

President & CEO Letter to Shareholders

written by Raj Shah | March 13, 2020

March 12, 2020 ([Source](#)) – Dear Nova Leap Shareholders:

As Nova Leap enters its 5th year of existence, this seems to be an appropriate time to reflect on the accomplishments we have made to date and comment on the path forward. I have had the opportunity to meet with many people over the past few years, and some of my comments may be the result of conversations that I have had with investors or others that have had an interest in learning about what we are doing. In any event, I hope you will find the material informative and useful.

Perhaps as a reflection on the evolution of our organization, I tend to think of the past four years and where we are today in terms of the following phases:

Phase 1: 2016 and 2017 – The concept, seed round, closing our IPO, completing our qualifying transaction, listing on the TSXV and the beginning of an aggressive acquisition strategy with two New England transactions in Q4 2017;

Phase 2: 2018 – Management demonstrates the ability to identify and close on multiple acquisitions (five in total) at reasonable valuations. Regional platform built in New England;

Phase 3: 2019 – Operational and financial improvements in previously acquired operations, further acquisitions (three), expansion into a new market (South-Central, U.S.), record revenues, critical inflection points reached with the generation of positive EBITDA and positive operating cash flows;

Phase 4: 2020+ – Starting this phase in the best financial

position in the Company's history. Maintaining a disciplined approach to continuous improvement. Having a perpetual view of expanding existing territories while growing into new markets organically and through acquisitions.

Investing in our people

The success of our business relies on our people and our philosophy involves one of continuous improvement. The majority of our clients live with dementia and we have made dementia training a priority for our care professionals. During the past year, we continued enhancing the skills of our personnel and provided dementia training to approximately 400 care professionals across our organization. An effective, person-centered approach leads to better care and support for our clients in the communities we serve. Enhanced training for our personnel will remain a priority as we continue to grow.

Expanding markets

During the last year, Nova Leap expanded operations within the New England and Nova Scotia markets, areas where the Company has demonstrated success. In Q4 2019, we made our first entry into the South-Central region of the U.S. by way of an acquisition in Oklahoma, one that has gone very well for us in the short period of time we have been involved. We continue to examine opportunities for further expansion in the regions in which we currently operate. We expect to make further acquisitions during 2020. In addition, we have planned organic expansion to the Midwestern U.S. in Q2 2020 under the direction of existing personnel. Nova Leap remains very much in growth mode.

Insider ownership

Since the day we started this company, insiders have accumulated meaningful positions in Nova Leap through multiple financing

rounds. I believe it speaks to the confidence that insiders have in the direction our organization is headed. I am reassured by the fact that the individuals that have the most insight into this organization bear significant risk in the outcome of the decisions that are made.

Financing

Speaking of financing rounds, in the early days, there was a perception that Nova Leap was a serial fundraiser. Certainly, from 2016 to 2018, there were a few private placements, normally led by insiders. During that time, we would enter into an agreement to purchase a business, announce the deal and then raise funds to finance the deal.

What became apparent to me, as I spoke to investment professionals during the latter part of 2019, is that this perception still existed when the reality has changed. Nova Leap's last equity financing round closed in October 2018. We went about 14 months, and three subsequent acquisitions, prior to making the decision to issue convertible debt in December 2019, a financing once again led by insiders and twice oversubscribed.

Based on our current financial position and assuming cash flows from existing operations remain steady, Nova Leap is in a position where it may not have to raise external equity financing again. We may choose to do so if we believe it is in the best interests of shareholders and the Company but I often think about a future where the only way for investors to participate in Nova Leap's growth is to purchase shares in the open market. Investors that pay particular attention to our financial statements will notice that the going concern note, which had been in existence since our first set of financial statements, has now been removed from our 2019 financial

statements.

Our debt

Let me take a few moments to address our debt situation, particularly for those investors who may not come from a traditional banking, financing or accounting background. Our debt can be broken into four categories as follows:

1. A revolving credit facility – Nova Leap has a CAD\$1 million revolving credit facility from Q2 2019 by a major Canadian bank which is undrawn as of year-end. It may be used for working capital purposes if required.
2. Demand loans – This concept can be confusing. The full amount of this debt shows as a current liability on the balance sheet due to its “demand feature” so many folks take this to mean that Nova Leap must repay this amount in 2020. That is not the case. There are five demand loans in total which relate to specific acquisitions that were undertaken. Each demand loan has an amortization between 5-7 years. Principal and interest are paid monthly based on this 5-7 year period. For accounting purposes, the full amount of the demand loans shows as current. From a cash flow perspective, the loans are repaid over 5 to 7 years with a remaining term of approximately 2.5 to 5 years at this time.
3. Promissory notes – These are amounts owing to previous owners of our acquisitions. They generally have a shorter payback period than the demand loans.
4. Convertible debt – This was the recent financing round. The Company raised gross proceeds of just over CAD\$ 3 million. The convertible debt has an 8% coupon and an exercise price of CAD\$0.52 with a forced conversion of CAD\$0.78 if the stock is trading at that level for 20 days after one year from the date of issuance.

There are some key considerations to keep in mind related to our debt. First, it was exceptional that we were able to attract a lender, at such an early stage in Nova Leap's development, that was willing to support our aggressive acquisition strategy. Second, as we executed on our strategy and demonstrated improvement in the acquired operations, we were able to secure additional debt financing which allowed us to scale more quickly. Third, we are paying this debt back and none of the acquisitions in 2019 required bank financing. Fourth, as this debt is paid back, it creates more free cash flow which can be deployed to new expansion or acquisition opportunities. The majority of the outstanding promissory notes will be repaid in 2020.

Our lender has been tremendously supportive of our plans since entering the relationship, including supporting our desire for convertible debt financing. Given that Nova Leap acquires historically cash flow positive operations, I expect that the Company will continue to use debt financing as a financial tool to grow.

The Nova Leap Model

In my comments to Q3 2019 results, I highlighted our small business acquisition model. For long-term investors, with an eye to the future, I believe the potential is compelling. My view is that each business acquired, or each new location opened organically, will be held in perpetuity. That gives us the value of time. Time to own a growing stable of businesses in multiple locations under the premise that each will produce positive cash flows. Those positive cash flows will be reinvested either at the local level, if the rationale is compelling, or into another jurisdiction that holds high return potential. The potential effect is one of compounding.

We have companies in our portfolio generating EBITDA in excess of the amount of cash Nova Leap contributed to their acquisition. This underlies our belief that the Company can generate high returns on invested capital in the long run.

I am often asked about deal flow and the size of transactions. We have considered both small and large opportunities. Obviously, relative to our short history, we have demonstrated the ability to find and close multiple acquisitions. The advantage of operating in such a fragmented industry is the ability to increase the number of acquisitions in a given year, if circumstances warrant, or to consider larger transactions if the risk profile is appropriate.

To those shareholders who share my outlook on the Company, I believe your patience will be rewarded.

Yours truly,

Chris Dobbin, CPA, CA
President & CEO

NON-GAAP MEASURES:

Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as the net loss, before acquisition and transaction costs, non-cash expenses (including loss from disposal of assets, impairments, amortization and depreciation and stock-based compensation), interest expense, net of interest income and income tax expense.

FORWARD LOOKING INFORMATION:

Certain information in this press release may contain forward-looking statements, such as statements regarding future expansions and cost savings and plans regarding future acquisitions and financings. This information is based on

current expectations and assumptions, including assumptions concerning the Company's ability to integrate its acquired businesses and maintain previously achieved service hour and revenue levels, that are subject to significant risks and uncertainties that are difficult to predict. Actual results might differ materially from results suggested in any forward-looking statements. Risks that could cause results to differ from those stated in the forward-looking statements in this release include regulatory changes affecting the home care industry, unexpected increases in operating costs and competition from other service providers. All forward-looking statements, including any financial outlook or future-oriented financial information, contained in this press release are made as of the date of this release and included for the purpose of providing information about management's current expectations and plans relating to the future. The Company assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements unless and until required by securities laws applicable to the Company. Additional information identifying risks and uncertainties is contained in the Company's filings with the Canadian securities regulators, which filings are available at www.sedar.com.

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