



Opportunity Equity Research

The Joint Chiropractic (JYNT)

Initiation Report (11/13/2017)

The Joint (JYNT) Statistics

\$ 5.90 Current Price

\$ 79.8 Mil Market Cap

52 Week Range \$1.96 - \$ 5.99

Shares Outstanding: 13.5m

Enterprise Value: \$78.2 Mil

Debt: \$1 mil

Institutional Holdings: 46.2%

Insider Holdings: 17.2%

Short Interest: 3.1% of float

100-Day Avg Volume: 26.4k

Condensed Income Statement

FY (Dec)	Q1	Q2	Q3	Q4	Yr
EPS 16a	-\$0.28a	-\$0.26a	-\$0.21a	-\$0.27a	-\$1.01a
EPS 17e	-\$0.11a	-\$0.08a	-\$0.03a	-\$0.03e	-\$0.26e
EPS 18e	-\$0.02e	-\$0.01e	\$0.03e	\$0.05e	+\$0.03e
Rev16a	\$4.3a	\$5.0a	\$5.5a	\$5.8a	\$20.5a
Rev17e	\$5.7a	\$6.0a	\$6.5a	\$6.6e	\$24.9e
Rev18e	\$7.0e	\$7.3e	\$7.8e	\$8.3e	\$30.4e

Enterprise Value/Revenue Multiple

2016a: 3.68a 2017e: 3.1e 2018e: 2.6e

JYNT Chart since IPO-Thomson



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Company Description: The Joint Chiropractic currently has 389 chiropractic wellness centers (12% company owned or managed) operating on a no-appointment model with cash-based membership plans and packages that eliminate the need for insurance. The Joint currently has significant geographic exposure across 30 states, with plans for clustered openings in the future to ramp to a network of 1,700+ locations over time.

Opportunity Summary: After a rough stretch post its IPO, a number of sell-side firms dropped coverage, with the stock moving from trading in the \$10+ range to lows at its base in the \$2 range in 2016. Trading in the \$4-6 range currently, we feel that the upside is back to the \$10+ level and potentially much higher in the next few years-our case:

- The Joint continues in its path to profitability-they need to continue to ramp new openings to gain scale and margin leverage, maintaining a LT growth path while achieving positive EPS. Recent quarterly results include positive adjusted-EBITDA for the first time in the company's history.
- Same store sales growth across the different aged units are impressive, with 17% system-wide comp sales showing growth rates simply not currently seen by many companies in a very challenging traditional retail space.
- New regional developer agreements signed within this past year give the company help ramping new units and visibility into potential growth across key regions for years to come (this also helps with growth not dependent on the company's balance sheet or future ability to raise capital).
- The stock market cap is tiny, and the long-term chart shows how previous investors gave up on it. As the new management team continues to ramp new units and drive to full company profitability, the opportunity for share gains is large.
- With an enterprise value trading at 3.1 times 2017 estimated revenue and just 2.6 times street consensus revenue numbers for 2018, we believe that the valuation is very attractive for patient, diversified investors.

Peter Holt, CEO John Meloun, CFO
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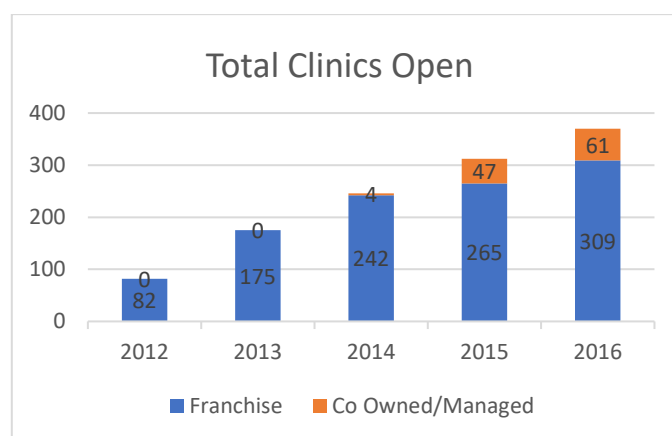
Company Overview/History: Originally started in 1999, The Joint was refounded in March 2010 with the acquisition of the original eight franchised clinics. After a capital raise/IPO in 2014, the Joint has grown to 389 clinics in 30 states nationwide.

According to the American Chiropractic Association, there are 77,000 chiropractors in the United States. Approximately 10,000 chiropractic students are in 18 chiropractic doctoral graduate education programs across the U.S., with 2,500 chiropractors entering the workforce every year. The ACA estimates that more than 35,000,000 Americans are treated by chiropractors annually. Consumer Reports rated chiropractors as the highest consumer-related healthcare practitioners for low-back pain treatments, above physical therapists, specialist physicians and primary care doctors. The U.S. Congress has authorized that certain chiropractic services be covered by Medicare and Medicaid, and chiropractic treatment is a covered benefit in almost all insurance policies, with up to 87% of all insured American workers having coverage in their health care plans. Chiropractic care is also covered under all 50 state workers' compensation laws and is a IRS medical deduction. According to the U.S. Department of Labor, \$90 billion is spent on back pain each year. The market is real, large and expanding.

The Joint addresses this market using a differentiated business model to address the estimated \$15 billion/year chiropractic market. The Joint employs a 100% private pay business model and charges an average of \$24/visit vs. \$74 average/visit for the industry (with the industry utilizing various forms of insurance, often located in medical centers and offices). The Joint's model is based on convenient retail locations open 6-7 days/week and on nights and weekends with no appointments necessary to encourage easy, frequent use.

Management's analysis of 2016 results show that 75% of their revenue comes from recurring memberships (21% of their patient base being new to chiropractic care). With over 4.1 million patient visits recorded in 2016 and over a million patients served last year, the demand and need for their services is very real (management estimates that 75% of 2016 revenue was

from recurring memberships). With a total of 383 locations opened at the end of last quarter, The Joint has just begun to scratch the surface of potential future growth, with an estimated 39,000 independent chiropractic offices currently operating in the U.S. (to give you a feel for total addressable market and opportunity). Management currently estimates that there is a potential to ramp to 1,700 locations over time. They currently have locations in 30 states, with decent concentrations in California, Texas and the Southeast. The ramp to 1,700+ locations can occur in part because with their model they are able to pay \$20,000k+bonus more than typical starting salary in the industry, so the 2,500 or so new Chiropractors coming out of school every year are attracted to their model.



Management Profile:

The main players for the Joint include CEO Peter Holt, CFO John Melhoun, George Vomentero (recently brought in as VP Ops), Donna Smith (VP Marketing), and Eric Simon (VP Franchise Sales).

Peter Holt, current President and CEO, started at The Joint in the COO role in April, 2016, becoming active CEO in June 2016, and then President and CEO in the beginning of this year. The prior CEO had created aggressive company-owned new unit ramp plans that used a lot of cash and included an ill-timed and fated entrance in to the Chicago market. Poor initial results and the cash burn led to the board replacing him with Mr. Holt. The board initially brought him in as the new COO with 30 years of franchise small box retail experience. Peter's background includes time spent at Tasti-D-lite, Planet Smoothie, Mail Boxes Etc. and the

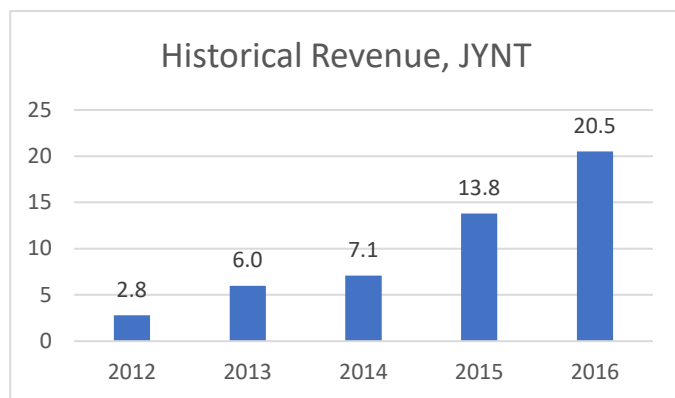
UPS Store. His experience with high growth multi-unit franchise models will be key to the company's future.

Other key players include John Meloun, who started at the Joint in March of 2015 as Director of Financial Planning and Reporting and was promoted to CFO status in November of last year. An interesting recent add to the management team was George Vomentero, VP of Operations, who was hired to 1) focus on the profitability of the California Greenfield clinics and 2) increase the capability and efficiency of their franchisees and regional developers. This focus is both timely and needed, as the last CEO largely used the IPO cash raise to fund a large number of clinic purchases and for the ramp of greenfield clinics.

Mr. Eric Simon, VP Franchise Sales, also was a recent add to the management team. He brings a record of helping brands grow through franchise sales and development from Mail Boxes, etc., The UPS Store and AAMCO, and based on recent regional developer wins in the past few conference calls, he has hit the ground running.

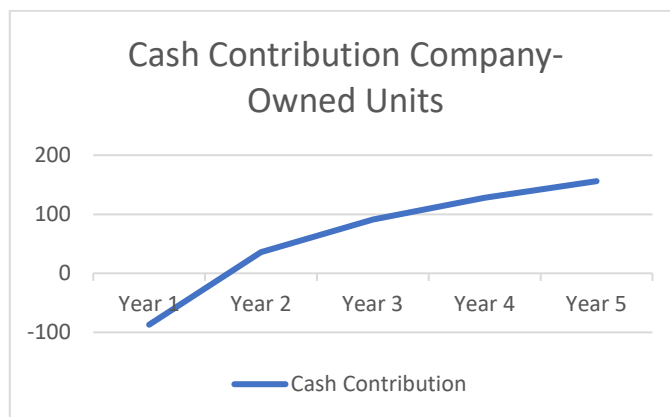
Growth Opportunities/Margin Profile:

In terms of unit growth, the management team has talked about a goal of opening 1,700+ units over time (with just under 400 currently open). This is out of an estimated roughly 39,000 total private clinics located around the U.S. (First Research Industry Report, August 2015). This strikes me as very achievable and potentially very conservative longer term. I also like that with their current geographical exposure across large highly populated portions of the U.S., they can concentrate growth in clusters and in their most successful geographies.



Company owned and/or managed units require roughly a \$250k investment and are projected to breakeven around 12-18 months post opening. The key here is a 35% or greater contribution margin potential from these units when they are mature (year 5+). The prior CEO built 16 true greenfield units that are early in their ramp and will take time to build out. Although still young as a group, they are noted as being cash positive on a clinic level, with clinics acquired in 2015 that were owned/managed for at least 12 months seeing gross sales gains of 59% in Q1 2017.

The following chart shows the projected ramp of these \$250k initial start-up cost company-owned units. From the appendix in a Joint IR deck, based on historical gross sales growth from Jan 2013 to June 2017, the yearly average ramp is -\$87k, +\$36k, +\$91k, +\$128k, +\$156k. These units typically break even at roughly \$21k/month in revenue (likely some time in year two). The goal is 35% contribution margin/company owned location in year five.



While these numbers are impressive, the Joint needs to continue to get enough of these units ramped to a mature level to kill off the cash burn in these new units and start creating a positive company-wide cash flow environment (at this point in the unit ramp, they still don't have enough units at maturity to cover corporate overhead, but they are getting close). As of November of last year, 26 of the company owned/managed locations were noted as still being at the "early stage" status. They have also noted that the total portfolio is now at over three years in age, an important metric in the ramp toward company-wide profitability-additional maturity here should lead to nicely increasing EBITDA

contribution over time.

Mr. Holt and the current team have addressed the cash burn issue by halting all new company owned unit development (announced/implemented in Q2 2016), with the commitment to not open any new company owned units until they as a group reach profitability. If the numbers above hold true to the new company-owned units in The Joint's business mix, patience should be rewarded with solid cash contribution to the company level as their company-owned base matures.

With a current focus now on new geographical franchise developers with new wins including Chicago, Philadelphia and the State of Washington (in Q1), Ohio and Central Florida (Q2), and Maryland/DC, Northern New Jersey and Minneapolis/St. Paul (Q3), the goal is to ramp new franchisee unit growth to 40-50 this year. New franchisees pay just under \$40k/unit in fees and then a 7% royalty on gross sales (split with the regional developers). The recent new eight regional developers signed on in the first three quarters of 2017 are required to ramp a minimum of 211 clinics in the next ten years (representing in part a "minimum level" needed for each of these RDs to continue with exclusivity on their markets). The Joint now has over 16 region developers in some key markets. This certainly will help accelerate unit growth in the future, and to put it in perspective, 39 of 380 national MSAs are now covered by regional developers. They have the opportunity to continue on the recent ramp here, and also can keep some key markets in territories where they have large corporate-owned exposure to themselves to continue to ramp in those areas.

On the franchisee unit growth front, management gave color that it can take 6-12 months from license purchase to open clinics (they are at a point in the year where they have sold 23% more franchisee licenses than they did in all of the previous year). In addition, they revamped their new opening process to focus on getting to unit profitability in 6-9 months instead of towards the end of 12-18 months which was their previous model. With 21 units now at over \$550,000 in annual gross sales, up from 14 the prior year (and the best unit at almost \$1 million in volume), the progress is now being seen in both the bottom and top-line results.

On the franchise base, including receiving the initial upfront fees, the 7% royalty is estimated to be worth in total \$53k year one, \$21k year two, \$25k year three, \$28k year four and \$30k year five (these streams are split with regional developers). While this growth isn't nearly as large and important in absolute dollars to the parent, it also doesn't require the parent company's balance sheet to make it happen. That is where they are now, focusing on the franchise ramp in the near term with new regional developer relationships and commitments to unit growth. In the mean-time, the 47 current company-owned or managed units (31 were franchisee buybacks, 16 were greenfield units) can march on their way to profitability and increased contribution.

Some key management guidance from the recent quarter to be aware of include a guide of +40-50 net new clinic openings during 2017 (29 so far in the first three Qs-all will be franchise clinics), year revenue guidance of \$24-26 million (upped by +\$2 million), and Adjusted EBITDA of -\$0.5 to +\$0.5 million for the year (upped by \$1 million). They also recently added more operational support for corporate clinics, changing field staff coverage to 8-10 units vs. 20 units previously-they felt it was a necessity to help improve corporate-owned unit performance. Sell-side quarterly estimates for the next two quarters seem very achievable given recent business momentum, but will largely be achieved or beaten based on net number of new franchise openings for the next few quarters. The recent crossing in to positive EBITDA results in the most recent quarter (+\$300k) is notable and shows where they are in the cash management vs. growth turnaround.

Competitive Environment/Industry Thoughts:

Many of the estimated 39,000 total private clinics throughout the U.S. are small mom and pops that have a large portion of their revenue tied to insurance based payments. The Joint has only roughly 1% current unit share of that market with a cash based model using convenient retail based locations. The Joint is differentiated and should be able to grow for years into that market.

A couple of competitors do stand out. HealthSource Chiropractic has just under 300 clinics in 34 states using a franchised based, insurance paid for model (The Joint's closest comp in terms of size—their geographic reach and focus are similar, but HealthSource is a roll up). In addition to focusing on the insurance market as a pay network, HealthSource Chiropractic's unit development and marketing seems aligned to attract chiropractors directly as the franchisee, while The Joint is focused both on chiropractor owned and run units as well as on franchise growth based on developers and business owners that end up hiring the chiropractors as staff. Although HealthSource has the same type of unit numbers as The Joint, they are an insurance based model.

ChiroOne and AlignLife Chiropractic are much smaller (41 and 23 units respectively) and also use an insurance-based business model. ChiroOne has been around since 1992 and their locations are independently owned and operated, while AlignLife has a large focus on natural health care in addition to the focusing on the chiropractic market. Two smaller entrants that use the franchise/private pay models are ChiroWay (9 clinics, \$59/month individual cash based model, based largely in Minnesota) and NuSpine (3 clinics, \$19 cash pay/treatment, NE and IA based).

Although investors may look at the Joint's business model as a "healthcare provider", because of its unit footprint and business model, it makes much more sense to look at this as a retail comp. If there are currently 39,000 locations providing chiropractic care throughout the U.S., with the top two chains only amounting to less than 2% of the total industry units, all of these companies have plenty of room for growth both with geographical expansion over time and with clustering if it suits them.

Ownership Profile:

The Joint has a few large holders of note. Sanders Morris Harris owns just under 20% of the company's stock, and Glenhill Capital Management owns just under 17%. Sanders Morris has been invested in the company since being part of the IPO, and the founder's son Bret Sanders is on the board (management

described having a positive, supportive relationship here). Glenhill is a value based, bottoms up investor focused on the consumer and industrial sectors. Their most recent move looks like a portfolio trim in Q2. Skylands Capital also owns just over a 4% position—they are a hedge fund manager based in Milwaukee whose PM used to work for Strong. The Colmar brothers both own over 4% each as well, with insider ownership now at 17.2% of total.

Short interest is just under 250,000 shares currently, or roughly 3.1% of float, and this number has been decreasing as the year has progressed. CEO Holt owns .32% and CFO Meloun owns .11%. I'd like as an investor to see both of the numbers more significant and aligned with shareholders, but the management team's current focus on adjusted EBITDA improvement and profitability of the corporate units aligns them appropriately with long-term shareholders interest. There has been recent insider buying activity, with around 80k bought back in June, another 20k in March and 20k last December.

Risk Profile:

The stock and business risk profile for The Joint includes many things that are typical of companies of this size (some of the smallest public companies out there—volatility over time is huge, but so is the opportunity). Liquidity risk is certainly present, with 100-day average volume of around 26.4k/day. This can be mitigated through small purchases over a longer period of time or by trying to get volume around earnings calls. This is still currently a money losing high growth profile micro-cap, position size is important, watching for consistent successful "blocking and tackling" by the management team is necessary.

Future growth rates and growth over time are certainly risks—the management needs to continue to balance new unit growth vs. balance sheet strength and cash burn to get to profitability at the corporate level, while still focusing on the long-term goal of more than quadrupling store count over time. With regional developers and franchisee openings not completely under management's control, timing of the unit ramps may be lumpy. Investors need to continue to make sure the long-term ramp of units and the focus on reaching

profitability in the near term stays on track. Other risks are more common and generic but appropriate to mention including general economic growth at very low single digits currently (mildly supportive, yet will change over time).

Valuation:

Stocks at this stage of their growth ramp are really hard to place a firm valuation on. The Joint is still in high growth mode—they have been burning cash and losing money on the corporate level as they have been ramping new units.

With the Joint currently sporting an approximate \$78 million enterprise value with just under 400 locations, current investors are valuing the company at roughly \$200,000/location. This is with an average estimated \$30k in license fees in the fifth year for franchise units and with \$158k average in corporate contribution in the fifth year for company-owned/managed units. The current base includes 342 franchise units and 47 company owned/managed units of various ages. With the majority of the company owned units being in the first two years of their unit ramps, the management needs to prove out that \$158k number over time with their entire co-owned base. The \$30k average franchise fee in year five also compares well with the \$200k current market valuation/location, but the management simply needs to get critical mass large enough to pay for corporate overhead, and then they will feel the positive effects of incremental margin.

On the Q2 2017 call, the CFO mentioned that unallocated corporate overhead was 33% of revenue vs. 51% in the prior year. If they can continue to ramp units to cover more and more of the overhead, investors can start putting a different type of multiple on their locations to attempt to place a “fair value” on their stock. With all of the associated difficulties with placing a discounted cash flow valuation on a growth company like this, one method could be to attempt to see and value where “they could be” if they get to their goal of 1,700 units at current average contribution per location.

If 90% of their stated goal over time of 1700 units is franchised and 10% company owned post full ramp,

unit contribution would be approximately \$71.4 million if ramped (\$45.9 million contribution from franchise units, \$25.5 million from company owned and managed locations). That would be approximately \$71 million contribution for a company with \$26 mil in SG&A off their current base of just under 400 units. The trick is obviously in managing SG&A spend and getting critical mass in terms of number of units (get to a point where cash flow in is less than total spend). If they stick with a game plan of a large portion of new units being franchise locations (88% currently), incremental SG&A should be relatively small.

This comes to assumption on top of assumption (i.e. what will terminal contribution per location be when fully ramped out in units, how far are we from that-12 years, 15, 18+?, what will the franchise/company split end up at?, etc.). The beauty of a franchising model is its leverage if you get it to scale. If The Joint can continue to ramp units so fees coming in are greater than overhead, then the \$71 million estimated contribution fully ramped makes sense to consider. With SG&A at \$26 million now, multiply locations times four+, SG&A at \$35 million then, \$40 million total, \$45 million? This is simply a long-term valuation “framing” discussion. If SG&A is at \$40 million fully ramped, net estimated contribution from all locations at roughly \$70 million (or \$30 million net), what multiple would investors put on what could become a high cash flow, recurring retail revenue concept fully ramped. At eight times a \$30 million net result = \$240 million valuation, at ten times, \$300 million, at 12 times, \$360 million, at 15 times, \$450 million. That is likely at least ten years out, and assumes no increase in contribution per location (but offsets this by not discounting the future present value-perhaps they simply offset).

A different way to look at valuation for a retail based business model is to compare it to comps that have similar footprints and similar unit growth paths and potential. One public comp that also chooses locations in retail strip malls with a fairly small total store footprint is GameStop, with over 6,600 locations worldwide, the market places a \$250k/store valuation on it (the parent does have online sales too, so not a perfect comp, but similar). Another potential comp is Build a Bear Workshop, with around 470 locations

currently, market cap is roughly \$260k/unit. Their locations are more A-Mall based and it is a company-owned unit concept, but it does have a similar total unit base and expands store by store.

The raw fact is that there is no true public comp to The Joint, and although it might be considered a “healthcare provider,” it seems far more accurate from a public market standpoint to view this as a retail based business model with the growth potential and ramp associated with the retail group. Both GameStop and Build a Bear are company-owned unit growth driven stories, but this gives some type of comparative to where The Joint can head to over time per unit as the units mature, the company covers its corporate overhead costs, and the new unit ramp continues.

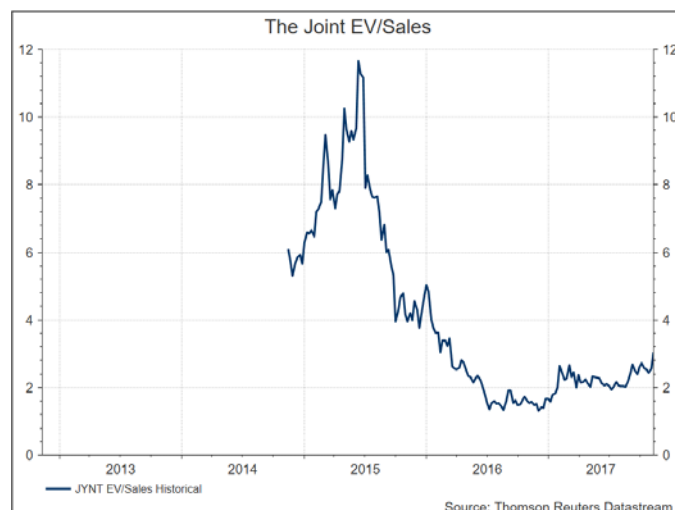
If a consumer sector (retail focused) investor looks at this opportunity, they will see a small, high growth company (19% revenue growth last quarter with 17% system wide comps and 9% comps in their units open 4 years or more). To put it lightly, this compares very favorably to the multiple of more traditional retail concepts that are constantly being tested by online options (“The Amazon Effect”) losing revenue ground and margin in the process. If a healthcare sector focused investor looks at this opportunity, they will see a cash based (i.e. no insurance risk) high growth model with lots of geographical/industry space for unit growth.

Some rough comps are in the chart below:

	Mkt Cap	EV/TTM	EV/EBITDA		Sales	EBITDA
The Joint Comps	Millions	EBITDA	FY2	P/E	Growth	Growth
The Joint Chiropractic	79.8	na	16.1	na	30%	75%
<u>Healthcare Providers</u>						
US Physical Therapy	861	14.7	14.2	40	12%	5%
Hanger, Inc.	433	14.4	na	10.5	3%	-8%
American Renal Associates	332	7.2	7.2	16.3	8%	-17%
Kindred Healthcare	661	9.3	6.1	na	-4%	-23%
Surgery Partners	427	11.2	10.2	169	15%	21%
<u>Retail Comparisons</u>						
Build a Bear	122	3.8	3.5	15.9	-3%	3%
GNC	415	7.3	7.9	5.3	-5%	-41%
Gamestop	1640	3	3	4.6	-5%	-12%
Sally Beauty Holdings	1990	6.2	6.1	8.6	0%	0%
Ulta Beauty Inc.	12170	7.3	9.6	26	23%	28%

Quite frankly, I’m not sure how helpful this comp chart is, as most of these companies are well past their high growth stages, have reached profitability and have much lower (or negative) sales and EBITDA growth. What it can do is show the potential total EV/market cap opportunity for The Joint if they continue in their unit growth path, manage cash burn and reach EBITDA and EPS profitability.

Below is the historical look at the Joint’s EV/Sales since IPO-you can clearly see the stock working well back in late 2014 and 2015 as the management ramped units, more recently trading in the two times revenue multiple as the company has changed its growth trajectory and focused on franchise development. Expansion of this multiple in the future is likely dependent on the company reaching profitability and layering on new unit revenue and EBITDA contribution quarter by quarter.



The Joint Chiropractic Income Statement (in thousands)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Sales	7117	13835	4265	4974	5504	5781	20524	5674	6015	6546
(% sales growth year over year)	20%	94%	45%	33%	54%	48%	48%	33%	21%	19%
Cost of Goods Sold incl. D&A	2457	4089	1316	1365	1414	1411	5506	1320	1273	1288
Gross Income	4660	9747	2950	3609	4089	4370	15018	4354	4741	5258
(% gross income growth yoy)	20%	109%	60%	53%	38%	70%	54%	48%	31%	31%
SG&A Expense	6287	18670	6435	6800	6689	6581	26445	5523	5726	5636
(% SG&A growth yoy)	83%	197%	71%	73%	35%	8%	42%	-14%	-16%	-8%
EBIT (Operating Income)	-1627	-8923	-3486	-3191	-2600	-2211	-11427	-1169	-985	-378
Nonoperating Income-Net	-64	283	5	3	2	-3517	-3507	-437	-24	9.9
Unusual Expense-Net		393	0	0	15	0	75	0	0	0
Pretax Income	-1691	-9033	-3481	-3188	-2613	-5728	-15009	-1606	-1009	-368
Income Taxes	1340	-236	44	73	14	32	164	41	3	-36
Net Income	-3031	-8797	-3525	-3261	-2627	-5760	-15174	-1647	-1011	-404
EPS (diluted) per share	-0.56	-0.88	-0.28	-0.26	-0.21	-0.45	-1.20	-0.13	-0.08	-0.03
EBITDA	-1417	-7654	-2910	-2554	-9104	-1553	-8861	-591	-481	130

When looking at the historical results of the Joint, a number of key things may pop out to potential investors. Topline growth was absolutely explosive in 2015 (post IPO/cash raise) and throughout 2016. Recent total topline sales growth for the company is moderating, yet still is at a 19% growth pace. Two thoughts, 1) that's a fantastic pace for a small yet growing retail-based concept, and 2) moderation should help them improve the results of the units they are opening and help them serve and focus on the right market areas growing at manageable rates (while not blowing up their debt/balance sheet structure attempting to ramp too many company owned units).

The other thing that pops out is the change in Net Income and EBITDA over the past couple of quarters. At every high growth company that is unit growth driven, management needs to be able to match spending on new growth vs. unit results as they come through. As The Joint continues to ramp new units driven largely by their regional developers and the franchise model, more and more of the corporate overhead will be covered, and a lift to both EBITDA and EPS breakeven and profits may soon follow. Past experience with companies that have made the move from high growth/cash burning mode to steady growth/positive EPS growth stories indicates that we may be in for a nice stock reaction as the company eventually makes it to CF breakeven and sell-side estimates for both revenue and EPS can begin showing positive numbers and growth. With less than 400 units ramped of a management estimated 1,700 total (which seems conservative to me, but simply shows direction potential), this entire retail concept has lots of room to grow for years to come.

During a May, 2017 conference call, management made sure to highlight that unallocated corporate overhead was 42% of revenue compared to 65% in the same period prior year, and was 33% of revenue in the second quarter vs. 51% yoy. They are focusing on controlling costs and managing cash use until they can reach breakeven. With a +\$300k adjusted EBITDA this past quarter, they are making progress towards breakeven and company profitability.

The Joint Chiropractic Balance Sheet (in thousands)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Assets										
Cash & Short Term Investments	21021	17178	10825	6684	3863	3344	3344	2989	3327	2628
Short-Term Receivables	1128	875	1733	1893	1948	1105	1105	1223	1192	1278
Other Current Assets	585	366	445	360	892	500	500	894	557	1512
Total Current Assets	22734	18419	13003	8937	6703	4948	4948	5106	5077	5418
Net Property, Plant and Equipment	1134	7139	7969	8171	7527	4725	4725	4361	4072	3850
Long-Term Note Receivable	32	16	11	18	4	0	0	0	149	296
Intangible Assets	830	5009	5074	5672	5378	5089	5089	4914	4768	4639
Other Assets	3828	2779	2615	2458	2514	2293	2293	2092	2062	1445
Total Assets	28559	33362	28672	25257	22126	17055	17055	16473	16126	15648
Liabilities & SH Equity										
ST Debt and Current LT Debt	0	452	461	550	332	332	332	168	100	100
Accounts Payable	1271	1997	1564	1135	821	1055	1055	1089	971	718
Other Current Liabilities	2993	5039	4146	3696	4195	4477	4477	3724	3519	3292
Total Current Liabilities	4265	7487	6172	5381	5347	5864	5864	4981	4590	4110
Long-Term Debt	0	130	0	0	0	0	0	1000	1000	1000
Provision for Risks & Charges	0	0	49	49	40	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0	121	121	197	184	187
Other Liabilities	8667	5066	5098	5112	4479	4145	4145	4806	5774	5658
Total Liabilities	12932	12683	11319	10542	9865	10129	10129	10983	11548	10955
Total Shareholder's Equity	15627	20679	17352	14715	12261	6925	6925	5490	4578	4693
Total Liabilities & SHEquity	28559	33362	28672	25257	22126	17055	17055	16473	16126	15648
Book Value per Share	1.62	1.65	1.38	1.16	0.96	0.53	0.53	0.42	0.35	
Tangible Book Value per Share	1.53	1.25	0.98	0.71	0.54	0.12	0.12	0.04	-0.01	

A look at the Joint's historical balance sheet shows a pretty steady progression of heavy cash use and investment in new units and unit purchases post the 2014 IPO proceeds coming in. 2016 was a large investment year for the company, and only recently have they reversed the cash outflow and starting to bring that number up again. A new \$5 million line of credit is a non-dilutive way to strengthen their balance sheet (they were required in the terms to pull down \$1 million of the LOC, which they have done). Tangible book value just went negative recently, indicating that moves by management to control expenses, reduce cash burn and halt new company owned/managed unit growth were both necessary and timely. Company management did note on their Q1 call that based on current cash balance and operating plans, they believe they have sufficient cash to reach profitability.

The management needs to continue to focus on solid new franchise clinic growth (growth accomplished without further burden on the parent company's balance sheet), and needs to continue to focus on improving results over time in their owned/operated network.

The Joint Chiropractic Cash Flow Statement (in thousands)									
	2014	2015	2016	2016	2016	2016	2016	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
<u>Operating Activities</u>									
Net Income/Starting Line	-3031	-8797	-3525	-3261	-2627	-5760	-15174	-1647	-1011
Depreciation, Depletion, & Amort.	210	1269	576	637	696	658	2566	578	503
Deferred Taxes & Inv. Tax Credit	1758	41	0	0	0	121	121	36	19
Other Funds	215	-504	157	267	125	3702	4250	513	101
Funds from Operations	-848	-7992	-2793	-2357	-1807	-1280	-8237	-520	-388
<u>Changes in Working Capital</u>	577	1356	-2895	169	-570	634	-2661	-759	878
Net Operating Cash Flow	-272	-6636	-5688	-2188	-2377	-646	-10898	-1279	490
<u>Investing Activities</u>									
Capital Expenditures	-1167	-5141	-563	-779	157	-70	-1568	-39	-67
Net Assets from Acquisitions	-900	-4926	0	-812	0	-28	-840	0	0
Sale of Fixed Assets & Businesses	3	12	0	0	0	0	0	0	0
Other Funds	4	42	17	-330	14	10	-289	10	16
Net Investing Cash Flow	-2060	-10013	-546	-1920	-142	-87	-2696	-29	-51
<u>Financing Activities</u>									
Change in Capital Stock	19778	14376	1	64	-82	214	196	116	-33
Issuance/Reduction of Debt, net	0	-1570	-121	-97	-219	0	-436	837	-68
Net Financing Cash Flow	19778	12806	-120	-33	-301	214	-240	953	-101
Net Change in Cash	17446	-3843	-6353	-4141	-2821	-519	-13834	-355	338
Free Cash Flow	-931	-10702	-5976	-3241	-2533	-716	-12466	-1318	423

The story that the financial statements tell remains consistent (and the stock hasn't been public for that long). Take a look at the cash flow statements and what you find is a large cash raise post going public used for new unit development, acquisitions and growth, offset by the core costs of the corporate overhead. The bottom line free cash flow also shows a recent focus on stemming the cash spend per quarter and shows clearly why the current CEO and management team is so focused on new regional developer relationships and new franchise development for growth. They need to stay focused on controlling cash and cash use while continuing to control expenses. A moratorium on new corporate owned and managed development also is sound and necessary until they consistently get their overall clinic portfolio profitable and start to bring in consistent operating cash on a quarterly basis.

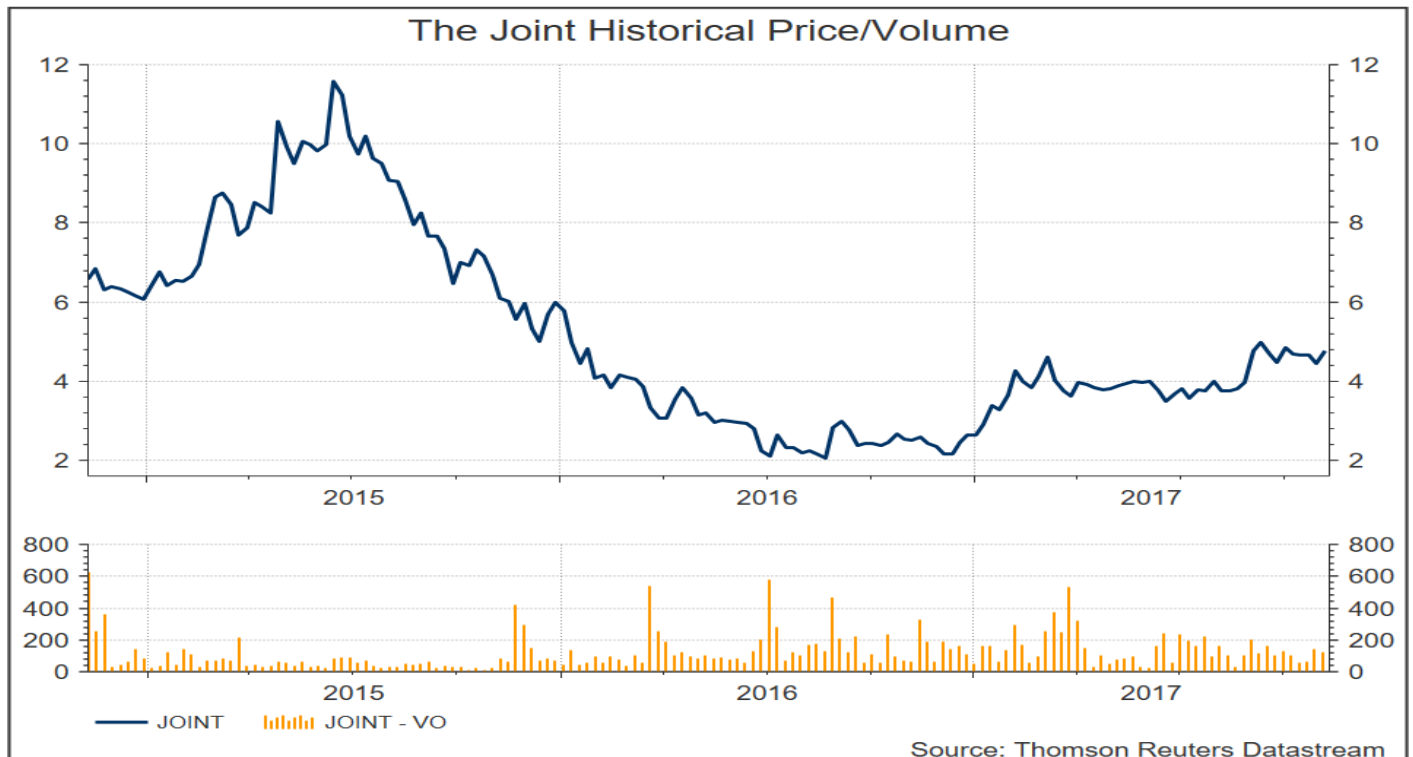


Chart Above: JYNT stock price/performance since IPO. As seen, the stock worked for a number of quarters as the prior CEO ramped new store growth quickly, reaching higher than \$12/share at one short point in 2015. When the company overreached on growth and got caught up in an ill planned Chicago market ramp, investors and some sell siders gave up on the stock, with the stock dropping to \$2 about a year later. The new CEO came on board in 2016 and has added management talent and is reigniting a more disciplined growth trajectory.

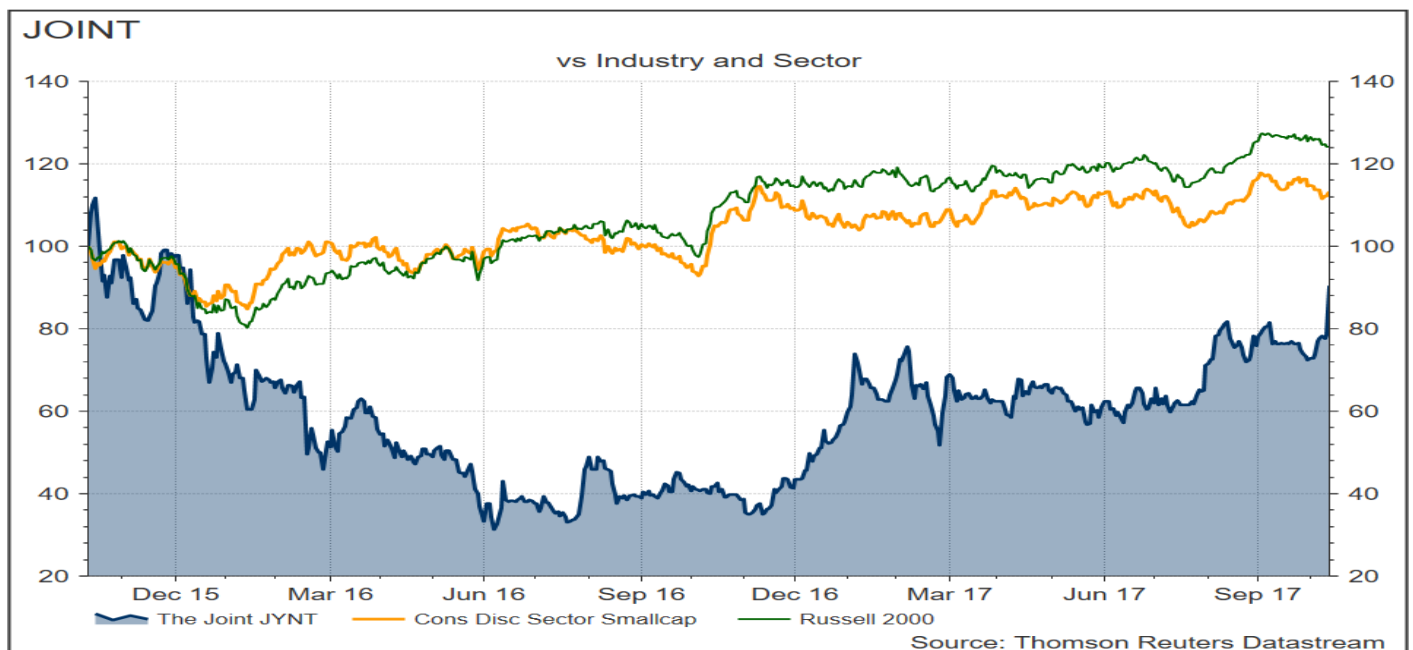
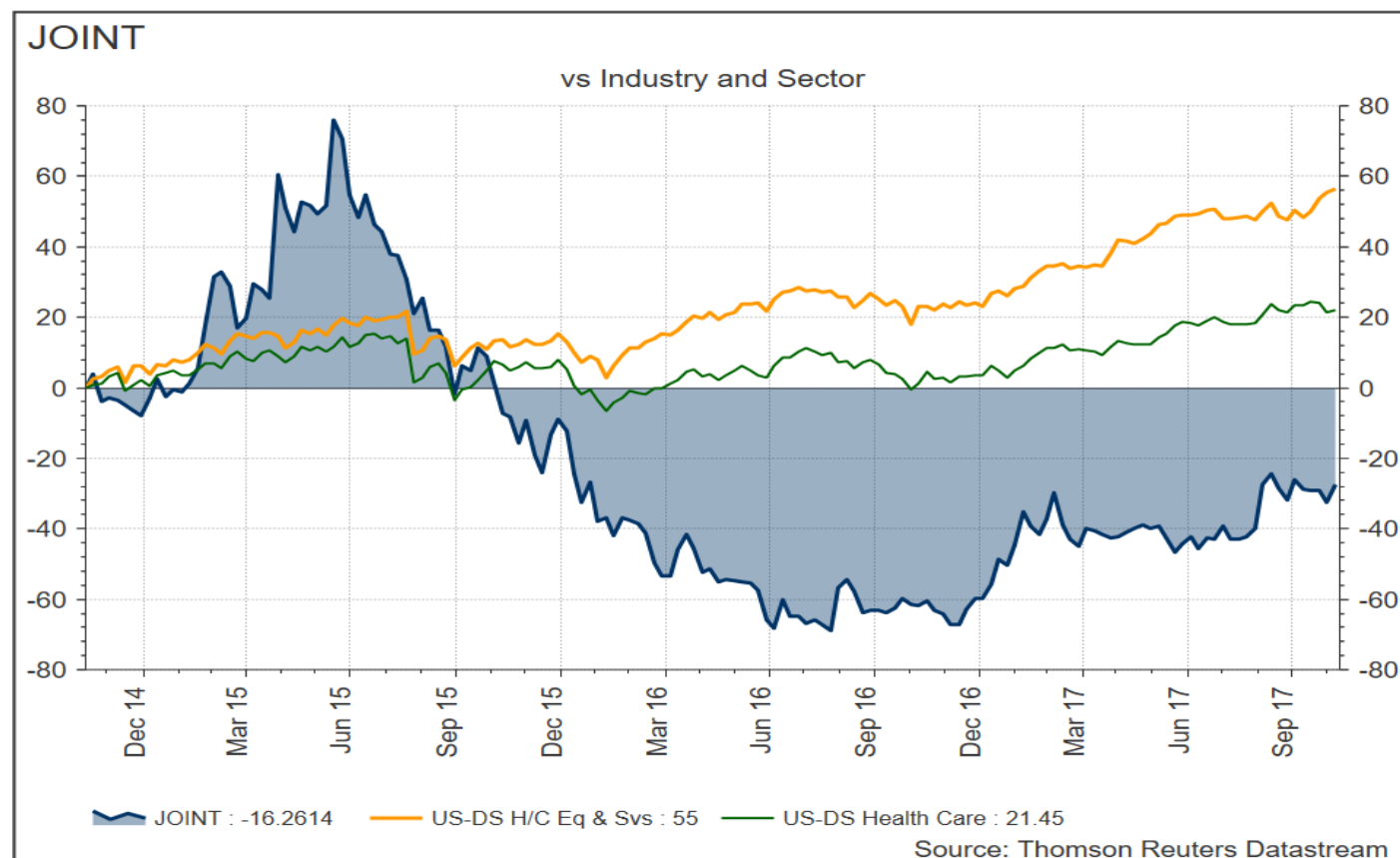


Chart Above: A look at The Joint's stock performance since IPO vs. the S&P Smallcap Consumer Discretionary Sector and the Russell 200 Index. Although the stock has made up some ground recently, it still trails both the consumer space and the broader smallcap market since IPO.

Chart Below: Another look at the JYNT's stock performance, this time vs. the Health Care Equipment and Services Industry (top line) and the Health Care Sector (middle line). The Joint stock has underperformed in the past two years, only recently beginning to regain lost ground.



www.thejoint.com Company webpage/more information on the company/historical financials/links to IR /etc.

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