

EQUITY RESEARCH

April 5, 2022

Earnings Update

WELL HEALTH TECHNOLOGIES CORP.

Virtual Services Drive Organic Growth

Our Conclusion

WELL reported a solid fourth quarter with revenue 2.5% ahead of consensus as contribution from Circle Medical and newly acquired WISP drove outperformance in the virtual services segment. Consolidated organic growth was over 10% in the quarter, an encouraging sign as the company continues to focus more on organic growth after a series of large and transformational acquisitions in 2021. WELL's focus on organic growth aims to generate annual organic growth of 10% with adjusted EBITDA margins in the 20% range. Excess profitability above the 20% level is expected to be reinvested in growing the business, particularly in the high-growth virtual services businesses that saw 50% organic growth in the quarter. We retain our Outperformer rating and \$8 price target.

Key Points

U.S. Assets Driving Virtual Services: The performance of telehealth platform Circle Medical and women's health e-pharmacy WISP remains strong post acquisition. Circle finished March with run-rate revenue of \$40 million, up 490% from the prior year and up from \$5 million at the time of the September 2020 acquisition. WISP's run-rate revenue also finished March at north of \$40 million, up from \$30 million at the time of the acquisition in August 2021. The two U.S.-based assets are expected to drive elevated virtual services organic growth in 2022. Management noted on the conference call that it believes the assets are undervalued and reiterated a desire to surface value through a potential IPO or an external growth investment into the equity of the assets on a combined or stand-alone basis.

Targeting 20% Margins And 10% Organic Growth: WELL reiterated its focus on organic growth and we expect management to target a consolidated organic growth rate of 10%, fuelled by reinvesting any margin above 20%. Seasonality at CRH and investments in sales & marketing are expected to weigh on margins in the first half of the year, with sequential margin improvement throughout the year leading to annual margins of ~20%. Gross margins of 54.9% were up 460 bps Q/Q as high-margin virtual services growth boosted margins. While we don't expect the full margin to be sustainable, we do see margins remaining closer to 52% through 2022.

CRH Margins Down Q/Q: Unadjusted EBITDA margins at CRH were down sequentially from 39.0% to 37.2% in what is typically CRH's strongest quarter for profitability. We will continue to monitor CRH margins in 2022 as the transition of the United Digestive contract to a managed services agreement is likely to put pressure on growth and margins starting in Q1.

Outlook For 2022: Management continues to focus on surfacing organic growth combined with tuck-in acquisitions and is guiding for 2022 revenue to exceed \$500MM. WELL expects the run-rate revenue of Circle Medical and WISP to exceed US\$80MM in March and exceed US\$100MM later in 2022.

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Outperformer

WELL-TSX, Sector: Health Care

Current Price (4/5/22): C\$5.20

Price Target (12-18 mos.): C\$8.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Revenue(mln)	50.24A	302.32A	507.52E	556.53E
Prior		300.27E	503.54E	546.92E
Adj. EBITDA(mln)	(0.1)A	60.4A	99.2E	123.2E
Prior		57.9E	98.5E	111.7E
Revenue(mln)	Q1	Q2	Q3	Q4
2022	116.45E	126.61E	129.72E	134.74E
Prior	113.64E	125.10E	130.20E	134.60E
2021	25.56A	61.79A	99.29A	115.68A
Prior				113.62E
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2022	20.1E	22.9E	26.0E	30.2E
Prior	21.8E	24.0E	25.6E	27.1E
2021	0.5A	11.9A	22.3A	25.7A
Prior				23.2E
Valuation	2020	2021	2022	2023
EV/Sales	24.3x	4.0x	2.4x	2.2x
EV/EBITDA	NM	20.2x	12.3x	9.9x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	1,161K	Shares O/S:	205.3M
Market Cap.:	C\$1,068M	Float:	181.5M
52-wk Range:	C\$3.83 - C\$8.83	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. WELL-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.

WELL Health Technologies Corp. (WELL-TSX) — Outperformer

Price (4/5/22) C\$5.20 12-18 mo. Price Target C\$8.00

Sector: Health Care

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Per Share Data	2020	2021	2022E	2023E
EPS	(0.03)	(0.23)	(0.26)	(0.18)
Diluted EPS	(0.03)	(0.23)	(0.26)	(0.18)
Adj. EPS Dil.	-	0.08	0.13	0.21
Wgt Avg # of Shares	133.9	190.9	208.4	208.8
FD Number of Shares	133.9	190.9	208.4	208.8
Income Statement	2020	2021	2022E	2023E
Revenue	50	302	508	557
Cost of Goods Sold	29	149	244	267
Gross Profit	21	154	264	289
Gross Margin %	42.23%	50.84%	52.00%	52.00%
Tot Operating Exp	27	128	196	193
Adj. EBITDA	(0)	60	99	123
Adj EBITDA Margin	(0.2%)	20.0%	19.5%	22.1%
thereof Depreciation	4	38	66	67
thereof Amortization	0	0	0	0
Net Income	(4)	(44)	(54)	(37)
Adjusted Net Income	-	16	27	44
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	(5)	22	65	85
Capex	(1)	(3)	(5)	(5)
Acquisitions	(26)	(491)	0	0
Net CFI	(44)	(500)	(5)	(5)
Change in Debt	10	66	0	0
Equity Raised	112	298	0	0
Net CFF	121	453	(19)	(19)
Net Cash Flow	71	(25)	41	61
Free Cash Flow	(7)	6	41	61
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	87	62	103	164
Accounts Receivable	9	67	76	84
Total Current Assets	103	143	194	262
Net PP&E	21	89	85	81
Intangible Assets	131	1,017	940	862
Total Assets	263	1,262	1,232	1,219
Tot Curr Liab	23	137	141	146
LT Int-Bearing Debt	0	291	291	291
Total Liabilities	44	554	538	523
Shareholders' Equity	219	708	694	696
Minority Interest	2	90	110	134

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

Company Profile

WELL Health operates with a goal of consolidating and modernizing the primary healthcare space through the use of technology-enabled services and digital experiences.

Investment Thesis

1) Strategic M&A leads to accretive deals, 2) CRH acquisition provides large customer base for cross-sell, 3) Geographic expansion leads to TAM growth.

Price Target (Base Case): C\$8.00

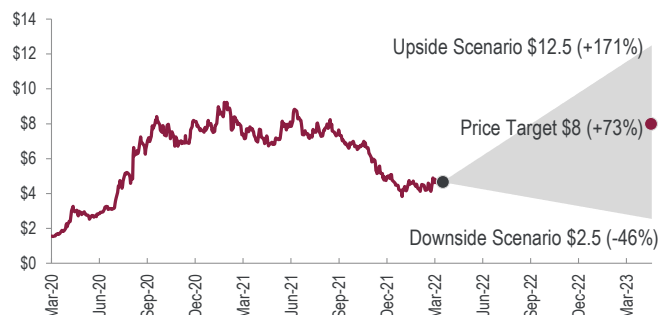
Our price target is based on a 12x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 4.0x EV/Sales multiple on the virtual services revenue

Upside Scenario: C\$12.50

Upside scenario is based on a 14x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 6.0x EV/Sales multiple on the virtual services revenue

Downside Scenario: C\$2.50

Downside scenario is based on a 7x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 1.0x EV/Sales multiple on the virtual services revenue



Financial Overview

Exhibit 1: WELL Health Technologies – Financial Summary, Q4/21

	Q4-F2021			Q4-F2020	Y/Y%	Q3-F2021	Q/Q%
	Actual	CIBC	Cons				
Consolidated							
Revenue (\$MM)	115.7	113.6	112.8	17.2	573%	99.3	17%
Primary	14.1	14.4	NA	10.3	36%	13.4	5%
Specialized (MyHealth)	23.2	23.0	NA	-	NA	19.2	21%
Specialized (CRH)	47.1	48.0	NA	-	NA	48.7	-3%
Virtual Services	31.3	28.2	NA	6.9	356%	18.0	74%
Adj. EBITDA (\$MM) – Operating	25.7	23.2	23.3	0.8	3257%	22.3	15%
Adj. EBITDA Margin – Operating	22.2%	20.4%	20.7%	4.4%	399%	22.4%	-1%
EPS	0.03	(0.05)	(0.02)	0.02	NA	(0.06)	NA

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

Q4 Results: Primary Clinical revenue of \$14.1 million and MyHealth revenues of \$23.2 million were in line with our respective estimates of \$14.4 million and \$23.0 million. CRH revenue of \$47.1 million was slightly below our expectation of \$48 million but strong virtual services revenue of \$31.1 million (CIBCe \$28.2 million) led to a 2% revenue beat against our estimates and consensus. Adjusted EBITDA of \$25.7 million was over 10% better than consensus but did include a \$3.1 million adjustment for uncollected CRH payments.

Profitability: WELL reported adjusted operating EBITDA of \$25.7 million in the quarter at margins of 22.2%, above CIBC expectations (\$23.2 million) and consensus (\$23.3 million). Adjusted EBITDA margins were 150 bps above consensus and 180 bps above CIBC's estimate. Adjusted EBITDA included a one-time adjustment of \$3.1 million for uncollected CRH revenue; without the adjustment, adjusted EBITDA margins would have been 19.5%. CRH contributed the majority of EBITDA in the quarter, generating \$17.5 million in EBITDA before corporate costs at margins of 37.2%. EBITDA margins at CRH were down 180 bps Q/Q. MyHealth generated \$4.4 million in EBITDA before corporate costs at margins of 19.1%.

Patient Visits: WELL delivered a total of 700,359 omni-channel patient visits in the quarter, a Y/Y increase of 123% and a Q/Q increase of 20%. In-person patient visits were 314k, an increase of 9.6% Q/Q, while telehealth visits of 386k were up 107% Y/Y and up 30% Q/Q. In addition, MyHealth delivered 146k in-person diagnostic visits in the quarter and WISP completed 126k patient consultations.

Changes To Our Model: We have updated our model to reflect commentary around adjusted EBITDA margin trajectory, and virtual services growth rates.

Exhibit 2: WELL Health Technologies – Changes To Our Model, 2021 - 2023E

	Revenues (\$MM)	EBITDA - Operating (\$MM)	Cash Flow From Operations
2021	302	60	22
2022E			
CIBC est. – new	508	99	65
CIBC est. – prior	504	98	78
Consensus	502	98	69
2023E			
CIBC est. – new	557	123	85
CIBC est. – prior	547	112	88
Consensus	562	116	85

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

Price Target Calculation

Our price target is based on a sum-of-the-parts valuation that values the omnichannel clinical assets at 12.0x EV/Adj. EBITDA and the Virtual Services business at 4.0x EV/Sales.

Key Risks To Price Target

Risks include: 1) shifting valuation environment, 2) stagnating organic growth, 3) inability to cross-sell digital solutions, 4) the competitive environment worsens, and 5) regulatory challenges in the healthcare business.

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CIBC World Markets Inc. Price Chart

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