

EQUITY RESEARCH

July 26, 2023

Rating Change

DIALOGUE HEALTH TECHNOLOGIES, INC.

Dialogue To Be Acquired By Sun Life For \$5.15/Share

Our Conclusion

Sun Life and Dialogue Health announced this morning that Sun Life will acquire Dialogue for \$5.15 per share for a total equity value of \$365 million. The \$5.15/share price represents a 43.1% premium to the most recent closing price, and a 59.4% premium to the 20-day VWAP. Prior to the acquisition Sun Life owned 23% of Dialogue shares outstanding and we had viewed Sun Life as the most logical acquirer of Dialogue in the event it was taken over. The transaction is an all-cash offer that is not subject to any financing conditions and is expected to close in Q4 2023. With ~53% of votes already secured in favour of the deal from Sun Life, Dialogue management, White Star Capital and Portag3 Capital, we expect the transaction to close without issue despite requiring a majority of minority shareholders to approve the deal. Given the premium to Dialogue's pre-deal share price and our \$4 price target, we recommend tendering shares at the \$5.15 offer price. As such, we are updating our rating from Neutral to Tender and increasing our price target to the \$5.15 offer price.

Key Points

Transaction Details: The offer is all-cash, with the deal price representing a 43.1% premium to the closing price as of July 25, and a 59.4% premium to the 20-day VWAP. The \$5.15 price is also in excess of Dialogue's 52-week high. The deal comes as the result of a strategic review process undertaken by Dialogue in response to an initial offer from Sun Life. As part of the strategic review Dialogue canvassed potential financial and strategic acquirers and determined that Sun Life would be the highest bidder.

Board Recommendation & Shareholder Vote: The transaction has been unanimously approved by the Board of Directors and remains subject to shareholder approval. The transaction must be approved by two-thirds of the votes cast by shareholders as well as the majority of votes cast by minority shareholders (excluding Sun Life and certain members of management). Both Portag3 Ventures and White Star Capital – which collectively own 21% of shares outstanding – and each of the directors and executive officers eligible to vote in the "majority of the minority" vote have committed to vote in favour of the deal, representing 30.5% of the minority voters.

Expands On A Deep Relationship With Sun Life: Sun Life currently owns 23% of Dialogue shares and is a major Dialogue customer, with Dialogue's solutions already being used for Sun Life's Canadian group benefits business. Dialogue also recently [announced](#) an expansion into the U.S. with an agreement to license its technology platform to Sun Life's U.S. business. Today's offer implies an equity value of \$277 million for the shares not currently owned by Sun Life. Dialogue will continue as a standalone entity backed by Sun Life, providing the company with more resources to deliver its solutions.

Scott Fletcher, CPA, CA
Analyst
+1 416-956-3229
Scott.Fletcher@cibc.com

Erin Kyle, CPA
Associate
+1 416-313-9851
Erin.Kyle@cibc.com

Tender

CARE-TSX, Sector: Information Technology

Current Price (7/26/23): C\$5.06

Price Target (12-18 mos.): ↑ C\$5.15

Previous: C\$4.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Revenue(mln)	68.05A	92.20A	107.30E	131.02E
Adj. EBITDA(mln)	(21.3)A	(17.7)A	(3.5)E	5.4E

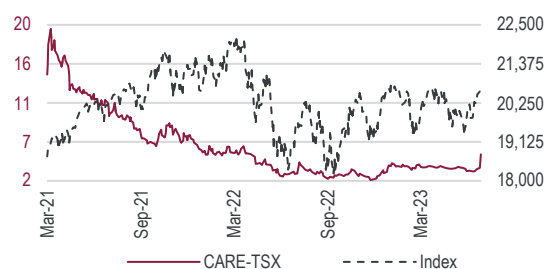
Revenue(mln)	Q1	Q2	Q3	Q4
2023	24.53A	26.09E	27.74E	28.94E
2022	20.69A	23.04A	23.61A	24.87A

Valuation	2021	2022	2023	2024
EV/Sales	4.2x	3.1x	2.6x	2.2x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	22K	Shares O/S:	66.7M
Market Cap.:	C\$338M	Float:	45.0M
52-wk Range:	C\$2.10 - C\$5.06	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 3.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 4.

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

Price (7/26/23) C\$5.06 12-18 mo. Price Target C\$5.15

Sector: Information Technology

Scott Fletcher, CPA, CA +1 416-956-3229 Scott.Fletcher@cibc.com

Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	90.1%	35.5%	16.4%	22.1%
Per Share Data	2021	2022	2023E	2024E
EPS	(4.48)	(0.41)	(0.14)	(0.02)
Diluted EPS	(4.48)	(0.41)	(0.14)	(0.02)
Wgt Avg # of Shares	56,109.0	66,145.3	67,306.0	69,451.8
FD Number of Shares	56,109.0	66,145.3	67,306.0	69,451.8
Income Statement	2021	2022	2023E	2024E
Revenue	68	92	107	131
Cost of Goods Sold	39	44	46	56
Gross Profit	29	46	61	75
Gross Margin %	42.33%	49.66%	56.87%	57.50%
SG&A	44	61	54	59
R&D	10	10	13	14
Tot Operating Exp	55	74	71	76
OpEx (% of Revenue)	81.45%	80.57%	65.83%	58.33%
EBITDA	(249)	(25)	(7)	2
EBITDA Margin	(366.52%)	(27.06%)	(6.15%)	1.47%
Adj. EBITDA	(21)	(18)	(3)	5
Adj EBITDA Margin	(31.3%)	(19.2%)	(3.2%)	4.1%
Net Income	(251)	(27)	(9)	(1)
Net Margin	(369.4%)	(29.3%)	(8.6%)	(0.9%)
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	(23)	(16)	(8)	6
Net Cash Flow	62	(42)	(34)	5
Free Cash Flow	(25)	(17)	(9)	5
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	104	63	28	34
Total Assets	135	119	104	110
Tot Curr Liab	11	20	11	16
Total Liabilities	15	22	13	17
Shareholders' Equity	120	97	91	93
Tot Liab & SE	135	119	104	110

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) Virtual benefits are becoming a standard employee benefits offering as employers look to respond to employee concerns and reduce absenteeism; 2) Dialogue's IHP is a strong product that combines a number of employee benefit offerings into an easy-to-use application; 3) Dialogue's virtual-only offering puts it at a competitive disadvantage to its biggest competitor (TELUS Health) which offers virtual and in-person care; 4) market enthusiasm for small, unprofitable tech companies is at a low, which will likely remain an overhang for a number of quarters.

Price Target (Base Case): C\$5.15

Our price target is based on Sun Life's cash offer price per share.

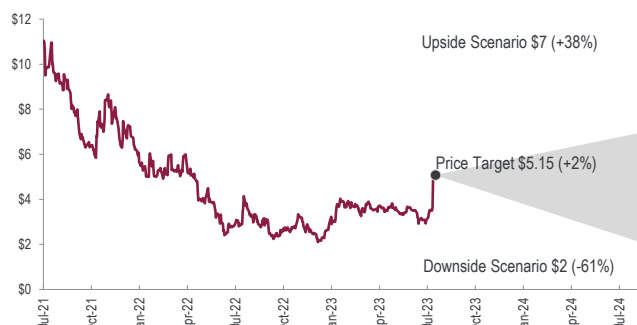
Upside Scenario: C\$7.00

Our upside scenario is calculated using 35% revenue growth in 2024 and a 2.5x EV/2023 Sales multiple.

Downside Scenario: C\$2.00

Our downside scenario is calculated using 15% revenue growth in 2024 and a 0.5x EV/2023 Sales multiple.

Scenario Analysis:



Price Target Calculation

We derive our price target of \$5.15 based on Sun Life's cash offer per share.

Key Risks To Price Target

The primary risks to our price target include the following: 1) Faster-than-expected margin expansion as a result of operating leverage and price increases, 2) Faster-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.

Important Disclosures

Analyst Certification: Each CIBC World Markets Inc. research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets Inc. are compensated from revenues generated by various CIBC World Markets Inc. businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

CIBC World Markets Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that CIBC World Markets Inc. may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Analysts employed outside the U.S. are not registered as research analysts with FINRA. These analysts may not be associated persons of CIBC World Markets Corp. and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

CIBC World Markets Inc. Stock Rating System

Stock Ratings	Abbreviation	Description
Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

For price and performance charts, please visit CIBC on the web at <https://researchcentral.cibccm.com/#/disclaimer-central-new> or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

Important Disclosure Footnotes for Dialogue Health Technologies, Inc. (CARE.TO)

- 1b CIBC WM Inc. makes a market in the securities of these companies: Dialogue Health Technologies, Inc.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from these companies in the next 3 months: Dialogue Health Technologies, Inc.

For important disclosure footnotes for companies mentioned in this report that are covered by CIBC World Markets Inc., click here: [CIBC Disclaimers & Disclosures](#)

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 26 Jul 2023)	Count	Percent	Inv. Banking Relationships	Count	Percent
Outperformer	156	53%	Outperformer	155	99%
Neutral	130	44%	Neutral	130	100%
Underperformer	6	2%	Underperformer	6	100%
Tender	0	0%	Tender	0	0%
Restricted	5	2%	Restricted	5	100%

Important disclosures for each issuer can be found by visiting the Research Central website at <https://researchcentral.cibccm.com/#/disclaimer-central-new> and then entering the issuer name. Access to our research dissemination policy can be found on the same website at <https://researchcentral.cibccm.com/#/dissemination-policy>. These important disclosures can also be obtained by writing to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attention: Research Disclosures Request.

Access to CIBC Equity Research

Clients may access CIBC Equity Research online at Research Central at <https://researchcentral.cibccm.com/>, or at the following research aggregators: Bloomberg, Refinitiv, Capital IQ, and FactSet.

Legal Disclaimer

This report is issued by CIBC Capital Markets.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at <https://cibccm.com/en/disclosures/fx-disclosure-statement/>. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

CIBC World Markets Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. In the United States, CIBC World Markets Corp. is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Fund. In Luxembourg, CIBC Capital Markets (Europe) S.A. (RCS Luxembourg: B236326) is authorised by the European Central Bank (the "ECB") and supervised by the Luxembourg Financial Supervisory Authority (Commission de Surveillance du Secteur Financier) under the oversight of the ECB. CIBC Australia Ltd (AFSL No: 240603) is regulated by the Australian Securities and Investment Commission ("ASIC"). CIBC World Markets (Japan) Inc. is a member of the Japanese Securities Dealer Association. CIBC (TSX/NYSE: CM) is a bank chartered under the Bank Act (Canada) having its registered office in Toronto, Ontario, Canada, and regulated by the Office of the Superintendent of Financial Institutions. CIBC New York Branch is licensed and supervised by the New York State Department of Financial Services. In the United Kingdom, CIBC London Branch is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Canadian Imperial Bank of Commerce, Sydney Branch (ABN: 33 608 235 847) is an authorised foreign bank branch regulated by the Australian Prudential Regulation Authority (APRA). Canadian Imperial Bank of Commerce, Hong Kong Branch is a registered institution under the Securities and Futures Ordinance, Cap 571, and a limited liability foreign company registered with the Hong Kong Companies Registry. Canadian Imperial Bank of Commerce, Singapore Branch is a wholesale bank licensed and regulated by the Monetary Authority of Singapore.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund and (b) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer). CIBC World Markets Corp. accepts responsibility for the content of this research report.

Distribution to Institutional Customers Only

Canada

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

Legal Disclaimer (Continued)

United States

This report is provided, for informational purposes only, to Major US Institutional Investor clients of CIBC World Markets Corp. in the United States, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

United Kingdom

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("**FPO**") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever.

This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

All other jurisdictions

This report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction, and only in compliance with all applicable laws and regulations.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Legal Disclaimer (Continued)

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of CIBC, each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

© 2023 CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A. All rights reserved. Unauthorised use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.