
Nova Leap Health Corporation: A Private Equity Vehicle in the Public Market

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Related symbols: [NLH.V](#), [NVLPF](#)

Nova Leap Health Corporation: (OTCMKTS:NVLPF, CVE:[NLH.V](#)) is a roll up of personal home care service providers, specifically for the elderly with dementia. In the company's own words:

The Corporation through its subsidiaries provides the following services to clients and families:

- *Dementia care*
- *Companionship*
- *Personal care*
- *Respite care*
- *Cooking and meal preparation*
- *Light housekeeping*
- *Transportation services*
- *Medication reminders*
- *Medication administration by nursing staff*

Nova leap operates like a private equity fund. Private equity firms such as the Carlyle Group and Candescant Partners actively build portfolios of medical professionals/offices. They will develop a geographic footprint by purchasing 'bolt-on' acquisitions. They purchase each acquisition for a multiple of EBITDA; and the aggregate, post-consolidated portfolio together commands a higher multiple. These funds also drive value by centralizing systems for their individual practices as well as bring employment, technological, and marketing support. All this is in the cause of removing inefficiency, growing bottom line, and creating value.

Thesis: Geographic consolidation and operational centralization.

The exit for Nova Leap is private equity, and it should be valued by what private equity firms will pay for a portfolio like the one it has.

Private equity will pay for:

- Scale
- Top line growth
- EBITDA growth
- Margin improvement
- Sophisticated management team/operators
- A centralized management team, corporate location, and centralized support operations
- Geographic presence

Nova Leap has all these characteristics, something fragmented healthcare facilities do not have; and regardless of a near term exit, it will command private equity multiples. Its facilities are not doctor operated, but the company has all the attractions for healthcare buyers:

- Nova Leap grew 53% YoY in the latest quarter.
- Nova Leap's EBITDA margin succession over the last four quarters has been: 0.53% - 1.00% - 3.92% - 7.34%.
- Nova Leap's gross margin succession over the last four quarters has been: 30.62% - 33.17% - 34.20% - 33.63%.
- Nova Leap has a presence in Nova Scotia and the American Northeast, and a small presence in Oklahoma.
- Nova leap is consolidating a fragmented market in the healthcare space while also improving organically. Private equity must pay more for this scale than they would have had to by consolidating from scratch.
- Currently, the accounts receivable balance is \$1.4 million, 100% of which is contractually due in thirty days. In 2018, the company had less than \$1,000 of bad debts on \$10 million in revenue. We retain confidence in this management team.

Catalysts:

- EBITDA growth
- Acquisitions

The company has a \$1 million credit facility - with a schedule 1 Canadian bank - which it received in Q2 2019. Let us revisit one of their most recent transactions.

- In September 2019, Nova Leap purchased a facility with \$1.27 million in revenue and \$85.5k in EBITDA for \$375 thousand.

Nova Leap paid \$375 thousand for \$1.27 million in revenue.

It paid another \$660 thousand for \$1.42 million in revenue in a June 2019 acquisition.

The company made six acquisitions in 2019.

Valuation

**Note: our analysis and valuation are in USD, or OTCMKTS:NVLPF, which trades for \$0.32 as of December 24, 2019 (a \$19.35 million valuation).*

The company should command at least a 10x EBITDA valuation on an assumption of 10% future EBITDA margin. It will report Q4 revenues in excess of \$20 million; Nova Leap should not trade for less than \$20 million today. We feel the current share price and valuation of \$19.35 million is a relative floor for the business.

We model the company to accrete by \$10 million in revenue over five years. **We value shares at \$0.46 today, a valuation of \$28.11 million.** This represents 45% upside.

We maintain a price target of \$0.46 - \$0.70 through 2024.

Forecasted	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Next 4
Total Revenue	\$ 5.000	\$ 5.150	\$ 5.253	\$ 5.410	\$ 5.627	\$ 5.795	\$ 5.911	\$ 5.970	\$ 6.269	\$ 6.394	\$ 6.522	\$ 6.718	\$ 6.987	\$ 7.126	\$ 7.269	\$ 7.414	\$ 29.372
Revenue Growth	13.00%	3.00%	2.00%	3.00%	4.00%	3.00%	2.00%	1.00%	5.00%	2.00%	2.00%	3.00%	4.00%	2.00%	2.00%	2.00%	2.00%
Cost of Revenues	3.318	3.418	3.473	3.564	3.692	3.788	3.849	3.873	4.051	4.132	4.214	4.341	4.515	4.605	4.697	4.772	18.489
As % of Sales	66.37%	66.37%	66.12%	65.87%	65.62%	65.37%	65.12%	64.87%	64.62%	64.62%	64.62%	64.62%	64.62%	64.62%	64.62%	64.37%	62.95%
Total Operating Expenses	1.796	1.824	1.834	1.862	1.909	1.934	1.940	1.927	1.989	2.009	2.036	2.084	2.154	2.182	2.211	2.241	8.964
As % of Sales	35.92%	35.92%	35.42%	34.92%	34.42%	33.92%	33.37%	32.82%	32.27%	31.72%	31.42%	31.22%	31.02%	30.82%	30.62%	30.42%	30.22%
EBIT	0.342	0.373	0.414	0.462	0.517	0.573	0.626	0.674	0.752	0.779	0.805	0.839	0.883	0.911	0.941	0.989	4.270
EBIT Margin	6.84%	7.24%	7.89%	8.54%	9.19%	9.89%	10.59%	11.29%	11.99%	12.19%	12.34%	12.49%	12.64%	12.79%	12.94%	13.34%	14.54%
12x EBITDA Run Rate	13.68	14.91	16.58	18.48	20.68	22.93	25.04	26.96	30.06	31.18	32.19	33.56	35.32	36.46	37.62	39.56	42.70
1x Sales Run Rate	20.00	20.60	21.01	21.64	22.51	23.18	23.64	23.88	25.08	25.58	26.09	26.87	27.95	28.50	29.08	29.66	29.37

**Price target of \$0.46 is derived by the average of 12x EBITDA multiples over the next twenty quarters.*

**Price target of \$0.70 is derived by the 12x EBITDA multiple on the terminal forecast.*

Nova Leap's Geographic Footprint:

- Rhode Island
- South Burlington, Vermont and Lebanon, New Hampshire
- Shrewsbury, Massachusetts
- Holyoke, Massachusetts
- Halifax, Nova Scotia
- South Deerfield, Massachusetts
- Amherst, New Hampshire
- Kentville, Nova Scotia and New Glasgow, Nova Scotia
- Chickasha, Oklahoma
- Another Eastern Canada facility
- Another Massachusetts facility
- Another South Central U.S. facility
- Another Massachusetts facility

With the additions in the latter half of 2019, Nova Leap is generating over \$20 million in revenue.

Private Equity Medical Deals Arham Khan, Author, Has Observed:

**not every transaction closed, not every transaction observed a Letter of Intent (LOI).*

**most medical offices observe about \$1 million in revenue per doctor.*

**this is used to support the \$28 million valuation we establish*

Spine Care: \$8 Million valuation on \$7-8M in revenue and \$1.2M EBITDA, an EBITDA margin of 15%, no medical doctors, just therapists. 15 professionals with 10 locations. 15% growth YoY.

Dental: \$7M revenue, \$1.84 – 2.215M EBITDA, 25% margin. Valued at \$14.875M. Single location.

Dental: 20% EBITDA margin, \$6M in revenues. EBITDA \$1.2M and final valuation of \$7.7M, reduced from \$8.85M after further diligence unearthed lesser than reported findings.

Dental: \$15.6M valuation on \$15M in sales, 11.46% EBITDA margin.

Dental: 1x sales. Flat 2-year revenues. 18% EBITDA margin

Dental: no transaction data – but sales of approx. \$30M, EBITDA \$5-6M, 18% margin. 14 locations, and \$35-40M valuation needed for any deal to be entertained.

Dental: \$10.5M in revenue, \$3.5EBITDA, asking for 8x EBITDA at least, 3 locations.

Dental: LOI for \$15.6M on \$15.7M in revenue and 12% EBITDA margin, \$1.6M in EBITDA.

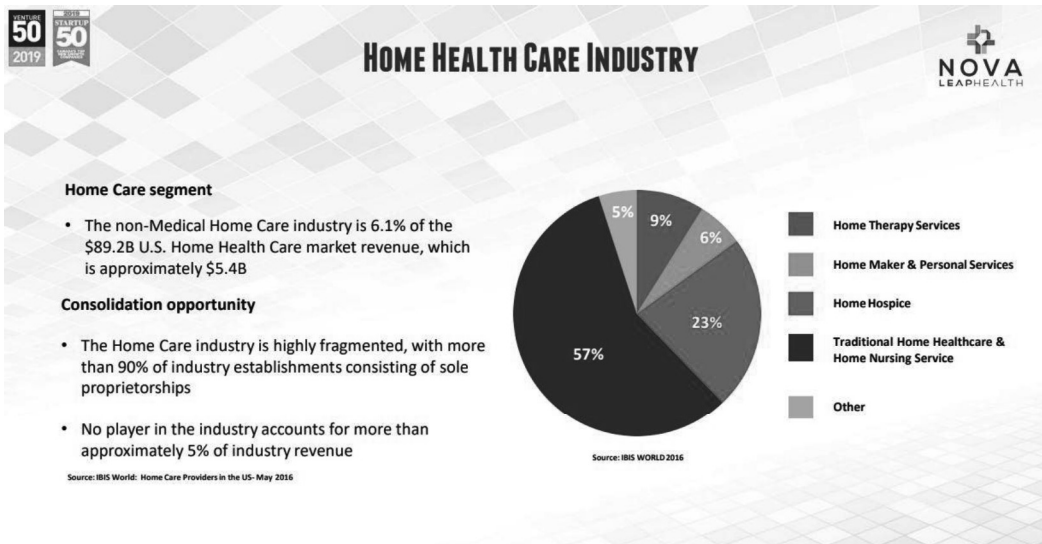
Dental: \$8M in revenue, \$2.7M in EBITDA (over 33% margin), \$17M target for deal. Practice grew 28% the previous year. Seller was interested in partnership more than offer; Seller could ask for more.

ENT: 1x Revenue (\$6M revenue, \$1.2M EBITDA).

Physical Therapy (no docs): \$7.2M in sales, \$1M in EBITDA, 13-14% EBITDA Margin, LOI for \$8M in addition to 1.2m for A/R. 15 physicians. 10 locations.

Physical Therapy: 20 therapists, 12 locations, \$6.5M sales, 2M EBITDA (31% margin), asking for \$18M. Warranted for size, scale, historic growth, and growth orientation.

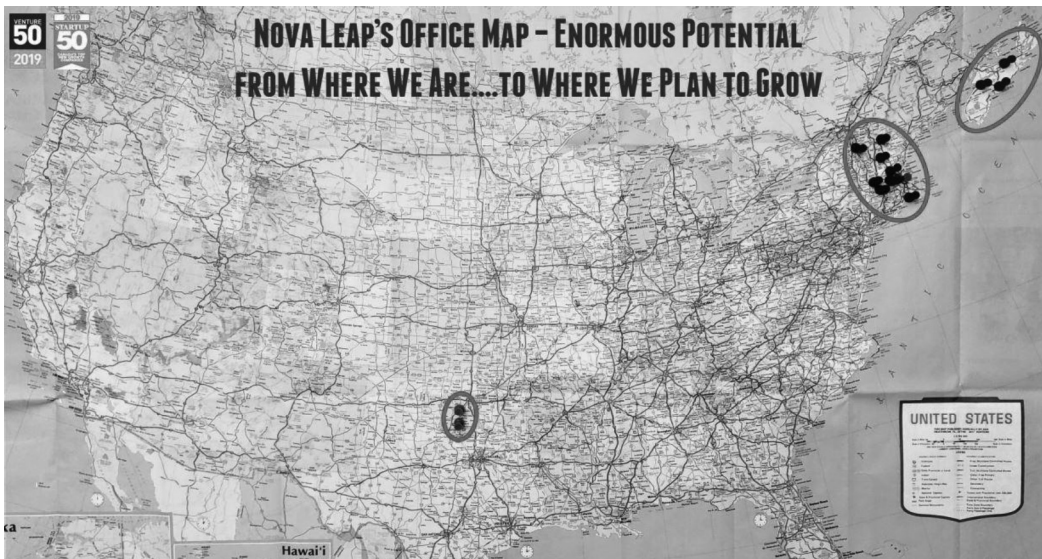
Industry overview from Nova Leap Health Corp. and IBISWorld:



Nova Leap EBITDA growth, from Nova Leap Health Corp.:



Nova Leap Geographic Footprint from Nova Leap Health Corp



Nova Leap Health Corp. (OTC/CVE: NLH, NVLPF, NLH.V)

Buy – Private Equity,
Event Driven, Arbitrage

Security Description



Nova Leap Health Corporation is a roll up of personal home care service providers, specifically for the elderly with dementia.

Thesis

Private Equity strategies that mirror Nova Leap operations and consolidated operations price target acquisitions based on:

- (1) EBITDA
- (2) EBITDA growth
- (3) Revenue growth
- (4) Geographic consolidation
- (5) Centralization of operations and/or business functions
- (6) Management teams, sophisticated operators

Catalysts

- EBITDA growth
- There is a decade long runway for revenue and EBITDA accretive acquisitions; dementia care is a highly fragmented healthcare space.
- Private Equity Exit: Nova Leap will build itself into a nationwide conglomerate before an exit.

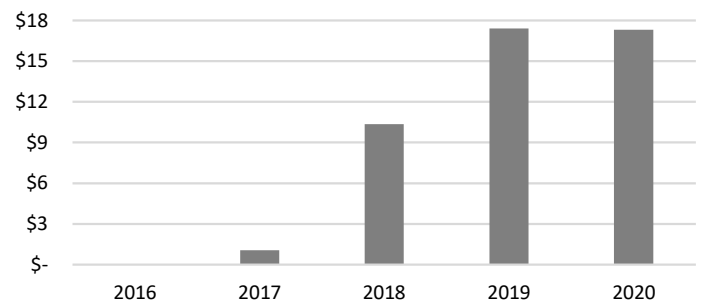
Acquisitions

- Nova Leap typically pays 3.5x – 5x EBITDA for bolt-on acquisitions. This is lower than traditional private equity deals in healthcare, as traditional buy-and-build portfolios have focused on physician practices. However, the market for physicians, depending on geography, comes ‘pre-consolidated.’ Private equity funds actively flip portfolios to one another; the physician space (specifically spine, gastroenterology, ENT) is not fragmented like dementia care.
- The consolidated Nova Leap entity should fetch a valuation of at least 12x – 15x EBITDA. A fully integrated acquisition at 3.5-5x EBITDA provides Nova Leap with immediate valuation arbitrage; the company is in, and is consolidating, several geographies under one main arm.
- Nova Leap generally seeks one acquisition per quarter. The Pandemic initially catalyzed pause in M&A activity along with reduction in administered care hours, but both rebounded.
- In 2020, Nova Leap completed 3 (a fourth is pending) acquisitions after completing 5 in 2019.

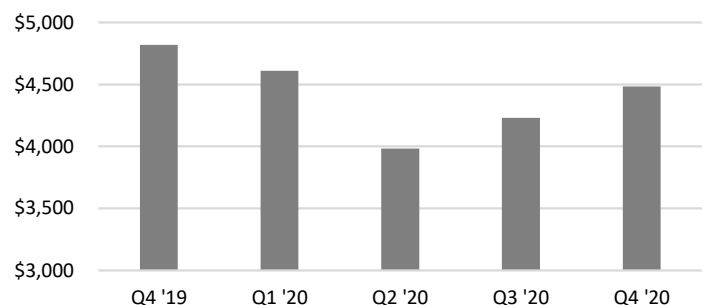
Valuation

We see 26% upside and value shares at \$0.72 USD or \$0.92 (CAN). With the additions in 2020 & 2021, consolidated 2020 revenue would be approximately \$22.8 million. We approximate the pandemic reduced working hours by over 15%; we estimate the consolidated entity, at pre-pandemic capacity/working hours, would generate \$26.8 million in revenue. We model four further acquisitions in 2021 and estimate \$30 million in 2021 revenue (post consolidation). At a 10% EBITDA margin target, we apply a 15x multiple on the cash flow and deduce a \$48 million price tag on the business, or \$0.72 per share (USD, NVLPF; and \$0.92 CAN, NLH; 30% upside).

Annual Revenue (millions)



Quarterly Revenue (thousands)



Equity Return

