

Universal Ibogaine Inc.

Focused on New Treatment for Opioid Addiction and Other Substances Going Public – Introductory Note

N/A

Current Price: N/A

Fair Value: N/A

Risk*: 4

Sector/Industry: Medical Care Facilities

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In this note we are introducing Universal Ibogaine Inc. (“UI”), a privately held company building an addiction treatment business. UI plans to file a Clinical Trial Application with Health Canada by mid 2021, as well as open ibogaine based psychotherapy centres in jurisdictions where ibogaine use is legal. **The company is scheduled to go public through a reverse-takeover (“RTO”) transaction with a TSXV listed capital pool company.** The transaction is expected to close in February 2021.

Upon completing the RTO and a related prospectus financing of \$3M to \$5M, **UI expects to have approximately 169M shares outstanding.** The existing shareholders of UI will hold 76%. UI is currently closing a non-brokered private placement of up to \$3M. This financing is priced at \$0.25 per unit, with each unit consisting of one common share and one warrant (\$0.50 exercise price, escalating annually by \$0.25, expires in five years).

Planned use of prospectus funds: \$1M will be used to close the acquisition of an existing addiction treatment facility (utilizing conventional treatments) in Manitoba (the Kelburn Recovery Centre), and up to \$1M will be used for R&D and initiation of the ibogaine clinical trial process.

The following is a brief overview of the company’s business.

UI was formed in 2018 in Vancouver, with the goal of developing **detoxification clinics to treat addictions primarily related to opioids, but also to alcohol, cocaine, etc.** **The company intends to apply to Health Canada for clinical trials to establish the efficacy of ibogaine to treat opioid use disorder.** CEO, Jeremy Weate, has experience in working with ibogaine treatment, and has organized conferences about ibogaine in Vienna, Porto and London. He was also involved in establishing the Tabula Rasa Retreat, an ibogaine based treatment facility in Portugal. We have reviewed Tabula Rasa Retreat’s website, and found the facility to be operational. According to management, Dr. Alberto Sola, co-Founder and board member of UI, has extensive experience in ibogaine treatment, and has treated more patients with ibogaine than any other person in the world.

Use of ibogaine in addiction treatment: Ibogaine is a substance most often extracted from the root bark of Tabernanthe iboga, a shrub found in West Central Africa, and is considered to have addiction-interrupting attributes. Management disclosed that they plan to have their ibogaine semi-synthesised

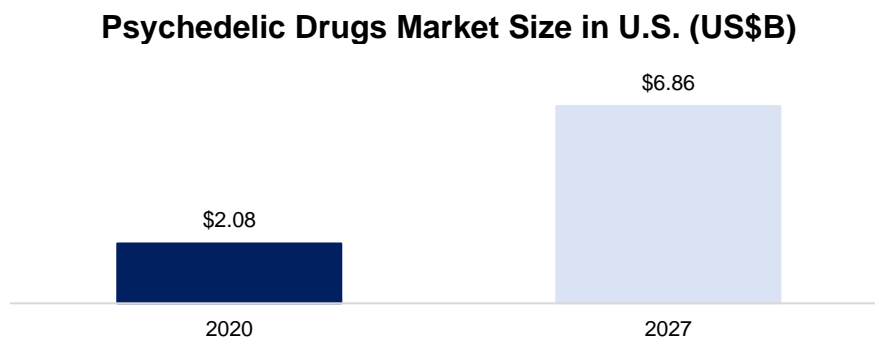
from voacanga africana (a plant native to tropical Africa). Discussions are ongoing with a contract manufacturing company. While ibogaine is a Schedule 1 drug (not approved for addiction treatment or any other therapeutic use) in the U.S., **it is on the Prescription Drug List (PDL) in Canada**. Ibogaine is being used to treat drug addiction in countries such as Mexico, Brazil, South Africa, the Bahamas, and Mauritius.

UI plans to establish the use of ibogaine and other psychedelic medicines into treatment protocols in detoxification clinics. **A treatment protocol using ibogaine was developed by Clear Sky Recovery Cancun SA de CV (“ClearSky”), a treatment center based in Cancun, Mexico, that claims to have treated over 3,500 patients since it began operations in 2003.** UI entered into a license agreement with privately-owned ClearSky in 2019, to acquire exclusive global rights to use their treatment protocol. UI paid US\$900,000, and will issue 30M shares (subject to performance-based milestones) for use of the Clear Sky protocol.

Management’s plan is to acquire and/or open multiple facilities in Canada, and eventually in overseas regions such as the Bahamas, where they will incorporate their own treatment protocol (ibogaine therapy) in addition to conventional treatments. Management plans to operate at least 14 clinics by the end of 2025. UI is in the process of engaging an established CRO (Clinical Research Organization) to lead the clinical trials in Canada.

Market Potential

Data Bridge Market Research estimates the U.S. psychedelic drugs market to be \$2.08B in 2020, which is expected to grow at 17% p.a. to reach US\$6.86B by 2027.



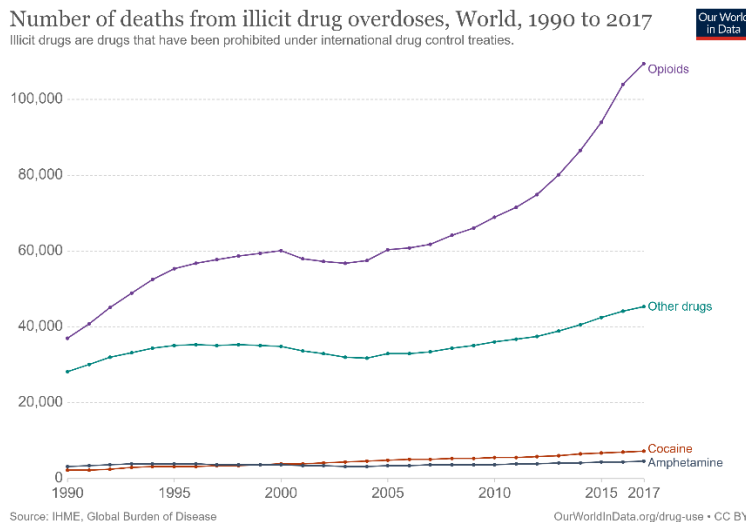
Source: Data Bridge Market Research, FRC

Psychedelic drugs are gaining traction in mainstream treatments. Recent promising industry developments are listed below:

- Johnson & Johnson's (NYSE: JNJ) SPRAVATO nasal spray for treatment-resistant depression was the first psychedelic drug to be allowed under the FDA Breakthrough Therapy designation in March 2019. Breakthrough Therapy designation expedites the trial process for drugs that are intended to treat serious conditions.
- In 2020, Numinus Wellness Inc. (TSXV: NUMI) became the first publicly-traded company in Canada to obtain a licence by Health Canada to research psilocybin from mushrooms, for the purpose of psychedelic medication.

- AbbVie Inc. (NYSE: ABBV), a spin-off of Abbott Laboratories (NYSE: ABT), acquired Allergan PLC to have exposure to the psychedelic drugs market.
- Mind Medicine Inc. (NEO: MMED) has multiple novel therapies, underway through clinical trials, focused on a psychedelic medicinal approach.

In recent years, opioids have been responsible for the largest number of overdoses from illicit drugs.



Source: Ourworldindata.org

To get an idea of the market size in Canada, we took a closer look at the number of cases of opioid overdose/deaths in recent years. **Based on the data below, we estimate that the treatment market in Canada could be \$200M per year.**

Opioid Addiction Cases in 2016 - 2020			
Opioid-related	2020 Q1	2016-2019	Annual Average
Deaths	1,018	15,346	3,837
Hospitalized	1,067	19,456	4,864
EMC Calls	4,560	4,553	1,138
Total	6,645	39,355	9,839

Source: Government of Canada, FRC

Similar to any addiction treatment facility, UI’s revenue will be based on the number of patients, and pricing of the chosen recovery program. **We estimate that a facility of similar size as ClearSky’s facility can generate approximately \$8M in revenue per year.**

Potential revenue from one facility

Assumptions:	
Current facility capacity (# of beds)	10
Therapy duration (# of days)	7
Price per patient	\$20,400
Expected occupancy	75%
Days in a year	365

Annual revenue	\$7,977,857
Annual number of patients	391
Market penetration	4%

We found that the per day cost of hospitalization for substance-related disorders in Canada averaged \$4,331 in 2018 – which is about 50% higher than the company's implied price per day of \$2,914.

Source: Company, FRC

Since the psychedelic drug industry is fairly new, there are not many direct comparables for UI. We found two companies (also B.C. based) that operate in the psychedelic medicinal sector, Mydecine Innovations Group Inc. (CNSX: MYCO) and Numinus Wellness Inc. (TSXV: NUMI), which are currently trading at EV/Revenue multiples of 135x and 40x, respectively. We will be initiating coverage on UI in February, upon completion of the RTO. Based on the current financing's pricing, and the expected number of shares outstanding upon completion of the RTO, we believe management is expecting a market capitalization of approximately \$42M upon listing. **We will have a fair value estimate and rating in our initiating report.**

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The RTO was been postponed twice; there is no guarantee it will close in early 2021 as planned.
- UI is in an industry that is highly regulated and subject to material change from governmental intervention.
- There is no guarantee that the company will be able to successfully penetrate the Canadian market.
- The company could potentially be denied a license to use ibogaine by Health Canada.

We are assigning a risk rating of 4 (Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (69%), HOLD (7%), SELL / SUSPEND (24%).

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