitable. The real estate is owned outright and that limits downside risk. It's also a booming industry with a large market. The debt is kept at a reasonable level as the Muskoka facilities assets were sold to pay it down. However, there are some regulatory and developing company risks and potential delays to take into account, which is why I put the rate above 10%, to 14%. The total discounted cash flow value comes $0.239 per share, or $0.24, which I have as the price target. As the company starts executing and filling up its facilities, the stock price will move towards our price target. If the company is unable to execute and have significant unforeseen obstacles, it may not reach the price target. However, there is little downside risk from these levels as the stock is currently almost trading at its book value of $0.066 per share.

Ethema Health's Marketing Strategies

Ethema Health just recently took over Seastone Delray in February, 2017. As of the date of this report, August 13th, it's operating at 28% capacity with 9 patients. The company's goal is to get it to close to 100% capacity, 32 patients, as quickly as possible, without overspending on advertising. The company has only just recently engaged in heavy marketing a couple weeks ago, mainly because it wanted the detox facility operating first before investing heavily in marketing. Mr. Leon also wanted to have more cash available and a good staff available to be ready for an influx of new clients.

Now that the detox facility acquisition is in motion and all that's left are inspections and confirmations, Ethema has started the marketing. The following are Ethema's marketing strategies to get more clients:

Banner Advertising

The Google pay per click price is very expensive. It might take 30-100 clicks for one of those people to actually become an Ethema Health client. That's a steep internet marketing expense of $3000-$5000 per client or maybe even more. Google is smart and knows that this is a lucrative industry and that substance abuse clinics will pay a lot to find prospective clients.

Instead of Google, Ethema Health is using a company called Eyereturn Marketing (eyereturn.com) to find prospective clients online. Eyereturn is one of the biggest wholesale purchasers of banner space for online marketing. Eyereturn looks for adspace that hasn't been sold and is deeply discounted for pennies on the dollar. It then engages in a process called ad serving. For example, when a person is searching for something regarding drug addiction treatment online, cookies get put on their computer that Eyereturn can identify. Then it can put an ad for Ethema Health's drug rehab centers in front of that person when

they go to unrelated websites like Sears or Seeking Alpha for example. This is a much cheaper and more sophisticated way to advertise online than using Google AdWords.

Social Media Advertising

Mr. Leon explained that Ethema Health will generate a lot of positive social media exposure by having affiliated professionals and experts write articles. For example, Sober World is a magazine that caters to the substance abuse industry (thesoberworld.com). A couple of industry experts affiliated with Ethema Health write for Sober World and they recommend Seastone Delray for those seeking help for themselves or loved ones. Seastone's primary physician advocates are: Jon Giordano and Dr. Kenneth Blum. The following are short bios of the two experts:

Jon Giordano:

Mr. Giordano's profile is here. He is an expert in the treatment of addiction and the founder of The National Institute For Holistic Addiction Studies (NIFHAS). He is in the media a lot as "one of the media's most sought after addiction expert". He recommends those suffering from drug or alcohol addiction to go to Seastone Delray. Being so prevalent in the media makes Mr. Giordano a very valuable advocate for Seastone.

Dr. Kenneth Blum:

Dr. Kenneth Blum, has devoted much of his life to researching and educating about the various causes of addiction. All while using this data to discover various and most highly effective treatments for these diseases.

Dr. Blum is a pillar in the addiction and treatment medical community. His contributions and expertise have been covered by media outlets worldwide, with invaluable expertise on television and in books, magazines and prestigious professional journals. Like Mr. Giordano, being a face in the media makes Dr. Blum a valuable advocate for Seastone.

Leon's goal is for more people to learn about Seastone Delray and their successful treatment system. That will add word of mouth advertising and knowledge that Seastone Delray's program is one of the best out there. This powerful branding will carry over to new facilities once Ethema Health further expands.

US Drug And Alcohol Addiction Reports From Mainstream Media

There are so many reports of drug addiction, especially opiate addiction, in the US media. This country is certainly in a period of drug addiction. The following are reports from mainstream media that I have analyzed and see how they apply to Ethema Health's

operations.

1. This news story, published by the Washington Post on July 13, 2017, reported the DOJ announced charges against 400 people for $1.3 billion in health-care fraud. It includes a news conference video with Attorney General Jeff Sessions who mentions the enormity of health care fraud problems the country faces. Said Mr. Session:

…compounded by our country being in the midst of the greatest drug crisis in its history, causing more deaths than we've ever seen. An extraordinary amount of the cases involve opioid addiction abuse.

This is the largest ever health care fraud enforcement action. Among the 412 defendants, 120 were charged with opioid-related crimes. One example they gave, is six of the doctors were charged with operating a scheme in Michigan to prescribe unnecessary opioids, some of which were then sold on the street. The doctors allegedly billed Medicare for $164 million in fraudulent claims, according to federal officials.

The above health-care fraud crackdown is further confirmation of the country's drug crisis, primarily opiates. Many of the addicts are teenagers as well. They get introduced to it by someone who got it illegally, and then they get hooked. Parents will do anything to help their kids, and will send them to an expensive treatment center without issue.

2. This article from The Guardian states that US addiction statistics are so dire, that society needs to change the way they view addicts in order to solve the problem. Addiction needs to be looked at as a disease rather than a character flaw. The article states:

"We don't treat diseases other than addiction with punishment or criminalization."

Looking at addiction in more of this way, and it seems like society is moving in this direction, will encourage more addicts to seek treatment. That will increase the business of behavioral health companies like Ethema.

The article also mentions that those needing treatment for opioid addiction take maintenance medications such as methadone and buprenorphine. This must be done in a professional detox facility, instead of opioid addicts taking on their disease on their own.

Addicts should not try to detox themselves alone! They are at risk of harming themselves. It's better to be in the hands of detox treatment professionals at Ethema Health's upcoming detox facility. They can get treated there by nurses, and gradually wean themselves off their addiction and deal properly with withdrawals.

3. This article, published July 12, 2017, reports Actor Nelsan Ellis', best known for his role on HBO's hit series "True Blood", died suddenly that week at the age of 39 from trying to

quit drinking on his own. This article highlights the importance of seeking help when going through a detox.

It's believed that singer Amy Winehouse also died as a result of an unsuccessful alcohol self-detox. An addict trying to quit should have the help from a treatment center during his withdrawal phase. The treatment center is trained and has witnessed withdrawal patterns of addicts over and over again, and now exactly the response needed.

According to the article:

"While rehab doesn't always work for everyone, a hospital or treatment program is the safest way to recover. Still, of the more than 15 million US adults with an alcohol-use disorder, fewer than 10 percent get treatment at a specialized facility, according to the National Institute on Alcohol Abuse and Alcoholism."

That's over 13.5 million Americans who don't get treatment at a specialized facility who probably should. This is a big market that Ethema Health is targeting.

When people addicted to drugs or alcohol try and quit on their own, they are putting their life in danger. Addicts should not try to quit cold turkey. The chemical changes in the brain from the addiction result in a real, physical need for the substance, and in most cases need to be weaned off it gradually to slowly change the brain back to normal.

From the article:

"Delirium tremens (DTs) is the most dangerous side effect associated with alcohol withdrawal. DTs can involve severe visual hallucination, profuse sweating, an abnormally fast heart rate, high blood pressure, fever, and agitation. If an alcoholic is trying to withdraw without medical attention, not getting help for these symptoms can lead to heart attack and death."

4. This article, "America's Opioid Epidemic Is Worsening", published by the Economist in March, 2017, includes many data points on the opioid epidemic. A few notable data points:

- In 2015 more than 52,000 Americans died of drug overdoses, according to the Centres for Disease Control and Prevention. That is an average of one death every ten minutes. Approximately 33,000 of these fatal overdoses—nearly two-thirds of them—were from opioids, including prescription painkillers and heroin.
- In 2014 more Americans sought treatment for heroin than for any other drug. In 2015, as total opioid deaths grew by 15%, heroin deaths increased by 23%.
- Data released in recent months show that the opioid epidemic is worsening, driven largely by the rise of fentanyl, a synthetic opioid painkiller 50-100 times more powerful than morphine. In 2016 fatal overdoses increased by 26% in Connecticut,

35% in Delaware, and 39% in Maine. During the first three quarters of 2016, deadly overdoses in Maryland jumped by a whopping 62%, prompting the state's governor to declare an official state of emergency. Mr. Trump's promise to end the scourge of opioid abuse in America is looking more challenging by the day.

Comparing Ethema Health To Other Publicly Held Behavioral Health Companies

Despite being a lucrative and large industry, investors don't have many choices in investing in the behavioral health industry, or addiction treatment. The only other two pure play public investments in this industry are American Addiction Centers Holdings (AAC), and Acadia Health (ACHC). I have only done surface research on these two companies, but by whatI have seen, these two also look like good investments. They are both currently on a strong uptrend. As I have proven in this report, it's a very good industry to be invested in right now.

By far, I believe the stock with the most upside potential out of the three is GRST. It's much smaller than the other two, and has a smaller EV/BV. It only has two facilities, which make it easier to run. GRST has everything in place now. Now all it needs to do is market its facilities and bring in cash flow. The stock price is starting to perk up as well.

The following are some valuation measurements to compare the three:

	GRST	AAC	ACHC
# of facilities	2	30	573
# of beds	52	202	17100
EV ($M)	16	396	7800
BV ($M)	4.4	165.6	2259
EV/facilities	8	13.2	13.6
EV/beds	0.31	2	0.46
EV/BV	0.23	2.39	3.45

As shown in the financial ratios above, GRST has a much lower evaluation in regards to these ratios than its two pure-play competitors. Its EV/facilities, EV/beds, and EV/BV ratios are much smaller than the other two. You would have to increase its enterprise value (EV) by 2x or 3x in order for the ratios to be similar.

The following is the two year chart of GRST:

Source: stockcharts.com GRST 2 year chart, weekly candles.

At the above two year chart, GRST has been breaking out to the upside since the company's move to the US in February, 2017, and its recent developments. It hasn't yet established a strong uptrend that the other two stocks have recently. Note that the stock has seen more volatility than most small stocks due to a lack of volume. When stocks lack volume, the slightest bit of buying or selling can move it dramatically.

American Addiction Centers (AAC)

Compare GRST's chart to AAC's:

Source: stockcharts.com AAC 2 year chart, weekly candles.

Although the stock has just recently burst to the upside the past few days, the above chart

shows that AAC has had a tough time the past two years. This is from overextending itself from acquisitions and taking on a lot of debt. AAC has 12 residential substance abuse treatment facilities, and 18 standalone outpatient centers. With so many centers, it's tough for a good CEO to run them all, and that can lead to problems in some of them.

AAC has been consistently posted large "non-recurring" expenses every quarter as a result of its many acquisitions. This should make investors suspicious, that AAC is classifying some repeat expenses as non-recurring. These expenses have been preventing AAC from reaching profitability over the past several quarters.

It's trading far below the simple moving average for the past two years. But for the past two months it has found support at $6, and has recently burst up from a positive earnings report. The pendulum might have swung for AAC to the upside. It might finally be in a position to handle its large debt load and acquisitions, given how the country is going through a drug addiction epidemic.

Acadia Healthcare Company (ACHC)

ACHC is a large conglomerate.

ACHC 2 year chart, weekly candles. Source: stockcharts.com

Being a large company, ACHC stock is representative of the industry. The stock has risen above the simple moving average of the past two years. It has also gone on a great uptrend since the beginning of the year, up about 50%.

Since it's already such a big company, investors won't get the potential gargantuan returns, possibly 100% to 2000%, that they could get from investing in GRST. ACHC runs 573

behavioral healthcare facilities with approximately 17,100 beds. It operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities, and outpatient behavioral healthcare facilities in the US and Puerto Rico.

Conclusion

Ethema Health's (GRST) treatment center and detox facility have very high net margins of over 40% of revenues. Investors today can get in on the ground floor while the company has just begun marketing its facilities in Florida. There are many catalysts ahead such as the closing on the detox center, a ramp up in internet marketing to fill up the facilities, the stock up-listing, and the new promotional visibility of the company and the stock. In the near term, the stock could easily double or triple, and in the longer term, a 10x+ return is possible. Our price target of $0.24 per share can be realized within the next year or two. Downside risk is minimal because the stock currently trades at book value, and its Seastone Delray treatment center is profitable at only 14% capacity, and it's currently at 31% capacity with nine patients.

In today's society, addiction has reached unprecedented levels. We are in an information age, and through the advanced forms and ease of information delivery, the people can more easily get caught up in addiction. As more and more Americans are suffering from drug and alcohol addiction, society is leaning more towards recommending rehabilitation centers, like those run by Ethema Health. Instead of being considered a character flaw, addiction is more accepted now as an illness. This new outlook is urging more addicts to go to rehab centers. Additionally, the media is quoting experts who say that it's important for addicts to go to a professional facility instead of trying to cure themselves on their own. Going cold turkey after having a strong addiction can be damaging, and even fatal. A detox facility can prescribe the proper maintenance medication and allows a patient to slowly wean themselves off the addiction, instead of quitting cold turkey.

Ethema has the facilities now to put a patient in their detox facility, and then after they're cured there, they can then go to a treatment facility to kick their addiction for good. After Ethema shows success with its treatments, and becomes profitable for a period of time, it can then expand and acquire more treatment centers in Florida. Developing a strong brand is important, and investors are confident its experienced CEO, Shawn Leon, can make this vision a reality. Ethema Health has the capability to become a behavioral health powerhouse and be a great long term, or short term, investment.

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