THE HEALTHSTORE FOUNDATION®

EXECUTIVE SUMMARY[1]

Quick Overview

THE PROBLEM:

Seven percent of Kenyan children won't live to celebrate their 5th birthday[2]. A short list of easily preventable and treatable diseases (including perinatal risks) account for approximately 70% of childhood illness and death in the developing world[3]. *Effective-quality* care that would prevent and cure these conditions is frequently not available. And the care that is available all too often falls below the standard necessary to effective treatment. Millions of children suffer, and sometimes die, while the medicine that would save their lives costs less than a Starbucks' latte.

THE SOLUTION:

The HealthStore Foundation® (HSF), a U.S. tax-exempt charity, has pioneered a franchise medical clinic business model that delivers "effective-quality care" (EQC™) in places where substandard care prevails. The network is branded CFW*clinics*™ for "Child and Family Wellness." Through our NGO-franchisor in Kenya, we support 63 franchise clinics owned and operated by local nurse practitioners. Over the past 15 years we have served more than 5,000,000 people – half in our clinics and half through community prevention, treatment, and education programs. We have also initiated similar networks in Ghana and Rwanda, which have been acquired and backed by U.S.-based Sanford Health and U.K.-Based GlaxoSmithKline, respectively. Both companies are now making multi-million dollar investments to expand the franchise clinic networks nationwide.

The experience gained from our non-profit NGO franchisor proves that a retail franchise model outperforms conventional government and NGO approaches in delivering basic primary care under in severe poverty conditions. The CFW*clinics* model improves access to effective-quality care at a lower cost than other approaches and delivers significant economies of scale. However, due to limitations inherent in non-profit NGOs as franchisors, the model cannot scale to the size of a large commercial franchise network. To address this, HSF will launch a fully commercial franchise subsidiary in 2016 to develop 500 clinics throughout Kenya within ten years. Not only will this model be sustainable, but the company will deliver a double-bottom-line to investors: (i) a financial return including a possible exit by sale to a large company or public registration of its shares; and (ii) a social impact serving 20 million Kenyans while growing to 500 clinics over 10 years, and serving 5 million more Kenyans each year thereafter.

FUNDING REQUEST:

HSF seeks $1.2 million through 2016 to be used (i) to serve more than 40,000 people per month through its present NGO-franchise network, and (ii) to fund preparations for the launch of the new, fully commercial franchise network in the first quarter of 2016. See page 5 for a breakdown of the budget. *Please consider joining us to continue serving 5 million people per year in our current network and many millions more in the years ahead through the new commercial network we will launch in 2016.*

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[1] This Executive Summary, and The HealthStore Foundation Business Plan that accompanies it, outline the current business plan for The HealthStore Foundation, our U.S. nonprofit charitable foundation. A business plan for the new, fully commercial franchise company is presently being prepared for implementation in the first quarter of 2016.

[2] UNICEF State of the World's Children report: http://www.unicef.org/statistics/index_countrystats.html?p=printme

[3] Source: WHO World Health Statistics Report, 2015, p. 72: http://apps.who.int/iris/bitstream/10665/170250/1/9789240694439_eng.pdf?ua=1 (accessed October 5, 2015).

In-Depth Summary

UNICEF reports that 17,000 children in the developing world die each day—more than 6 million per year—from causes that can be easily prevented and treated. Many of these illnesses and deaths occur because (i) people lack access to healthcare and, when they do have access, (ii) the medical care they receive is not effective. "*Effective-quality*" care requires effective health education, prevention and treatment: correct diagnoses; correct treatment; correct prescription; and appropriate, effective-quality medicine. When medicine is not done effectively, people do not get well.

Remarkably, 41% of deaths of children under five in Africa are caused by diarrhea (10%), malaria (15%), and acute respiratory infections (16%). An additional 33% of under-five deaths in Africa are caused by perinatal conditions.[4] The vast majority of these deaths could be prevented with medicines and preventive tools that already exist and are relatively inexpensive. But effective-quality medicine and basic medical care does not reach those who need it most, especially those living in low-income areas. For example, UNICEF reports[5] that in Kenya:

- Less than 40% of people with **diarrhea** receive treatment with oral rehydration salts, which can cost as little as US$0.10 and can save lives if administered properly when and where it is needed.
- Less than half of children sleep under a mosquito net to prevent **malaria**, which can cost as little as US$1.00 and can prevent children from contracting malaria—a leading cause of death among children.
- Only 55% of children under five suspected of having **pneumonia** are taken to an appropriate healthcare provider, without which their illnesses often progresses to a dangerous degree and sometimes kills children who would have been saved by timely access to effective-quality care.

Despite halving child mortality in a single generation, the international aid movement is plagued by inefficiencies and perverse incentives that leave millions of children suffering and dying unnecessarily each year. Healthcare delivery systems in Africa are compromised by severely dysfunctional regulatory systems that incentivize substandard care and fail to enforce standards necessary for safe and effective prevention and treatment. For example, counterfeit drugs are abundant because they cost less than real drugs and generate more profit to those who sell them; too few health workers are adequately trained and dispersed to meet the demand driven by high disease rates[6] – rates that haven't been seen in America for 150 years; and a large percentage of healthcare providers are not licensed and operate out of poor facilities—some quacks set up shop on roadsides providing false medical advice and selling bad drugs to unwary mothers with children afflicted by deadly diseases. Some medications are toxic, or even deadly.

To solve this problem, HSF has developed a standardized franchise operating system (FOS). It consists of a clinic format; a unit economic model; clinical and operating policies; standard operating business procedures; clinical and financial record forms; diagnostic and treatment guidelines; a drug formulary; and other related materials. We have recruited local nurse practitioners as franchisees and trained them to comply with the requirements of the FOS. This ensures that effective-quality standards are consistently maintained throughout our CFW*clinics*™ network of 63 primary care clinics.

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[4] Source: WHO World Health Statistics Report, 2015, p. 72: http://apps.who.int/iris/bitstream/10665/170250/1/9789240694439_eng.pdf?ua=1 (accessed October 5, 2015).
[5] The bulleted statistics are from UNICEF's Kenya profile: http://www.unicef.org/infobycountry/kenya_statistics.html (accessed October 9, 2015).
[6] WHO Health Statistics 2015: http://apps.who.int/iris/bitstream/10665/170250/1/9789240694439_eng.pdf?ua=1 (accessed October 2, 2015).

Our franchisee nurse practitioners *primarily* target the short list of diseases[7] and perinatal health risks that cause 70% of serious illness, and sometimes death, among children. By concentrating on this 70% using a simple, low-cost, flexible clinic format, clinics can be easily scaled while maintaining the quality standard necessary to treat these deadly diseases and manage perinatal risks effectively. CFW*clinics* ™ also provides a wide range of other services commonly supplied by nurses, so long as adding them to the standardized menu of services does not unduly impair our ability to easily scale the network.

The simple, low-cost, flexible franchise format is easier to standardize and replicate compared to clinic networks that provide more comprehensive care (they are more difficult and costly to replicate and scale). So the CFW*clinics* ™ network may be scaled to many locations making care for the short list of deadly diseases and perinatal health risks more accessible to large populations. And as the network has scaled, significant economies of scale have been achieved *reducing* the cost of serving each person as the network grows. Conventional non-franchise clinic networks get *more* expensive as they grow because they cannot achieve similar economies of scale.

Our franchisor in Kenya is a *non*-profit Kenyan NGO that franchises *for*-profit medical clinics, and is controlled by HSF's Board of Directors in the USA. Over the past 15 years, we have served more than 5,000,000 people[8], through what is presently a network of 63 clinics, providing safe, effective-quality, affordable care. Our nurse-practitioner franchisees are well-trained entrepreneurs building their own businesses; owning their businesses as an asset on their balance sheets; earning an income for their families; and having the prestige and dignity that goes with being among the best healthcare providers in their communities.

Our non-profit NGO franchisor in Kenya delivers more effective-quality care at lower prices than conventional NGO models that do not franchise effectively. But a non-profit NGO cannot raise equity capital to acquire a base of permanent capital, and it must rely upon grants for revenue. Meanwhile, because our franchisees give away approximately 15% of their revenue to patients too poor to pay for the care they need, they cannot afford to also pay normal franchise royalties. So the franchisor lacks the usual franchisor incentives to maximize its royalty revenue by (i) supporting franchisees to help them maximize their revenues from which royalties are normally paid; and (ii) franchising more clinics that would pay more royalties. Lacking royalty incentives, an NGO cannot achieve the scale that successful commercial franchisors achieve.

To solve the problem, HSF has organized HealthStore East Africa Ltd. (HSEA), a fully commercial, for-profit Kenyan subsidiary to expand the CFW*clinics* ™ network in Kenya. Its business plan is currently being prepared with an eye to opening at least 500 clinics over the next ten years. HSEA will be funded by investment capital that will be raised through a US-based public benefit corporation holding company presently being organized to acquire and hold the controlling interest in the stock of HSEA. Kenyan partners are being recruited to execute HSEA's business plan on the ground. HSF will license the necessary brands, tools, methods, and specialty resources to support the holding company, including the right to sublicense the resources to HSEA and its franchisees. These transactions will be priced at arm's length and tax regulations concerning co-investment between HSF and private parties will be scrupulously complied with.

Franchisees' current fee-for-service revenue will be enhanced by revenue from a new national insurance program launched in Kenya on July 1, 2015 and by other private insurance payors. *Subsidies will pay for patients too poor to obtain insurance so that the poorest patients are never turned away.* These revenue enhancements, along with business improvements to the clinic format and location selection, will enable franchisees to pay normal commercial franchise

[7] These include primarily malaria, various respiratory infections, and dysentery.
[8] Half served in our clinics and half through community prevention, treatment, and education programs.

royalties enabling the franchisor to break even and ultimately generate a return to investors who will finance the expansion in Kenya through the holding company. The franchisor will be highly incentivized to help franchisees maximize their revenue and to open as many clinics as possible, all the while maintaining effective-quality care standards throughout the fast-growing network – which is the heart and soul of our mission.

A new and improved clinic format will feature the best in low-cost, state-of-the-art diagnostic tools; a tighter focus on the short list of deadly diseases and perinatal risks that cause 70% of serious illness, and sometimes death; an expanded menu of services and drugs available; and more front-end, revenue-producing retail space enabling franchisees to earn more by doing more; and will be served by an electronic management platform dramatically improving control and visibility into the network for the franchisor and investors.

Our *non*-profit NGO franchisor in Kenya will continue to serve 500,000 people per year, while HSEA, the new fully commercial *for*-profit franchisor, will add 500 more clinics to the CFW*clinics*™ network over ten years. CFW*clinics*™ will expand using a growth model that has enabled some commercial franchise companies to scale to thousands of locations. HSEA is being planned to serve 20,000,000 people over the ten-year plan and to grow indefinitely beyond 5,000,000 per year, thereafter, like other franchise companies. We envision a day when the majority of people in Kenya, even now approaching 50 million people, will have ready access to effective-quality care at affordable prices.

HSF's U.S.-based team leads our staff in Kenya to discover challenges and innovate solutions that are incorporated into our CFW*clinics* TM FOS. Examples now underway include, a new electronic management platform; new, more efficient approaches to diagnostics; a financing facility to fund new clinic start-up loans; crowd-funded subsidies to pay for patients too poor to pay for themselves; and economies of scale that will make CFW*clinics* TM among the most attractive opportunities for insurance and government payors in Kenya.

Also this year, HSF will begin to fulfill its commitment to work with partners and share what we know with others in common cause with our mission.[9] We will seek a partner with the capacity to conduct seminars, short-courses, curate a database of quality information and tools, and do other things to disseminate what we and others learn to help improve the state-of-the-art delivery of effective-quality care.

Clinic networks initiated by HSF in Ghana and Rwanda are now in the hands of U.S.-based Sanford Health and U.K-based GlaxoSmithKline, respectively, who are investing millions of dollars to add hundreds of new locations in each country. HSF envisions a world in which dozens of networks, of hundreds or thousands of clinics each, are serving hundreds of millions of the world's poor with *effective-quality care* (EQCTM) each year. We aim to demonstrate how this can be achieved by creating opportunities for double-bottom-line impact investors to finance the CFW*clinics* TM network expansion and to exit their CFW*clinics*™ investments by acquisition or public registration.

With 15 years of practical experience serving more than 5,000,000 people, HSF is now poised to demonstrate a new and better way to improve access to effective-quality care for the world's poor. The new, fully commercial, investor-funded franchise company will target the bottom two-thirds of the Kenyan market. And a sustainable subsidy will be available to pay for patients who cannot afford the care they need, so that no one will be turned away.

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[9] HSF's Code of Ethics provides a point 5: We believe that resources needed to achieve our mission are abundant; we work with partners and share what we know in common cause with others pursuing the same mission.

HEALTHSTORE'S CURRENT FUNDING NEED

HSF is a U.S. tax-exempt charity and seeks $1.2 million in contributions through 2016. These funds will be used to (i) serve more than 40,000 people per month through its present NGO-franchise network, and (ii) fund preparations for the launch of HSF's new, fully commercial franchise subsidiary planned for launch in the first quarter of 2016. A separate private placement of securities will be conducted to raise working capital for the subsidiary. Charitable contributions will be used as follows.

Use of Charitable Contributions

The HealthStore Foundation (HSF)
2015-2016 Budgets
$ in thousands

Funding Categories	**First Half 2015**	**Second Half 2015**	**2016 (Estimated--See Note 1)**
Sustainable Healthcare Foundation (Non-Profit Kenyan NGO) ("SHF")	161	166	375
The HealthStore Foundation (Non-Profit US Corporation) ("HSF")			
--Preparing for Launch of Fully Commercial Franchise Network ("HealthStore East Africa")	12	12	60
--Electronic Clinic Management System ("Sanitas") - Estimated Initial Investment (See **Note 2**)	0	25	75
--Franchisee Loan Facility - Estimated Investment to Establish the Facility	0	10	10
--Crowdfunding Engagement to Attract Subsidies into Third Party Payment Pool ("Right Source")	0	20	40
--Establishing Partnerships in Kenya	0	25	25
--US Personnel	98	110	220
--G&A (Audit, Travel, Outsourced Business Services, Miscellaneous)	21	32	64
--Revenue from Licensing Package (License Fees, Technical Support) (See **Note 3**)	0	0	-50
Unanticipated Expense	0	50	100
Total	292	450	919
Cash Raised as of October 1, 2015	292	150	0
Cash Still Required as of October 1, 2015	**0**	**300**	**919**

Notes:
1. Detailed 2016 budgets are currently being prepared in Kenya and the US. The 2016 numbers above are estimates as of October 1, 2015.

2. HSF is currently negotiating a software-as-a-service contract with Fortis, the Kenyan company who owns the Sanitas electronic clinic management system. The numbers in the Sanitas row above are estimates; expense cateogories will include financing of tablets or laptops for all CFW clinics in Kenya; training; cloud hosting; front-end fees; ongoing royalties.

3. HSF anticipates revenue in 2016 from licensing systems, tools, and materials to, and offering technical support to, various entities including HSEA.

<u>HSF does not have a full-time fundraising operation</u>. With a historically small budget—e.g. approximately $750,000 in 2015—the cost of raising the funds using methods common to other nonprofits (fundraising staff, mass mailing, etc.) would be unreasonable. We have a history of receiving large gifts from a small number of donors. One donor, for example, funded HSF for more than two years (through 2014) so that we did not need to engage in fundraising. When we need to raise funds, the U.S. team works together to prepare and present a plan.

Please consider joining us as a financial partner going forward.