

DIAGNOS Inc.

FQ222 Results Beat; New Look Rollout and Potential EssilorLuxottica Deal Remain the Key Catalysts; Maintaining PT & Top Pick Status

ADK-TSXV: \$0.46
Speculative Buy
\$1.55 Target

Event – We are maintaining our Top Pick rating and \$1.55/shr target price for DIAGNOS following the release of the Company’s FQ222 operating results, which slightly beat our expectations. Going forward, the focus for the Company remains on successfully executing the rollout of its CARA AI technology in New Look’s 400+ optical retail outlets in the coming quarters and the finalizing of a deal with industry leader, EssilorLuxottica (EL-PAR, NR), which is anticipated by year-end and should be a meaningful catalyst for the stock.

Projected Return: 237%
Discount Rate: 11%

Revenue & EBITDA Beat Expectations, New Look Rollout to Drive Sequential Topline Growth Over Coming Quarters – Revenues grew 7% sequentially to \$81K (vs. ECM estimate of \$78K) as the New Look rollout got underway only in the final month of the quarter (ended September 30), while SG&A spend came in at \$474K (vs. ECM estimate of \$600K). This allowed EBITDA to also beat expectations, coming in at -\$622K (vs. ECM estimate of -\$772K). DIAGNOS’ platform has been successfully installed in 12 New Look locations in Quebec as the two partners work together to optimize the training and operational procedures for the broader rollout. This is expected to be completed by mid-November and then progress to a cadence of about 5 new installations per week, with a goal of about 40 locations by year-end. As such, we are maintaining our projections for F2022 and beyond as we expect DIAGNOS’ commercial momentum to become increasingly evident as the New Look rollout ramps up, pandemic restrictions abate, and more opticians are trained to use the platform.

DIAGNOS Inc.

Market Cap.	Basic (\$M)	32.0
	FD (\$M)	36.1
Net Debt (F2021)	FD (\$M)	-0.3
Enterprise Value	FD (\$M)	35.7
Basic Shares O/S (M)		69.7
FD Shares O/S (M)		78.5
Avg. Daily Volume (M)		87.8
52 Week Range		\$0.42 - \$0.77

Financial Metrics

FYE - March 31	F2020A	F2021A	F2022E	F2023E
Revenue (\$M)	0.3	0.3	0.8	7.9
EBITDA (\$M)	(2.8)	(2.3)	(2.4)	2.3
EPS	(\$0.08)	(\$0.03)	(\$0.03)	\$0.03

Valuation Data

		C2021	C2022	C2023
EV/Sales	ADK	89.7x	5.6x	2.3x
	Peers	61.1x	14.3x	10.2x
EV/EBITDA	ADK	NMF	27.7x	4.2x
	Peers	81.5x	113.1x	48.2x

Quarterly Data

		Q1	Q2	Q3	Q4
Revenue (\$M)	F2020A	0.1	0.1	0.1	0.1
	F2021A	0.0	0.1	0.1	0.1
	F2022E	0.1	0.1	0.2	0.5
EBITDA (\$M)	F2020A	(0.7)	(0.5)	(0.5)	(1.1)
	F2021A	(0.6)	(0.4)	(0.6)	(0.6)
	F2022E	(0.7)	(0.6)	(0.6)	(0.4)
EPS	F2020A	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.03)
	F2021A	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
	F2022E	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

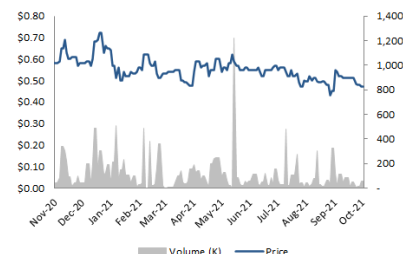
Company Description

ADK is a Montreal-based commercial-stage artificial intelligence (AI) company addressing the critical problem of diabetic retinopathy (DR) - the leading cause of blindness. The Company has developed an image enhancement and AI analysis platform that integrates with existing optometry equipment and processes to enable early detection, triage, and monitoring of DR by grading the severity of indicators found in images of the retina. As the detailed output, low cost, and ease of implementation of its AI-based platform comes into focus, ADK looks poised to secure increasingly larger agreements with optical retailers, networks of healthcare facilities, private and public payors, and strategic partners like pharma and optometry equipment companies.

Recently Announced MoU with EssilorLuxottica Remains a Key Potential Catalyst – ADK announced in August that it had entered into a Memorandum of Understanding (MoU) for a potential distribution agreement to deploy its CARA AI platform in clinics worldwide via the Instruments division of Essilor International, a subsidiary of EssilorLuxottica, the world’s largest eyecare company with ~15,000 global locations. While this potential deal is yet to be finalized, it provides crucial validation of the technology and represents a transformational opportunity for the Company. Assuming a positive conclusion to negotiations, ADK expects that this commercial rollout could begin as early as CQ222.

Cash on Hand and Available Liquidity to Cover Upcoming Cash Burn – With ~\$0.9M in cash and short-term investments at quarter-end and \$2.0M available in the form of an interest-free loan from the Quebec government (which can be paid back over 10 years), and a current burn rate of ~\$0.5M per quarter, we believe that the Company has sufficient liquidity to cover the costs required to continue ramping operations and developing the technology for diagnosis of other conditions such as stroke, hypertension, glaucoma, and diabetic macular edema through the next year.

Valuation – While the timeline and scale of a potential deal with EssilorLuxottica remain uncertain for now, concluding a deal would be a game-changer for ADK given the sizeable financial opportunity and the industry validation of its technology platform. To address this optionality, we are conservatively assuming a 50% probability that a deal will be concluded, and that the technology will be rolled out to 4,000 locations over 24 months starting in mid-C2022. This results in a target price of \$1.55/shr based on the average of our DCF (11% discount rate, 5% terminal growth rate) and EV/Sales (10x C2023 estimates) valuations.



Source: Consensus Data - Cap IQ, Forecasts - Echelon

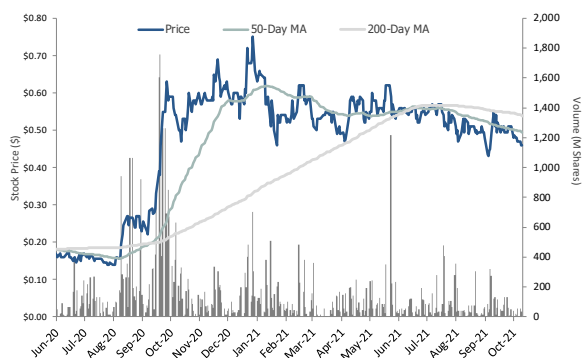
Exhibit 1 – DIAGNOS Inc. Comparables Analysis

Ticker	Company	Market Cap, Basic (\$C,M)	EV, FD (\$C,M)	Last Price (\$C)	Returns				EV/Sales			EV/EBITDA		
					1M	3M	YTD	1 Year	C2021	C2022	C2023	C2021	C2022	C2023
TSXV:ADK	DIAGNOS Inc.	32	36	\$0.46	-7%	-18%	-22%	-8%	89.7x	5.6x	2.3x	NMF	27.7x	4.2x
Healthcare IT Companies (ex-Telemedicine)														
TSXV:KSI	kneat.com inc.	312	295	\$4.15	2%	34%	44%	65%	22.7x	13.8x	9.2x	NMF	NMF	78.4x
ASX:ALC	Alcidion Group	346	323	\$0.33	-1%	3%	97%	204%	13.4x	9.7x	7.4x	NMF	290.9x	46.9x
SHSE:603990	Suzhou MedicalSystem Technology	621	512	\$3.92	4%	-16%	-36%	-54%	5.6x	4.8x	NA	NA	NA	NA
TSE:3902	Medical Data Vision Co.	618	584	\$16.07	-7%	-29%	-48%	-40%	8.8x	7.7x	6.4x	31.0x	26.4x	20.7x
NASDAQCM:OPRX	OptimizeRx Corp.	2,079	1,975	\$116.20	22%	79%	206%	351%	25.9x	19.6x	14.2x	162.2x	91.0x	57.7x
AIM:RENX	Renalytix Plc	1,048	967	\$15.01	30%	-20%	82%	93%	333.7x	28.7x	10.7x	NMF	NMF	NMF
NASDAQGS:SLP	Simulations Plus Inc.	1,148	996	\$53.22	19%	0%	-36%	-33%	17.5x	15.3x	13.2x	51.2x	44.1x	37.2x
	Average	882	807		10%	7%	44%	84%	61.1x	14.3x	10.2x	81.5x	113.1x	48.2x
	Median	621	584		4%	0%	44%	65%	17.5x	13.8x	9.9x	51.2x	67.5x	46.9x
Healthcare AI Peers														
ASX:LBT	LBT Innovations Ltd.	28	24	\$0.10	-25%	-5%	-14%	-13%	NA	NA	NA	NA	NA	NA
LSE:IQAI	IQ-AI Ltd.	18	17	\$0.10	-21%	-23%	-44%	21%	NA	NA	NA	NA	NA	NA
CNSX:PMED	Predictmedix Inc.	28	27	\$0.28	-20%	-6%	-22%	-47%	NA	NA	NA	NA	NA	NA
TSXV:VPT	VentriPoint Diagnostics Ltd.	79	76	\$0.50	-14%	62%	467%	386%	NA	NA	NA	NA	NA	NA
CNSX:CGN	Cognetivity Neurosciences Ltd.	NA	NA	\$0.73	6%	-18%	5%	97%	NA	NA	NA	NA	NA	NA
ASX:IME	ImExHS Ltd.	38	32	\$1.15	-12%	-18%	-22%	-21%	2.2x	1.7x	1.2x	NMF	18.3x	5.0x
ASX:PCK	PainChek Ltd.	52	41	\$0.05	2%	-14%	-36%	-48%	14.2x	13.0x	3.7x	NMF	NMF	16.9x
AIM:RENX	Renalytix Plc	1,048	967	\$15.01	30%	-20%	82%	93%	333.7x	28.7x	10.7x	NMF	NMF	NMF
	Average (ex-outlier)	41	36		-12%	-3%	48%	54%	8.2x	7.4x	2.5x	#DIV/0!	18.3x	11.0x
	Median	33	29		-13%	-16%	-18%	4%	14.2x	13.0x	3.7x	NA	18.3x	11.0x

Source: Echelon, Cap IQ, Company Filings

DIAGNOS Inc. (ADK-V, \$0.46) - Data Sheet

Speculative Buy | PT: \$1.55



Company Description

ADK is a Montreal-based commercial-stage artificial intelligence (AI) company addressing the critical problem of diabetic retinopathy (DR) - the leading cause of blindness. The Company has developed an image enhancement and AI analysis platform that integrates with existing optometry equipment and processes to enable early detection, triage, and monitoring of DR by grading the severity of indicators found in images of the retina. As the detailed output, low cost, and ease of implementation of its AI-based platform comes into focus, ADK looks poised to secure increasingly larger agreements with optical retailers, networks of healthcare facilities, private and public payors, and strategic partners like pharma and optometry equipment companies.

Consensus	3 Mths Ago	Current	Return
Rating:	Buy	Buy	
Target:	\$0.95	\$1.55	237%
Median:	\$0.95	\$1.55	237%
High:	\$0.95	\$1.55	237%
Low:	\$0.95	\$1.55	237%

Consensus Distribution

Sector Outperform/Buy	1
Sector Perform/Hold	0
Sector Underperform/Sel	0
# Est	1

Key Statistics

Key Statistics	Value
52-Week High	\$0.77 67%
52-Week Low	\$0.42 (10%)
Avg Vol (3-Mo)	88
Shares Outstanding	78
Market Cap	36
Net Debt	0
Enterprise Value	36
Div Yield	0.0%
FYE	Mar 31

Key Financial Metrics

All values in C\$ '000s, FYE March 31	F2019A	F2020A	FQ121A	FQ221A	FQ321A	FQ421A	F2021A	FQ122A	FQ222A	FQ322E	FQ422E	F2022E	F2023E
Revenue	326	332	48	80	78	62	267	76	81	180	466	803	7,922
Growth y/y		2%					-19%					201%	887%
Gross Income (Loss)	-759	-473	-115	-22	-86	-124	-348	-124	-148	-70	166	-176	5,308
Margin											36%	-22%	67%
Selling, General, and Administrative Expenses	2,171	2,323	513	424	483	517	1,936	602	474	500	600	2,176	3,011
EBITDA	-2,930	-2,796	-627	-446	-569	-641	-2,283	-726	-622	-570	-434	-2,352	2,297
Growth y/y													
Margin													29%
EPS	(\$0.21)	(\$0.08)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.03)	\$0.03

Comparables

Name	Ticker	Market Cap, (C\$,M)	EV, FD (C\$,M)	Last Price	Returns				EV/Sales			EV/EBITDA		
					1M	3M	YTD	1 Year	C2021	C2022	C2023	C2021	C2022	C2023
DIAGNOS Inc.	TSXV:ADK	32	36	\$0.46	-7%	-18%	-22%	-8%	89.7x	5.6x	2.3x	NMF	27.7x	4.2x

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VentriPoint Diagnostics Ltd.	TSXV:VPT	79	76	\$0.50	-14%	62%	467%	386%	NA	NA	NA	NA	NA	NA
Cognetivity Neurosciences Ltd.	CNSX:CGN	NA	NA	\$0.73	6%	-18%	5%	97%	NA	NA	NA	NA	NA	NA
ImExHS Ltd.	ASX:IME	38	32	\$1.15	-12%	-18%	-22%	-21%	2.2x	1.7x	1.2x	NMF	18.3x	5.0x
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Average		41	36		-7%	-5%	52%	58%	116.7x	14.5x	5.2x	NA	18.3x	11.0x
Median		33	29		-13%	-16%	-18%	4%	14.2x	13.0x	3.7x	NA	18.3x	11.0x

Source: Consensus Data - Cap IQ, Historical Data - Company Filings, Forecasts/Estimates - Echelon Capital Markets

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ANALYST CERTIFICATION

Company: DIAGNOS Inc. | ADK:TSXV

I, Stefan Quenneville, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

IMPORTANT DISCLOSURES

Is this an issuer related or industry related publication?	Issuer
Does the Analyst or any member of the Analyst’s household have a financial interest in the securities of the subject issuer? If Yes: 1) Is it a long or short position? and, 2) What type of security is it? Common shares	No
The name of any partner, director, officer, employee, or agent of the Dealer Member who is an officer, director, or employee of the issuer, or who serves in any advisory capacity to the issuer.	No
Does Echelon Wealth Partners Inc. or the Analyst have any actual material conflicts of interest with the issuer?	No
Does Echelon Wealth Partners Inc. and/or one or more entities affiliated with Echelon Wealth Partners Inc. beneficially own common shares (or any other class of common equity securities) of this issuer which constitutes more than 1% of the presently issued and outstanding shares of the issuer?	No
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Has the Analyst had an onsite visit with the Issuer within the last 12 months?	No
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Has the Analyst received any compensation from the subject company in the past 12 months?	No
Is Echelon Wealth Partners Inc. a market maker in the issuer’s securities at the date of this report?	No

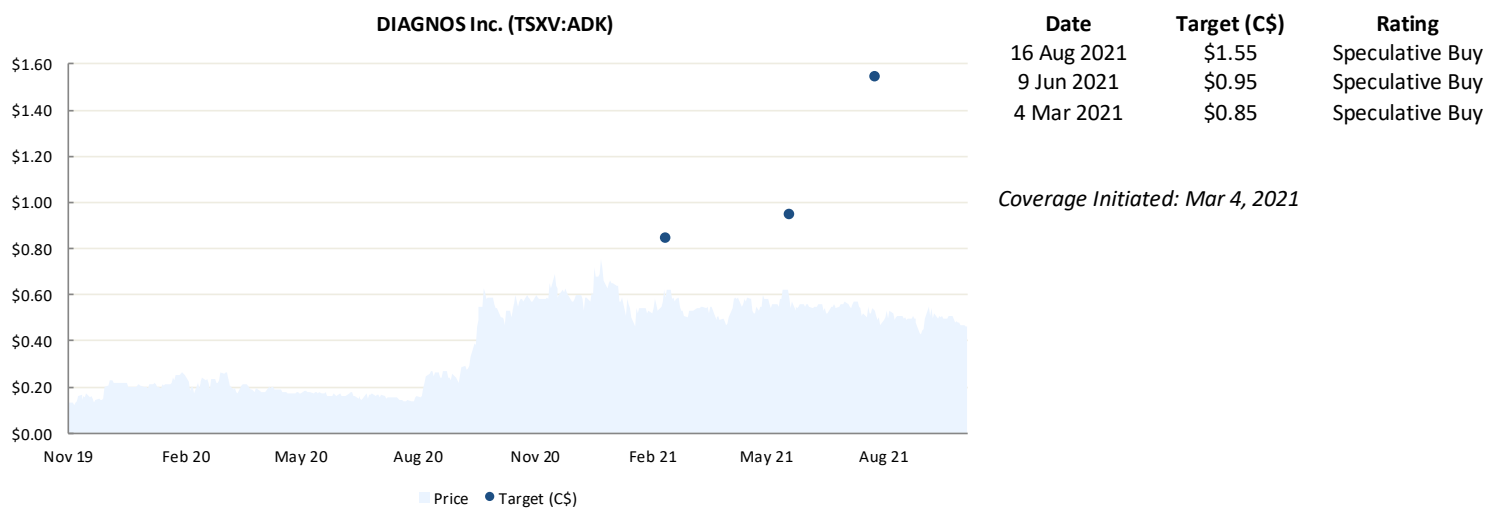
RATING DEFINITIONS

Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12-month time horizon.
Speculative Buy	The security is considered a BUY but in the analyst’s opinion possesses certain operational and/or financial risks that are higher than average.
Hold	The security represents fair value, and no material appreciation is expected over the next 12-18-month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12-month time horizon.
Under Review	While not a rating, this designates the existing rating and/or forecasts are subject to specific review usually due to a material event or share price move.
Tender	Echelon Wealth Partners recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
Dropped Coverage	Applies to former coverage names where a current analyst has dropped coverage. Echelon Wealth Partners will provide notice to investors whenever coverage of an issuer is dropped.

RATINGS DISTRIBUTION

Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	27	37	1	0	42	0	0
% of Total (excluding Restricted)	25%	35%	1%	0%	39%		
Number of investment banking relationships	17	32	0	0	12	0	0
% of Total (excluding Restricted)	28%	52%	0%	0%	20%		

PRICE CHART, RATING & PRICE TARGET HISTORY



Data sourced from: Cap IQ

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