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EQUITY RESEARCH

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June 21, 2022 **Flash Research**

WELL HEALTH TECHNOLOGIES CORP.

Small Primary Care Acquisition Reflects Strategic Approach

Outperformer

WELL-TSX, Sector: Health Care

Current Price (6/20/22):	C$3.17
Price Target (12-18 mos.):	C$6.50

Our Conclusion

WELL Health announced that it is acquiring INLIV, a primary care clinic in the Greater Calgary region. With WELL spending only ~$1.85 million on the clinic, the acquisition is relatively immaterial but there are some notable strategic implications to take away from the deal. The acquisition marks WELL's first primary care acquisition in the province of Alberta, and INLIV's executive health capabilities drive 85% of revenue from recurring membership fees. The acquisition follows WELL's $30 million equity raise on May 11, and is on strategy with stated plans to target primary care acquisitions. With WELL paying 0.25x TTM sales and ~2.5x TTM EBITDA, valuations on primary care clinical assets appear to be quite reasonable, supporting the strategy of focusing on that market in the current environment.

Key Points

Acquisition In Line With Recent Commentary: After raising $30 million via a bought deal priced at 52-week lows of $3.70 on May 11, WELL indicated its plans to play both "offense and defense" with the proceeds and noted that it would focus acquisitions on the primary space. The INLIV acquisition is in line with the stated strategy and we expect WELL to continue focusing on primary care acquisitions in the near term. We see primary care providing an attractive, economically resilient revenue stream in the face of a potential impending economic slowdown.

Valuation Makes Primary Care Attractive: With total consideration of $1.85 million, WELL is paying 0.25x TTM revenue and an estimated 2.5x TTM adjusted EBITDA if we assume 10% EBITDA margins at INLIV. A focus on primary care acquisitions makes strategic sense if WELL is able to continue paying very reasonable acquisition multiples going forward. On its own, the INLIV acquisition is immaterial (~1% of our 2022E revenue), but if the entire proceeds of the $30 million bought deal were deployed at 0.25x sales, it would represent a 22% increase to our 2022E of $526 million. We note that WELL has the discretion to pay cash, shares or a combination of the two upon closing.

Expands Geographic Reach And Membership Revenue: INLIV will be WELL's first acquisition in the province of Alberta, having previously acquired clinics in BC, Ontario and Quebec. In addition to primary care, INLIV provides corporates and other organizations with executive health, employee wellness, aesthetics, periodical medical exams and other integrative services. Of INLIV's revenue, 85% is generated from recurring membership fees, a business model similar to WELL's ExecHealth clinic in Ottawa and ExcelleMD clinics in Montreal.

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

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/Adjusted EBITDA and the Virtual Services business at 4.0x EV/Sales.

Key Risks To Price Target

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

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CIBC World Markets Inc. Price Chart

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