

EQUITY RESEARCH

April 13, 2022

Earnings Update

DIALOGUE HEALTH TECHNOLOGIES, INC.

Acquiring Tictrac: Moving Into The Wellness Space

Our Conclusion

Dialogue’s acquisition of corporate wellness provider Tictrac is an on-strategy deal that looks to be a clear fit with Dialogue’s goal of using M&A to expand the continuum of care on its integrated health platform (IHP). With the two companies sharing similar go-to-market strategies that rely on insurance partners and a direct sales force, little to no overlap from a product perspective, and an expanded geographic footprint, we see the deal as a good strategic fit. Tictrac’s 90% gross margin profile is significantly higher than Dialogue’s current consolidated gross margin profile of ~45%, and the deal should help accelerate the path to profitability. We remain at Outperformer and increase our price target from \$9.00 to \$9.50 as we add Tictrac to our model and reduce our target multiple 4.0x to 3.5x as digital healthcare valuations remain under pressure.

Key Points

Tictrac Overview: Tictrac is a SaaS delivered solution that assists in designing and delivering corporate wellness programs. Tictrac’s services include expert wellness content, personalized action plans, individual and company-wide activity challenges and reporting and insights on utilization and performance for HR departments. Sales are primarily generated through insurance partner relationships, with key partners including Allianz, Prudential, Generali and Aviva. In addition to insurance partnerships, Tictrac sells co-branded products direct to the SMB market and a white-label solution for Enterprise customers that are gaining traction.

Acquisition Terms: Dialogue is paying up to \$56 million for Tictrac, with \$24 million in cash up front, and \$32 million payable if Tictrac hits an ARR target of \$14.4 million by the end of 2023. If Tictrac hits the ARR target (growing at a two-year CAGR of 79%), Dialogue will pay 3.9x 2023E ARR, a reasonable multiple for a high-growth SaaS business. At its maximum, the \$32 million earnout will be split 54%/46% in cash and Dialogue shares.

Strategic Rationale: Tictrac extends Dialogue’s offerings across the continuum of care, complementing the existing clinical care and mental health services with an asynchronous wellness solution. We see Tictrac as a strong fit and logical M&A target, given its insurance partner relationships, B2C business model, gross margin profile and general lack of overlap with the existing solution set. The deal also helps Dialogue match similar wellness offerings from LifeWorks, TELUS Health and other digital health providers.

Model Updates: With the transaction expected to close in mid-May, we have updated our model to reflect \$7 million of acquired growth in 2022 and \$20 million in 2023. Adding Tictrac’s high-margin revenue improves our consolidated gross margin forecast from 45% to 48% in 2022E and from 48% to 53% in 2023E. The improved margin profile pushes our forecast timeline for breakeven EBITDA up from Q4/2023E to Q3/2023E.

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Outperformer

CARE-TSX, Sector: Information Technology

Current Price (4/13/22): C\$5.43

Price Target (12-18 mos.): **↑C\$9.50**

Previous: C\$9.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Revenue(mln)	35.80A	68.05A	101.41E	148.78E
Prior			94.08E	126.21E
Adj. EBITDA(mln)	(16.9)A	(21.3)A	(17.3)E	(1.4)E
Prior			(16.0)E	(4.8)E

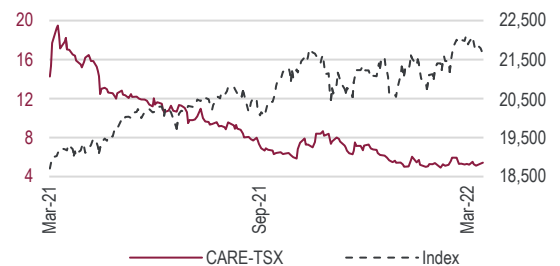
Revenue(mln)	Q1	Q2	Q3	Q4
2023	32.98E	35.84E	38.67E	41.29E
Prior	28.96E	31.01E	32.91E	33.32E
2022	20.44E	23.96E	26.63E	30.38E
Prior		22.63E	24.13E	26.88E

Valuation	2020	2021	2022	2023
EV/Sales	6.9x	3.6x	2.4x	1.7x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	78K	Shares O/S:	65.8M
Market Cap.:	C\$357M	Float:	36.2M
52-wk Range:	C\$4.92 - C\$17.05	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. CARE-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 4. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 5.

Dialogue Health Technologies, Inc. (CARE-TSX) — Outperformer

Price (4/13/22) C\$5.43 12-18 mo. Price Target C\$9.50

Sector: Information Technology

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	254.9%	90.1%	49.0%	46.7%
Per Share Data	2020	2021	2022E	2023E
EPS	(1.87)	(4.48)	(0.36)	(0.12)
Diluted EPS	(1.87)	(4.48)	(0.36)	(0.12)
Wgt Avg # of Shares	11,157.1	56,109.0	66,063.2	66,899.7
FD Number of Shares	11,157.1	56,109.0	66,063.2	66,899.7
Income Statement	2020	2021	2022E	2023E
Revenue	36	68	101	149
Cost of Goods Sold	21	39	53	69
Gross Profit	14	29	49	79
Gross Margin %	40.20%	42.33%	48.22%	53.33%
SG&A	30	44	54	65
R&D	5	10	16	19
Tot Operating Exp	35	55	72	87
OpEx (% of Revenue)	98.30%	81.45%	71.31%	58.37%
EBITDA	(18)	(249)	(21)	(5)
EBITDA Margin	(51.67%)	(366.52%)	(20.32%)	(3.16%)
Adj. EBITDA	(17)	(21)	(17)	(1)
Adj EBITDA Margin	(47.3%)	(31.3%)	(17.1%)	(0.9%)
Net Income	(21)	(251)	(24)	(8)
Net Margin	(58.4%)	(369.4%)	(23.3%)	(5.2%)
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	(19)	(23)	(16)	(7)
Net Cash Flow	17	62	(42)	(25)
Free Cash Flow	(20)	(25)	(18)	(8)
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	42	104	63	37
Total Current Assets	55	-	-	-
Total Assets	66	135	117	115
Tot Curr Liab	11	11	15	19
Total Liabilities	98	15	18	21
Shareholders' Equity	(31)	120	99	94
Tot Liab & SE	66	135	117	115

Source: Company Reports, FactSet, and CIBC World Markets Inc.

Company Profile

Dialogue is a B2B provider of virtual health and wellness solutions. Through its Integrated Health Platform, Dialogue offers a variety of services including primary care & mental health, EAP, OHS and iCBT.

Investment Thesis

1) Dialogue's Solid Strategy & Operational Execution, 2) Virtual Benefits Becoming A Standard Employee Benefits Offering 3) Acquisition Add Additional Capabilities And Move Into New Geographies

Price Target (Base Case): C\$9.50

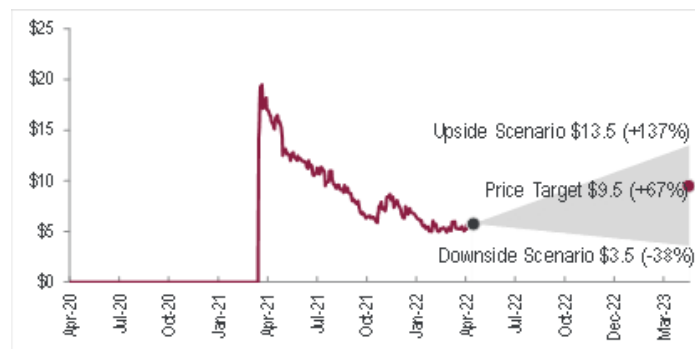
Our price target is calculated using a 3.5x EV/Sales multiple on our 2023 estimates. The target multiple is in line with premium B2B providers of virtual care, health and wellness.

Upside Scenario: C\$13.50

Our upside scenario is calculated using 55% revenue growth in 2023 and a 5.0x EV/2023 Sales multiple.

Downside Scenario: C\$3.50

Our downside scenario is calculated using 25% revenue growth in 2023 and a 1.0x EV/2023 Sales multiple.



Integration Approach

In keeping with Dialogue’s approach to M&A, Tictrac will be fully integrated into the Dialogue Integrated Health Platform. The full integration process is expected to take up to 12 months, and should benefit somewhat from Tictrac’s experience in using APIs to integrate their services into other products.

The integration work is expected to give Dialogue the ability to better tailor its offerings for the Canadian and International markets. While the services will all be functionally integrated into IHP, the go-to-market strategy will depend on the end customer. The Canadian platform will integrate and launch Wellness as part of the full IHP platform, while International customers will be targeted with a bundle of Wellness, iCBT and other services with lower regulation requirements. Given the regulatory challenges of providing live virtual care, we do not expect primary care and live mental health resources to be made available internationally.

Exhibit 1: Dialogue Health – Updated IHP

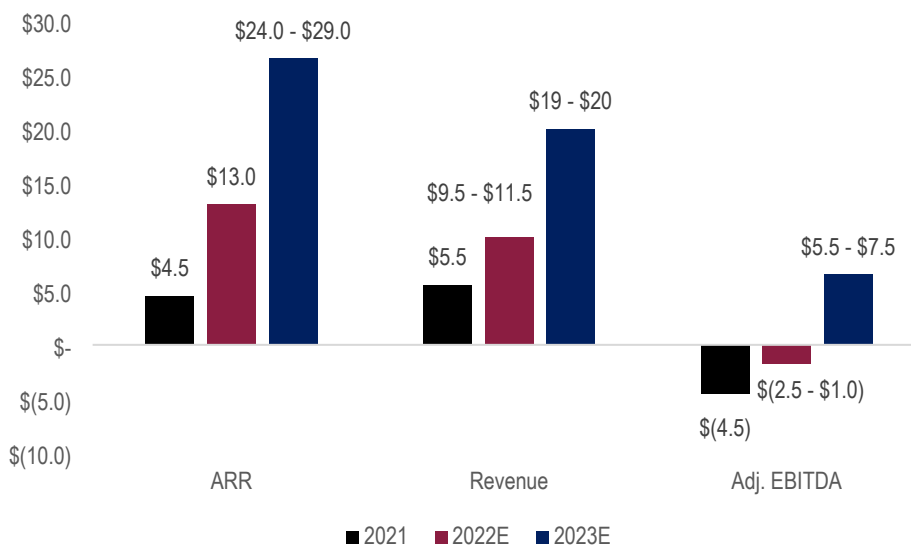
International IHP	Canadian IHP
Wellness & Prevention (Tictrac)	Clinical Focus
Habit formation & expert content	Licensed Medical Professionals
Low regulation requirements	Geographic-specific regulation

Source: Company reports and CIBC World Markets Inc.

Tictrac Financial Outlook

Management provided a preliminary financial outlook for Tictrac’s standalone business, with the ARR expected to well surpass the earnout threshold by the end of 2023. Recent contract wins and competitive situations where Tictrac has been granted preferred vendor status are expected to result in significant ARR and revenue acceleration in 2022 and 2023. Strong gross margins and a relatively lean operating expense profile are expected to result in Adj. EBITDA margins of 33% by 2023.

Exhibit 2: Tictrac – Standalone Company Provided Projections – 2021 – 2023E



Source: Company reports and CIBC World Markets Inc.

Changes To Our Model

We have updated our model to include \$7.3 million of Tictrac revenue in 2022 and \$20 million in 2023. The addition of Tictrac's 88%-90% gross margin revenue results in a 590 bps lift to our 2023E gross margin and a \$3.4 million increase to our 2023 EBITDA estimate.

Exhibit 3: Dialogue Health – Model Updates – 2021 – 2023E

	Revenues (\$MM)	Adj. EBITDA (\$MM)	Gross Margin
2021A	68	-21	42.3%
2022E			
CIBC est. – new	101	-17	48.2%
CIBC est. – prior	94	-16	45.1%
Consensus	95	-15	44.5%
2023E			
CIBC est. – new	149	-1.4	53.3%
CIBC est. – prior	126	-4.8	47.5%
Consensus	124	-3.5	46.5%

Source: Company reports, FactSet and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$9.50 based on 3.5x EV/2023E Sales. Our target multiple is based on an average of virtual healthcare providers whose business models include B2B sales.

Key Risks To Price Target

The primary risks to our price target include the following: 1) slower-than-expected member and revenue growth, 2) slower-than-expected expansion in attach rates resulting from new services, 3) competitive pressure, leading to compressed PMPM rates, and 4) changes to the regulatory environment, which may impact service delivery.

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