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MYnd Analytics, Inc. (NASDAQ/MYND) now Emmaus (EMMA)

September 24, 2019

Hold: Stepping to the side-lines as MYND Works On Its IPO

MYnd Analytics is planning to re-capitalize the company in an IPO, that will be “freely trading”. We have decided to step to the side lines until this is complete as we are unable to assess how much capital the company will raise, which will be critical for the firm to achieve critical mass in its business plan.

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Investment Highlights

Stepping our rating to Market Perform (Neutral) while MYND works towards its IPO. Recall that MYnd completed a transaction with Emmaus Life Sciences, Inc. (in July) which is now trading under the ticker EMMA. Mynd Shareholders did see a six for one reverse stock split and picked up a 5.9% ownership in EMMA.

Our interest and focus remains on following Mynd and Behavioral Health (BH). We expect that Mynd is likely to continue to pioneer both Mynd Analytics and TeleBehavioral Health. Our models assume such and are unchanged. We are fundamentally believers in the science and technology behind both PEER reports and the attributes associated with the TeleBehavioral business.

How Should We Value Mynd today? Mynd shareholders received the dividend and now we estimate there are approximately 14M shares in MYND outstanding. As MYND now moves to list on the NASDAQ (S1 filed or soon to be), we had originally expected the company to raise a year’s worth of operating capital, or between \$12-\$15M. This may have changed and yes, it does give us some pause for concern. Why? We generally want to see company’s which raise capital, raise enough capital to achieve value inflection worthy milestones. In the case of Mynd, the key milestones are related to revenues and market penetration. As such we would like to see at least enough capital raised to see “break-through” revenues. Less than our originally estimated \$12-\$15M would not, in our opinion, be enough to see this happen, and as such we remain both optimistic but cautious on the next steps for the company. Hopeful that management will “get it done”.

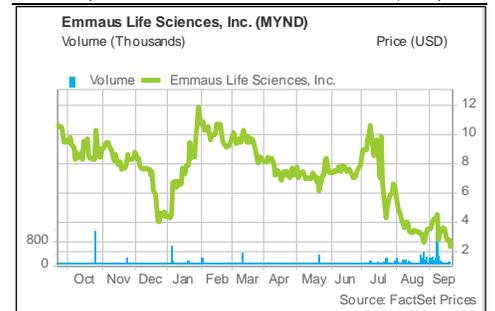
Valuation: We provide our market models and related income statement (assumptions), which are unchanged but as a Market Perform (Neutral) rated stock we do not provide a 12 month price target. This is because our model is highly dependent on several key assumptions such as our anticipated “burn rate” and the resulting capital required to achieve the company’s market share goals.

Current Price \$2.19
 Price Target NA

Estimates	F2019E	F2020E	F2021E
Expenses (\$000s)	\$ 13,274	\$ 14,671	\$ 14,301
1Q March	\$ 3,069	\$ 3,374	\$ 3,289
2Q June	\$ 3,144	\$ 3,521	\$ 3,432
3Q September	\$ 3,375	\$ 3,787	\$ 3,658
4Q December	\$ 3,687	\$ 3,988	\$ 3,921
	F2019E	F2020E	F2021E
EPS (diluted)	\$ (0.93)	\$ (0.48)	\$ (0.03)
1Q March	\$ (0.32)	\$ (0.11)	\$ (0.01)
2Q June	\$ (0.27)	\$ (0.11)	\$ (0.01)
3Q September	\$ (0.20)	\$ (0.13)	\$ (0.01)
4Q December	\$ (0.14)	\$ (0.13)	\$ (0.00)

EBITDA/Share	(\$0.54)	(\$0.48)	(\$0.03)
EV/EBITDA (x)	0.0	0.0	0.0

Stock Data		
52-Week Range	\$2.10	\$12.91
Shares Outstanding (mil.)	47.5	
Market Capitalization (mil.)	\$104	
Enterprise Value (mil.)	\$103	
Debt to Capital	1%	
Book Value/Share	\$6.35	
Price/Book	2.9	
Average Three Months Trading Volume (K)	6	
Insider Ownership	-	
Institutional Ownership	-	
Short interest (mil.)	0.1%	
Dividend / Yield	\$0.00/0.0%	



Modeling Assumptions: Behavioral Medicine

1. A typical national managed care company may cover up to 25M covered lives. Conservatively, we know that 10% or 2.5M of those lives are likely to be treated at some point for a mental health disorder. The actual number could be much higher, 20% or more. Regardless, if just 10% of the 10% are treated with a telebehavioral medicine product it suggests one national plan represents 250,000 treated patients annually or \$250M in revenues. We view the market opportunity by segments, each with their own numbers of covered lives.
2. We assume an average price point of \$1,000 for the first six treatments.
3. Fixed COGS rate of 65%.
4. We model market penetration by target segments (EAP's or managed care), Staffing (Hospitals and clinics) and PCP's.
 - a. Employment Admin. Programs (EAP).
 - b. Staffing Model – Prepaid Facility based revenues.
 - c. Primary Care Physicians (PCP).

Exhibit 1. Product Model: Services

TeleBehavioral (Arcadian) Services	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EAP Employment Admin. Programs	320	650	1,500	2,250	3,938	9,844	19,688	34,453	51,680	56,848	59,690	60,287
Growth Rate			25%	50%	75%	150%	100%	75%	50%	10%	5%	1%
Staffing Model (PrePaid Facility Based Revenues)	520	1,100	3,000	4,500	10,125	22,781	45,563	79,734	119,602	131,562	138,140	139,521
Growth rate			25%	50%	125%	125%	100%	75%	50%	10%	5%	1%
PCP (Primary Care Physicians - Office Terminal)	180	300	1,000	1,500	3,375	7,425	14,850	25,988	38,981	42,879	45,023	45,474
Growth rate			25%	50%	125%	120%	100%	75%	50%	10%	5%	1%
Total Services	1,020	2,050	5,500	8,250	17,438	40,050	80,100	140,175	210,263	231,289	242,853	245,282
Assume an Average ASP \$1,000	\$ 1,000	\$ 1,010	\$ 1,010	\$ 1,020	\$ 1,030	\$ 1,041	\$ 1,051	\$ 1,062	\$ 1,072	\$ 1,083	\$ 1,094	\$ 1,105
Behavioral Health Revenues (M)	\$ 1.0	\$ 2.1	\$ 5.6	\$ 8.4	\$ 18.0	\$ 41.7	\$ 84.2	\$ 148.8	\$ 225.4	\$ 250.5	\$ 265.6	\$ 268.2

Source: Dawson James estimates

Modeling Assumptions: PEER Reports

1. Managed Care – Payers: In just one managed care insurer which we evaluated, the company covered 4 million lives and 400-600k were on some form of a mental health medication. Just a 1% market penetration would equate to 5,000 tests, which would represent \$4M in revenues.
2. Provider Direct Revenues: There are estimated to be 38,000 practicing psychiatrists in the U.S. alone with 500 patients per doctor or 19M patients. One percent market share penetration equates to 190k tests or \$152M in revenues.
3. Patient Direct Revenues: Today it's virtually impossible to turn on the TV or listen to the radio in the car without hearing an advertisement for a depression drug. The company plans to launch a commercial marketing campaign raising patients awareness of the availability of this powerful tool. Parents concerned for their children (or the opposite, adults concerned for aging parents) represent a significant market opportunity.
4. Government: The numbers here are quite large with large potential:
 - a. Centers for Medicare & Medicaid Services (CMS), which is part of the Department of Health and Human Services (HHS), which administers programs including Medicare and Medicaid, is moving 50% of reimbursement to become value-based by 2018. With this trend and growing enforcement of Mental Health Parity, the payer market has changed in ways that favor value-based diagnostics. The first MYnd Center received CMS certification as an Independent Diagnostic Testing Facility (IDTF) in September 2016, and management intends to proceed with submission to CMS for a national coverage determination.
 - b. The Veterans Administration (VA) represents 6M lives, and interestingly enough U.S. special forces represent 72k lives. Special forces tend to be early adopters of new technology and it is our understanding that the company is talking with the U.S. military about creating a baseline EEG database as part of the routine medical process for these elite forces.
5. Industry: Pharmaceutical companies today are spending billions to develop the next generation of mental health drugs. The company is in talks with multiple companies to use PEER reports as a predictive tool to determine which patients stand to benefit from a therapeutic class. As such, the pharma companies could enrich response rates and save millions and years in time in developing new therapeutics.
6. Commercial growth strategy outside of the U.S.: The company is working with other governments such as in Canada with the Canadian Armed Forces where a trial has commenced. The target is both NATO and Health Canada (single payer system).
7. ASP of \$800 per test with 1-2% price declines over-time.

Exhibit 2. Product Model: Diagnostics

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
MYND PEER Report Model												
Managed Care - Insurance (no. of reports)	200	200	600	5,000	8,000	12,000	20,400	42,840	68,544	102,816	143,942	194,322
Growth Rate						50%	70%	110%	60%	50%	40%	35%
Patient Direct Reports	50	50	300	400	600	1,200	1,800	2,520	3,402	4,253	4,890	5,379
Growth rate						100%	50%	40%	35%	25%	15%	10%
Government VA Reports	0	0	0	300	1,000	2,000	2,200	2,420	2,662	2,928	3,221	3,543
Growth rate						80%	10%	10%	10%	10%	10%	10%
Physician Driven Reports	100	100	250	500	1,000	2,000	2,200	2,310	2,402	2,474	2,499	2,499
Growth rate						100%	10%	5%	4%	3%	1%	0%
Ex-US (International reports)	0	0	200	200	700	3,000	5,000	7,750	10,463	13,078	15,040	15,792
Growth rate						329%	67%	55%	35%	25%	15%	5%
Academia & Industry: Reports	0	0	0	250	500	1,000	1,500	2,100	2,310	2,426	2,450	2,450
Growth rate						100%	50%	40%	10%	5%	1%	0%
Total Reports	350	350	1,350	6,650	11,800	21,200	33,100	59,940	89,783	127,975	172,043	223,986
Assume an Average ASP \$800	\$ 800	\$ 808	\$ 800	\$ 784	\$ 768	\$ 753	\$ 738	\$ 723	\$ 709	\$ 695	\$ 681	\$ 667
Peer Report Revenues (M)	\$ 0	\$ 0.3	\$ 1.1	\$ 5.2	\$ 9.1	\$ 16.0	\$ 24.4	\$ 43.3	\$ 63.6	\$ 88.9	\$ 117.1	\$ 149.4

Source: Dawson James estimates

Risk Analysis

Investment Risk: The company faces multiple investment risks from product management, market share adoption and commercialization to regulatory and competitive environment associated risks.

IPO Risk. We assume that MYnd will be NASDAQ listed and traded and in the process a year of capital will be raised. We can provide no assurances that the IPO will be successful or that our assumptions here are correct.

Market Share Risk for PEER reports and Behavioral Health. We can provide no assurances that our market model is correct and that MYnd will be able to successfully achieve our estimates for market share for either PEER reports or Tele-behavioral health projections.

Regulatory Risk: There may be certain regulatory risks related to product approval.

Commercial Risk: The company's product represents a new paradigm in the treatment of mental disease. Adoption may take longer than expected. These risks may be divided by market segments.

Financial Risk: The company should be expected to raise capital in the near term. We assume a raise and dilution, but there is no guarantee that market conditions will be favorable.

Exhibit 3. Income Statement

MYAN: Income Statement (\$000)	9.2018	Oct-Dec	Jan-March	Apr-Jun	July-Sep	9.2019	Oct-Dec	Jan-March	Apr-Jun	July-Sep	9.2020	9.2021	9.2022	9.2023	9.2024	9.2025	9.2026	9.2027
9.2018	1Q19A	2Q19A	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	
Revenue:																		
Peer Report Revenues	262	79	45	71	88	283	248	259	270	302	1,080	5,214	9,066	15,963	24,424	43,345	63,627	88,879
PGx Report Revenues	-	-	-	-	-	-	-	-	-	-	-	133	23	415	642	1,163	1,742	2,483
Arcadian TeleBehavioral Health Services	1,054	308	415	500	777	2,000	920	960	1,000	1,120	4,000	8,416	17,966	41,676	84,186	148,799	225,430	203,208
Total Product Sales	1,316	387	460	571	865	2,283	1,168	1,219	1,270	1,422	5,080	13,762	27,055	58,054	109,252	193,306	290,799	294,569
Total royalties, collaborative revenue																		
Total Revenue	1,316	387	460	571	865	2,283	1,168	1,219	1,270	1,422	5,080	13,762	27,055	58,054	109,252	193,306	290,799	294,569
Expenses:																		
Costs of Goods Sold	827	6	5	8	10	30	25	26	27	30	108	535	909	1,638	2,507	4,451	6,537	9,136
%COGS	63%	8%	11%	11%	11%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Costs of Goods Sold	219	291	351	545	1,405	598	624	650	728	2,600	5,470	11,678	27,090	54,721	96,719	146,529	132,085	
%COGS	71%	70%	70%	70%	70%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Research	232	81	61	65	68	250	60	63	68	71	263	276	289	304	319	335	352	369
Product Development	1,146	237	237	221	230	850	115	120	130	135	500	510	520	531	541	552	563	574
Sales and Marketing	1,618	152	199	260	270	1,000	506	528	572	594	2,200	2,310	3,200	4,800	4,896	4,994	5,094	5,196
% S&M (of Revenues)	39%	43%	43%	46%	31%	44%	43%	43%	45%	42%	43%	17%	12%	8%	4%	3%	2%	2%
General and Administrative	7,738	2,374	2,350	2,470	2,565	9,500	2,070	2,160	2,340	2,430	9,000	5,200	5,720	8,008	8,408	8,577	8,748	8,923
%SG&A (of Revenues)	613%	511%	433%	297%	416%	177%	177%	184%	171%	177%	38%	21%	14%	8%	4%	3%	3%	3%
Total Expenses	10,733	3,069	3,144	3,375	3,687	13,035	3,374	3,521	3,787	3,988	14,671	14,301	22,316	42,370	71,392	115,627	167,823	156,284
Operating Income (Loss)	(10,245)	(2,682)	(2,684)	(2,804)	(2,822)	(10,752)	(2,206)	(2,302)	(2,517)	(2,566)	(9,591)	(538)	4,739	15,684	37,860	77,679	122,976	138,286
Interest income (expense), net	(86)	(23)	(23)															
Financing expenses																		
Loss on extinguishment of debt																		
Gain on extinguishment of debt																		
Gain (Loss) on derivative liabilities																		
Legal settlement accrual																		
Other miscellaneous income																		
Net Losses (non controlling interest)	(734)																	
Total Other Income	(821)	(2,705)	(2,707)	(2,804)	(2,822)	(11,037)	(2,206)	(2,302)	(2,517)	(2,566)	(9,591)	(538)	4,739	15,684	37,860	77,679	122,976	138,286
Pretax Income	(9,599)	(2,705)	(2,707)	(2,804)	(2,822)	(10,752)	(2,206)	(2,302)	(2,517)	(2,566)	(9,591)	(538)	4,739	15,684	37,860	77,679	122,976	138,286
Income Tax Benefit (Provision)	-	2	2	-	-	-	-	-	-	-	-	-	237	1,568	5,679	15,536	30,744	41,486
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	10%	15%	20%	25%	30%
Gain (Loss) from discontinued operations		(327)	(451)															
GAAP Net Income (Loss)	(9,599)	(2,380)	(2,258)	(2,804)	(2,822)	(10,264)	(2,206)	(2,302)	(2,517)	(2,566)	(9,591)	(538)	4,502	14,116	32,181	62,143	92,232	96,800
GAAP-EPS	(1.85)	(0.32)	(0.27)	(0.20)	(0.14)	(0.93)	(0.11)	(0.11)	(0.13)	(0.13)	(0.48)	(0.03)	0.22	0.70	1.58	3.04	4.49	4.69
GAAP-EPS (Dil)	(1.85)	(0.16)	(0.13)	(0.20)	(0.14)	(0.63)	(0.11)	(0.11)	(0.13)	(0.13)	(0.48)	(0.03)	0.21	0.63	1.37	2.55	3.64	3.67
Wgtd Avg Shrs (Bas) - '000s	5,200	7,543	8,399	14,000	20,000	12,486	20,020	20,040	20,060	20,080	20,050	20,130	20,211	20,292	20,373	20,455	20,537	20,619
Wgtd Avg Shrs (Dil) - '000s	5,200	15,000	17,000	14,000	20,000	12,486	20,020	20,040	20,060	20,261	20,050	20,772	21,616	22,493	23,407	24,357	25,346	26,375

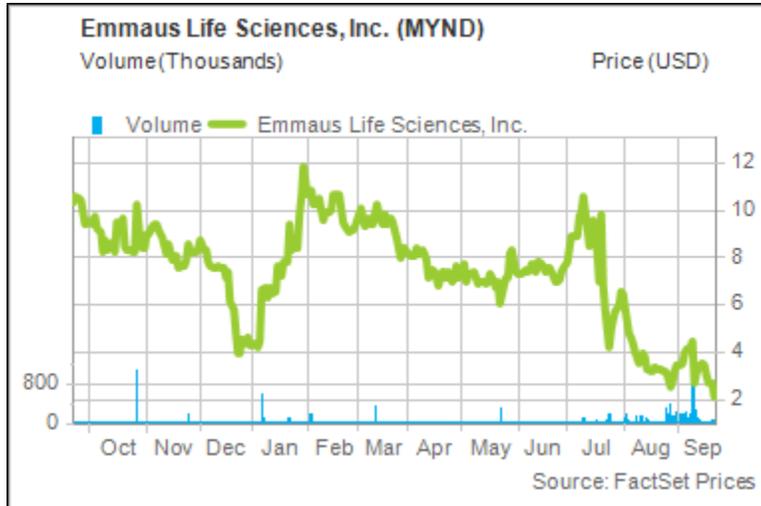
Source: Dawson James estimates

Companies mentioned in this report

Emmaus (private)

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiated – Buy – April 12, 2019 – Price Target \$4.00
- Updated – Buy – May 22, 2019 – Price Target \$4.00
- Updated – Buy – July 10, 2019 – Price Target \$4.00
- Updated – Buy – July 23, 2019 – Price Target \$4.00
- Rating Change – Neutral – September 24, 2019– Price Target NA

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	27	82%	6	22%
Market Perform (Neutral)	6	18%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	33	100%	6	18%

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