EQUITY RESEARCH

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Healthcare, Media & Real Estate Tech – A Closer Look At Leverage

How Debt Is Impacting Decision-making Within Our Coverage

Sectors:
Information Technology, Health Care, Communication Services

Our Conclusion

As central banks have relied on a series of rate hikes to tame inflation, equity markets have stumbled under the pressure of a tighter money environment. Not only have equity valuations been impacted by rising rates, but companies with exposure to floating rate debt have seen their interest commitments rise substantially after benefitting from an extended period of cheap debt. In this report, we have looked across our coverage with an eye towards debt and leverage, quantifying the impact that further rate hikes will have on interest payments and performing sensitivity analyses to determine the impact of variances in our revenue growth and EBITDA margin forecasts on the leverage outlook for individual businesses. With a number of companies under our coverage operating with leverage above 3.0x, managing debt has become a capital allocation priority and this note serves as a preview for how we expect companies under coverage to manage F2023 capital allocation in light of the shifting interest rate environment.

Key Points

Elevated Leverage Limits Options: Within our coverage universe, DNTL, DND, WELL and RAY.A are all facing limited options given rising interest payment commitments and net debt to EBITDA that sits above 4.0x. All four companies have historically relied on M&A to enhance organic growth to some extent and elevated leverage is likely to limit both the appetite and ability to pursue acquisition opportunities. In the absence of M&A, or – in the case of DNTL – slowing M&A spending, more highly levered names will need to execute to meet or exceed growth and profitability targets in F2023, deleveraging through free cash generation and EBITDA growth.

Rising Rates Putting Pressure On FCF: For each of the names under coverage, we calculated the impact of a 100 basis point increase in floating rate date on free cash flow after interest rate payments. Variable rate financing makes up over 50% of debt at the majority of the names under coverage. Given that level of variable rate exposure, a further 100 bps increase would decrease free cash flow by an average of 2.4%, with DND and DNTL seeing the largest impacts to FCF at 5.6% and 4.2%, respectively.

Sensitivity Analysis Shows Risk Of Missed Estimates: For each of the companies under coverage, we have run a sensitivity analysis to estimate the impact of variance in our revenue growth and EBITDA margin expectations on forward leverage. While the results are not unexpected, we find that the more highly levered names, and names operating at lower margin profiles, would be the most impacted by worse-than-expected performance. We find that natural deleveraging through EBITDA growth would, in many cases, be eliminated by underperforming expectations. This highlights the importance of operational execution in 2023 as companies face the strain and limited flexibility brought on by elevated interest costs.

All figures in Canadian dollars unless otherwise stated.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 18.

Elevated Leverage Makes Execution Key

In this report, we take a closer look at debt and leverage across our coverage universe on a company-by-company basis with a goal of understanding the impact of rising rates and what forward leverage will look like if revenue growth and profitability in 2023 varies from our current expectations. A rapid rise in the cost of debt has brought financial leverage into the spotlight, and companies with elevated leverage and significant amounts of floating rate debt are seeing pressure on their free cash flows as interest payment obligations rise.

To compare leverage across companies, we have made adjustments to standardize the calculation of free cash flow used to arrive at our forward leverage estimates. To capture the impact of rising rates and interest costs, we calculate free cash flow as cash flow from operations less cash interest costs (when not included in CFO), mandatory principal repayments on debt, dividends, lease payments, any applicable distributions to non-controlling interests. In calculating leverage, we have typically used adjusted EBITDA, while in some cases we have removed adjustments for cash payments that are likely to reoccur in the normal course of business. In the case of DNTL, we have calculated leverage using pro forma adjusted EBITDA, adding a full year of EBITDA contribution for acquisitions completed over the last year as that EBITDA will be available to service future borrowing costs. For net debt calculations, we have included the majority of future obligations, inclusive of convertible debt, contingent considerations and deferred acquisition payments.

In the Exhibit 1 table, we overview LTM leverage levels across our coverage as well our forecast for forward leverage based on our free cash flow estimates and the impact of a negative variance in our forward revenue growth and EBITDA margin estimates on forward leverage. We note that the names with the highest current leverage (WELL, DNTL) are unsurprisingly the most heavily impacted by negative variance in revenue growth and profitability. This is, in part, a function of lower EBITDA margins at the more highly levered names, magnifying the impact of a contraction in margins. While Exhibit 1 only summarizes the impact of a 10% underperformance in revenue and a 400 bps underperformance in adjusted EBITDA margin versus our expectations, additional scenarios are included in the individual company sections below.

Exhibit 1: Coverage Universe – Net Debt/TTM EBITDA - CQ3/22A, Q4/F23E, With Revenue Decline & EBITDA Margin Compression Sensitivity Impact

	Net Debt/LTM EBITDA			
Company Name	CQ3/22A	Q4/23E	Leverage In Underperformance Scenario*	Delta
Altus Group (CA$)	2.7x	1.7x	2.6x	**0.9x**
Corus Entertainment (CA$)*	3.4x	2.8x	4.5x	**1.7x**
DRI Healthcare Trust (US$)	2.9x	1.6x	2.0x	**0.4x**
Dye & Durham (CA$)*	4.4x	3.0x	3.8x	**0.8x**
dentalcorp (CA$)	4.8x	4.3x	6.2x	**1.9x**
Information Services Corp (CA$)	0.8x	0.3x	0.6x	**0.3x**
Stingray (CA$)**	4.4x	3.2x	4.2x	**1.0x**
Thomson Reuters (US$)	1.8x	1.0x	1.4x	**0.4x**
WELL Health (CA$)	5.0x	3.2x	5.9x	**2.7x**

* Underperformance Scenario is calculated using revenue 10% below and adjusted EBITDA 400 bps below CIBC forecasts.
**RAY.A estimated leverage is for period ending March 2024. DND is for June 2023; CJR.B is for August 2024.
Source: Company reports, FactSet and CIBC World Markets Inc.

The impact to leverage in Exhibit 1 clearly underscores the importance of operational execution as companies contend with higher annual interest commitments. The natural deleveraging that we are forecasting over the course of 2023 depends on a certain level of revenue growth and profitability. Given that importance, we expect that majority of the companies with leverage near or above 3.0x to focus on deleveraging, with any M&A for those names likely to be small and funded out of free cash flow.

CIBC

Keeping An Eye On Floating Rate Debt

Companies with larger amounts of floating rate debt are clearly facing a larger challenge in the new interest rate environment. With uncertainty still remaining around the need for further rate hikes, interest payments may still have room to rise. The table in Exhibit 2 includes an overview of floating rate debt levels and interest payments across our coverage, comparing the impact of a 100 bps increase in interest rates on FCF (before interest). The more mature names under coverage such as TRI an CJR.B have unsecured bonds/notes with interest rates that are more fixed in nature, while earlier stage companies within our coverage rely on secured revolvers and term loans. Many companies with exposure to floating rate debt have reduced their exposure through interest rate swaps, and the % of floating rate debt in Exhibit 2 takes those hedges into account.

Within our coverage, TRI has the lowest exposure to floating rate debt at 9% (its commercial paper program was included as a variable instrument given its short duration) while CJR.B has the second lowest exposure at 23%. As a result, a 1% increase in rates has minimal impact on our 2023 FCF estimates. On the other hand, DRI and ISV have 100% exposure to floating rates, although both names have limited leverage, reducing the impact of higher interest rates on interest payments. We highlight that names with the most leverage (DND, DNTL) are unsurprisingly the most heavily impacted by a rise in rates, even with half of dentalcorp's floating rate exposure hedged with an interest rate swap.

Exhibit 2: Coverage Universe – CQ3/22 Floating Rate Debt Exposure & Debt Cost Sensitivity For A 1% Interest Rate Increase

Company Name	Floating Debt %	Annualized Interest Expense As % Of 2023E FCF	Interest Expense As % Of 2023E FCF (With 1% Rate Increase)	Increased Financing Expense As % of FCF
Altus Group (CA$)	72%	14%	17%	**2.2%**
Corus Entertainment (CA$)	23%	38%	40%	**1.5%**
DRI Healthcare Trust (US$)	100%	20%	23%	**3.4%**
Dye & Durham (CA$)	76%	60%	66%	**5.6%**
dentalcorp (CA$)	52%	54%	58%	**4.2%**
Information Services Corp (CA$)	100%	10%	12%	**1.7%**
Stingray (CA$)	49%	28%	30%	**2.7%**
Thomson Reuters (US$)	9%	8%	9%	**0.2%**
WELL Health (CA$)	79%	22%	24%	**2.4%**
Average	**62%**	**28%**	**31%**	**2.4%**

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

Real Estate Tech

Altus Group

Altus finished Q3 with net debt of $324 million and leverage of 2.3x when measured against last 12 months (LTM) adjusted EBITDA *before* IFRS 16 adjustments. Throughout our analysis we have included lease liabilities in our calculation of net debt for companies reporting under IFRS to compare against IFRS adjusted EBITDA prior to lease interest costs. Altus is a unique case, with management reducing its adjusted EBITDA figure for the impact of IFRS 16 accounting. In order to compare leverage on a like-for-like basis, we have added back IFRS 16 adjustments to adjusted EBITDA ($12.6 million on an LTM basis) and calculated net debt/leverage inclusive of lease liabilities.

Altus' covenants are calculated on a Funded Debt to EBITDA basis, and Altus finished Q3 with leverage of 2.29x when calculated on that basis. Altus is well onside of its Funded Debt to EBITDA covenant of 4.5x, and our sensitivity work shows that a decline in both revenue growth and EBITDA margins puts the business at no risk of approaching a covenant breach.

Exhibit 3: AIF – Leverage Sensitivity – F2023E

		Changes To 2023E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
Changes To 2023E EBITDA Margin	**16.0%**	2.62x	2.45x	2.29x	2.15x	2.02x
	18.0%	2.25x	2.10x	1.96x	1.83x	1.72x
	20.0%	1.96x	1.82x	1.69x	1.58x	1.47x
	22.0%	1.71x	1.59x	1.47x	1.37x	1.28x
	24.0%	1.51x	1.40x	1.29x	1.20x	1.11x

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

While covenants are a minimal concern, we do believe that management prefers to stay below 3x leverage on a Net Debt to adjusted EBITDA basis. We are modeling $92 million in FCF in 2023E, leading to a natural deleveraging of ~0.6 turns, with leverage falling to 1.7x by year-end. Once leverage falls below the 2.0x level, we expect Altus to take a much closer look at M&A opportunities. With Altus' core analytics business in the midst of a strategic shift as it develops a platform-based model for the CRE industry, adding additional services to the platform via acquisition seems like a likely path once leverage dips below 2.0x, in our view.

Dye & Durham

Dye & Durham is one of the more interesting names for this exercise given management's willingness to operate with an elevated leverage profile and the downside revenue potential created by slowing real estate markets. Our leverage sensitivity for Dye & Durham helps quantify the impact of a further slowdown in real estate transactions on DND's leverage, an analysis we view as particularly relevant given DND's significant exposure to those markets. Sixty-eight percent of revenue in DND's most recent quarter was generated from housing market transactions, with 43% coming specifically from the Canadian market. Our leverage figure is calculated on adjusted EBITDA *prior* to M&A adjustments given that M&A costs are a cash outlay resulting from the company's acquisitive business model. We have run our leverage forecast after taking into the account $42 million in buyback spending in FQ2, the $150 million directed towards the substantial issuer bid completed in December, and $122 million in free cash inflow over the remaining three quarters in F2023E.

Our sensitivity analysis shows that if F2023 (year ended June 2023) revenue were to come in 10% below our current forecast, holding margins flat, our leverage forecast would increase from 4.4x to 4.9x. If that revenue decline was coupled with a 400 bps decline in EBITDA margins, leverage would increase further to 5.5x. With elevated mortgage rates likely to persist over the short to medium term, keeping transaction activity muted, we see a downside scenario of revenue and margin contraction as more likely at DND than other names under coverage.

Exhibit 4: DND – Leverage Sensitivity – F2023E

Change in F2023E *Adj. EBITDA Margins* (Prior to M&A Adjustments)		*Changes To 2023E Revenue*				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	43.1%	5.50x	5.16x	4.86x	4.59x	4.35x
	45.1%	5.22x	4.90x	4.61x	4.35x	4.12x
	47.1%	4.96x	4.66x	4.38x	4.13x	3.91x
	49.1%	4.73x	4.43x	4.17x	3.93x	3.71x
	51.1%	4.51x	4.23x	3.97x	3.74x	3.54x

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

Although we believe leverage is likely to remain elevated above 4x at DND throughout F2023, management has shown a willingness to further increase leverage in pursuit of transactions it believes to be accretive. DND's recently aborted attempt to acquire Link Group's Corporate Markets and Banking & Credit Management business would have taken leverage above 6.0x with additional interest payments associated with the deal significantly reducing the net amount of free cash flow. While we were encouraged by news that Link Group has ultimately ceased discussions with Dye & Durham, management is clearly not opposed to a transaction that would further increase leverage and interest costs in the short term.

Information Services Corp

Information Services Corp finished Q3 with minimal leverage of 0.77x net debt to EBITDA. Based on our cash flow forecast, we expect the business to naturally de-lever by nearly half a turn by year-end 2023, leaving ISV at close to a net cash position at 0.27x. With ISV management having recently signalled a willingness to increase leverage in pursuit of accretive M&A opportunities, we believe there is an appetite to take leverage up to 4x if an attractive opportunity was to arise. Increasing leverage to 4x would allow ISV to spend an additional $212 million on M&A based on our 2022 Y/E leverage forecast of 0.65x. While ISV's current liquidity ($33 million in cash and $74 million in room on its revolving term facility) would fall short of that total, ISV does have an active shelf prospectus for up to $200 million that could make up the difference and help fund elevated M&A.

On the sensitivity front, with a portion of revenue tied to housing market transaction volumes, we note that the there is potential for underperformance relative to our current forecast. That possibility is mitigated partially by the fact that Saskatchewan has been less impacted than the rest of the country and the business has diversified outside of registry services (54% from non-registry in F2023). With regards to leverage, the limited amount of debt currently on the balance sheet results in a minimal impact to the leverage ratio in the event of a decline in both revenue growth and EBITDA margins, as shown in the Exhibit 5 table below.

Exhibit 5: ISV – Leverage Sensitivity – FY2023E

		Changes To 2023E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	25.4%	0.58x	0.51x	0.44x	0.38x	0.33x
Changes To 2023E	**27.4%**	0.48x	0.41x	0.35x	0.29x	0.24x
EBITDA Margin	**29.4%**	0.39x	0.33x	0.27x	0.22x	0.17x
	31.4%	0.31x	0.25x	0.20x	0.15x	0.11x
	33.4%	0.25x	0.19x	0.14x	0.09x	0.05x

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

Healthcare

Dentalcorp

dentalcorp's growth-through-acquisition model, majority funded with debt, has fallen out of investor favor as central banks have relied on rapid rate hikes to fight inflation. dentalcorp shares finished down 49% in 2022, having fallen as much as 65% before the company initiated a strategic review that saw shares rally on the potential for a take-private transaction.

In response to investor concerns around leverage and elevated interest costs, dentalcorp fixed the variable rate portion on nearly half of its outstanding debt and signalled its intention to slow the pace of M&A in an effort to accelerate deleveraging. Following Q3 results, we reduced our 2023 forecast for EBITDA acquired through M&A from $49 million to $32 million, with the reduction accelerating the natural deleveraging process by 0.2x and resulting in F2023 year-end leverage of 3.8x on a U.S. GAAP basis, inclusive of pro forma contribution from completed M&A.

On an IFRS 16 basis, including pro forma M&A contributions, we model DNTL naturally deleveraging from 4.75x to 4.3x over the course of F2023. Below we show leverage calculations using both IFRS EBITDA and an approximation of U.S. GAAP EBITDA after deducting rent expense, as well as a comparison inclusive of pro forma contribution from completed acquisition as well as without. DNTL management has typically referred to the Pro Forma After Rent leverage calculation, highlighted at 4.4x in the exhibit below.

Exhibit 6: DNTL – IFRS Vs. After Rent Leverage Comparison – LTM Q3/22A

	LTM EBITDA (Including Pro Forma Contribution)		LTM EBITDA	
	IFRS	After Rent	IFRS	After Rent
Long Term Borrowings	1,045	1,045	1,045	1,045
Contingent Consideration	31	31	31	31
Lease Liabilities	309	-	309	-
Cash	(133)	(133)	(133)	(133)
Net Debt	**1,252**	**943**	**1,252**	**943**
LTM Adj. EBITDA (IFRS)	219	219	219	219
LTM Lease Expense	-	(38)	-	(38)
LTM Adj. EBITDA	219	181	219	181
Pro Forma Contribution	35	32	-	-
Pro Forma Adj. EBITDA	254	213	219	181
Leverage	**4.9x**	**4.4x**	**5.7x**	**5.2x**

Source: Company reports and CIBC World Markets Inc.

As mentioned, a contributing factor to the share price weakness has been concerns around the impact of rising rates and the ability of the business model to withstand elevated interest payments. We view concerns around elevated leverage and rising rates as somewhat overstated in the case of DNTL, with our 2023 forecast expecting $220 million in free cash flow before interest payments vs. a 2023 interest payment forecast of $87 million. Furthermore, we calculate that after entering into the interest rates swaps, which fixed the variable portion of the interest rate at current CDOR levels, every additional 50 bps increase in interest rates would decrease total free cash flow to equity by 2.1% or ~$2.8 million.

Exhibit 7: DNTL – Interest Rate Sensitivity – F2022E Debt Balance

	Hedged Portion	Rate Increase	Unhedged Portion
Long Term Debt	500		556
Floating Portion (CDOR)	3.80%	+ 50bps	4.30%
Spread	2.50%		2.50%
Annual Interest Payments	31.5		37.8
Total Interest @ 3.8% CDOR			66.6
Total Interest @ 4.3% CDOR			69.3
Incremental Interest			**2.8**
% of FCF			*2.1%*

Source: Company reports and CIBC World Markets Inc.

On the operational front, dentalcorp practices continue to feel the lingering effects of COVID, with elevated levels of patient cancellations and provider illness weighing on same-practice sales growth. The ongoing impact of COVID, coupled with a potential pullback in patient discretionary spending in the face of a recession (orthodontics, implants), make a sensitivity analysis important to consider.

We find that a 5% reduction in our revenue growth forecast would take pro forma leverage from 3.9x to 4.2x, and if that revenue decline was combined with a 200 bps decrease in margins, leverage would further increase to 4.8x. While the magnitude of those revenue and margin sensitivities is higher than DNTL is likely to see, the sensitivity does illustrate that DNTL's leverage situation could be nearly a turn worse than expected if the macro environment puts elevated pressure on the business. We have also included a leverage sensitivity using pro forma IFRS leverage in Exhibit 9 that shows a similar change in leverage for corresponding changes in revenue growth and EBITDA margins.

Exhibit 8: DNTL – Pro Forma Leverage Sensitivity (After Rent) – F2023E

				Changes To 2023E Revenue		
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	11.7%	6.11x	5.69x	5.32x	5.00x	4.70x
	13.7%	5.18x	4.83x	4.52x	4.24x	3.99x
Adj. EBITDA Margin	**15.7%**	4.47x	4.17x	3.90x	3.66x	3.44x
After Lease Costs	**17.7%**	3.92x	3.65x	3.41x	3.20x	3.01x
	19.7%	3.48x	3.24x	3.02x	2.83x	2.66x

Source: Company reports and CIBC World Markets Inc.

Exhibit 9: DNTL – Pro Forma Leverage Sensitivity (IFRS 16 Basis) – F2023E

				Changes To 2023E Revenue		
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	14.8%	6.21x	5.88x	5.57x	5.30x	5.04x
	16.8%	5.45x	5.15x	4.88x	4.63x	4.40x
Adj. EBITDA Margin	**18.8%**	4.84x	4.57x	4.32x	4.10x	3.89x
IFRS 16 Basis	**20.8%**	4.34x	4.09x	3.87x	3.66x	3.47x
	22.8%	3.93x	3.70x	3.49x	3.30x	3.13x

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

Dialogue

Dialogue finished Q3 in a net cash position of $58 million, with total debt of just over $1 million. Dialogue continues to operate with more than half of the $100 million in cash raised during IPO, and with cash burn slowing and FCF set to turn positive in 2023, in our view there is little to no concern around its cash position or balance sheet strength. Dialogue's path to FCF positivity has been de-risked in recent quarters as adjusted EBITDA margins have improved by 1,000 bps over the course of 2022, going from -28% in Q1 to -18% in Q3. We are modeling the business to generate positive adjusted EBITDA and cash flow from operations in Q4/23.

Given Dialogue's relatively strong balance sheet position, we expect the company will look to add additional services to its Integrated Health Platform via acquisition in F2023. Dialogue recently divested its German-based Occupational Health and Safety business due to its lack of integration, providing an additional $2.9 million to fund platform development. We expect future platform enhancements to be focused on asynchronous services that can be provided without direct practitioner support. We expect these services to provide a lift to the long-term gross margin profile of the business, currently limited by the ~50% margin profile of the primary care and mental health business.

CIBC

DRI Healthcare Trust

DRI finished Q3 with leverage of 2.2x, and following the post-quarter $30 million acquisition of a royalty on Xenpozyme we estimate that leverage will finish the year at approximately 2.5x. We note that our calculation of leverage does not factor in DRI's $50 million loan receivable from CTI Biopharma, and if we were to net out the loan receivable, leverage would decline by 0.6x turns in all scenarios shown in the sensitivity table in Exhibit 10.

Given that cash receipts are more relevant to the performance of DRI's royalty streams, we have run our leverage sensitivity using our cash receipts forecast rather than our estimate of royalty income receivable. DRI's leverage is relatively insulated against changes to our forecast given high levels of conversion of cash receipts to free cash flow. The sensitivity in Exhibit 10 shows that a 10% underperformance in cash royalties and a 400 bps compression in margins would only result in a 0.4x increase to leverage to just above 2.0x.

Exhibit 10: DHT.UT – Leverage Sensitivity – F2023E

		Changes To 2023E Cash Receipts				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	80.2%	2.01x	1.86x	1.72x	1.59x	1.48x
Changes To F2023E	**82.2%**	1.94x	1.79x	1.65x	1.53x	1.42x
Adj. EBITDA Margin	**84.2%**	1.87x	1.73x	1.59x	1.47x	1.36x
	86.2%	1.81x	1.66x	1.53x	1.42x	1.31x
	88.2%	1.75x	1.61x	1.48x	1.36x	1.26x

Source: Company reports and CIBC World Markets Inc.

While DRI's low cost structure would be able to support significant leverage, management has stated its preference to operate with leverage in the range of 2x-3x. We forecast DHT's free cash flow to result in just under one turn of deleveraging in F2023, providing more flexibility to pursue NAV-accretive royalty acquisitions. We note that with our valuation based on discounted royalty receipts, if DRI was to take on additional leverage it would result in a lower cost of capital, providing an additional lift to the present value of the royalty streams.

WELL Health Technologies

The leverage outlook at WELL Health's varies substantially depending on which obligations are included in the numerator of the leverage calculation. In Exhibit 11 we compare a calculation of WELL's current leverage using a basic definition of leverage relative to a leverage calculation that we believe captures a more complete view of WELL's future commitments, assuming future earnout targets are met and convertible debentures that are well out of the money are ultimately settled in cash. In both calculations we use Shareholder Adjusted EBITDA for the denominator given that WELL will only be able to pay obligations out of cash flow *after* payments to non-controlling interests.

Exhibit 11: WELL Health – Leverage Overview – Current

Standard (Management's Leverage)	
Long Term Debt	237,436
Short Term Debt	25,200
Cash	(52,435)
Net Debt	210,201
LTM Adj. SH EBITDA	73,333
Leverage	**2.9x**

Full Leverage Calculation		Notes
Long Term Debt	237,436	
Short Term Debt	25,200	
Convertible Debentures - LT	40,757	A
Convertible Debentures - ST	3,850	A
Convertible Debentures - Equity	25,393	A
Lease Liabilities	60,443	
Deferred Acquisition Costs	76,001	B
Holdback Settled In Shares	(60,000)	C
Cash	(52,435)	
Other Liabilities	7,066	D
Net Debt	**363,711**	
LTM Adj. SH EBITDA	73,333	
Leverage	**5.0x**	

Notes

A	• $70 million in Convertible Debentures issued November 25, 2021. Convertible at $9.23/share. • ~$25 million of the debenture was initially classified as equity due to the conversion feature. The ~$25 million included in Exhibit 11 is the difference between carrying amount and face value • Bear interest at a rate of 5.5%, payable semi-annually
B	• Deferred acquisition payments related to the acquisitions of MyHealth, Wisp, CognisantMD and Other acquisitions. The majority of the balance relates to the acquisition of MyHealth (C)
C	• $60 million of the deferred acquisition cost balance relates to a performance based earn-out resulting from acquisition of MyHealth partners. • Those payments are made in $15 million installments over the next four years. Those payments may be settled in cash, WELL shares or a combination of both. We have assumed those payments are settled entirely in WELL shares given the extent of WELL's future cash commitments.
D	• This balance relates to time-based earnouts, primarily arising from the acquisition of Greater Connecticut Anesthesia Associates.

Source: Company reports and CIBC World Markets Inc.

On WELL's most recent conference call, management made reference to leverage at roughly 3x shareholder EBITDA , a number we believe is calculated using long-term debt as the only form of debt as shown in the left hand side of Exhibit 11. A more complete view of WELL's obligations includes its convertible debentures, lease liabilities, and deferred acquisition costs net of the portion of deferred acquisition costs that can be settled in WELL shares. Under this calculation, we arrive at leverage of 5.0x, and if we were to assume that the entire deferred acquisition costs are paid in cash rather than WELL shares, leverage would reach 5.8x LTM shareholder adjusted EBITDA.

Exhibit 12: WELL Health – Leverage Sensitivity – F2023E

		Changes To 2023E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	9.0%	5.94x	5.56x	5.23x	4.92x	4.64x
Changes To F2023E	**11.0%**	4.64x	4.33x	4.06x	3.81x	3.58x
EBITDA Margin	**13.0%**	3.74x	3.48x	3.25x	3.03x	2.84x
	15.0%	3.08x	2.86x	2.65x	2.47x	2.30x
	17.0%	2.58x	2.38x	2.20x	2.04x	1.89x

Source: Company reports and CIBC World Markets Inc.

Based on WELL's current cash balance and our cash flow forecast, we do not foresee the business being at risk of being unable to meet any of its obligations, but do believe that total future commitments of approximately 5x shareholder EBITDA was a driving factor behind WELL's $30 million equity raise in May 2022 as well as a primary driver of scaled back M&A aspirations in 2022 and 2023.

We also note that WELL is relatively close to hitting its debt covenants, particularly when it comes to the facility affiliated with its CRH Medical business. The CRH debt has a covenant of 3.75x TTM adjusted EBITDA, and if we were to assume a 40% adjusted EBITDA margin on LTM CRH revenue (segmented adjusted EBITDA margins are not disclosed), leverage of 3.2x sits close to the covenant level. Furthermore, if we assume adjusted EBITDA margins of 35%, leverage is 3.6x, leaving WELL with minimal headroom under the covenant. Given the proximity to the CRH covenant, we would expect WELL to prioritize repayment of the CRH facility, potentially relying on asset sales to fund repayment, as appears to have been the case in Q3.

Media

Corus Entertainment

Corus finished its FQ1/23 (ended November 30, 2022) with net debt of $1.34 billion and leverage of 3.4x, and based on our cash flow forecast we expect leverage to finish the year at similar levels. Corus' management has a stated goal of reducing leverage to 2.5x, a target that has been made more challenging by weak TV advertising markets that are acting as a drag on EBITDA growth. While the business should continue to see strong free cash flow conversion, a 24% Y/Y decline in LTM EBITDA has made deleveraging more challenging. That said, current leverage remains below the 4.25x covenant and the elevated dividend yield may be right-sized to redeploy for debt reduction if required.

With advertising markets remaining weak throughout Corus' FQ1 and showing no real signs of improvement to date, we consider a sensitivity around revenue and EBITDA margins particularly important for Corus. We note that Corus' program and film amortization costs are relatively fixed in nature, increasing the potential for profitability underperformance. Based on the sensitivity in Exhibit 13, we find that for Corus to finish F2023 with leverage of 2.5x, revenue would have to come in 10% better than our expectations with corresponding margin expansion of 400 bps.

Exhibit 13: CJR.B - Leverage Sensitivity – F2023E

		Changes To 2023E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	21.1%	4.5x	4.2x	4.0x	3.8x	3.6x
Changes To F2023E	**23.1%**	4.1x	3.8x	3.6x	3.4x	3.2x
EBITDA Margin	**25.1%**	3.7x	3.5x	3.3x	3.1x	2.9x
	27.1%	3.4x	3.2x	3.0x	2.8x	2.7x
	29.1%	3.1x	2.9x	2.8x	2.6x	2.5x

Source: Company reports and CIBC World Markets Inc.

With a current dividend yield north of 13%, we believe it is important to consider sustainability of Corus' dividend in the midst of an advertising recession. Our F2023 forecast expects Corus to generate $126 million in free cash flow (after lease liability payments) in F2023 before the required dividend payments of $70 million, leaving the dividend theoretically covered. To provide additional details on the safety of the dividend, we ran a similar sensitivity on our free cash flow projections, and in the case of a 10% decline in revenue and 400 bps contraction in EBITDA margins, Corus would generate $87 million in free cash flow, leaving the dividend at 84% of total free cash flow.

Regardless of the business's ability to cover the dividend, the elevated yield and payout ratio may result in Corus shrinking the dividend to direct a greater portion of free cash flow towards debt repayment. With its most recent quarter, Corus noted that its Board had deferred a decision on the March dividend until March 15 at the latest to better understand the performance and recovery of advertising spending.

Exhibit 14: CJR.B – FCF Sensitivity Impact On Dividend Payment – F2023E

	FY2023E	
	Baseline Estimates	10% Revenue Decline & 4% EBITDA Margin Compression
Revenue	1,543	1,389
EBITDA	387	349
EBITDA Margin %	25.1%	21.1%
CFO	161	122
CFO As % Of EBITDA	41.6%	41.6%
Capex	(17.3)	(17.3)
Lease Liability	(17.5)	(17.5)
FCF	126	87
FCF Margin %	8.2%	6.3%
Dividend Payment	73	73
Dividend As % Of FCF	**58%**	**84%**

Source: Company reports and CIBC World Markets Inc.

Stingray Media

Stingray reports a quarterly net debt to adjusted EBITDA figure that is calculated using bank debt relative to LTM adjusted EBITDA. Based on management's calculation, the business ended FQ2 with leverage of 3.4x. Factoring in future commitments related to CRTC payments and future earnout/acquisition payments, Stingray's leverage is over a half turn higher at 4.1x. A comparison of management's leverage calculation and a calculation that includes additional future commitments is included in Exhibit 15.

Exhibit 15: RAY.A – Leverage Calculation Comparison – LTM

Standard (Management's Leverage)	
Credit facilities	368
Subordinated debt	25
Cash and cash equivalents	(15)
Net Debt	**379**
LTM Pro Forma Adj. EBITDA	110
Leverage	**3.44x**

Full Leverage Calculation	
Credit Facilities	368
Subordinated Debt	25
Lease Liabilities (Total)	27
CRTC Tangible Benefits	21
Contingent Consideration	22
Acquisition Balance Payable	3
Cash	(15)
Net Debt	**451**
LTM Pro Forma Adj. EBITDA	110
Leverage	**4.10x**

Source: Company reports and CIBC World Markets Inc.

Regardless of the calculation, leverage has increased over the last year as the business has invested in the growth of its Stingray Advertising business. Management made specific reference to elevated leverage during its most recent conference call and debt reduction is expected to be the current priority for capital allocation. While we do have a favourable view on Stingray's efforts to diversify away from its historical business that was reliant on Pay TV, we expect growth investments to be relatively limited and M&A tabled for the foreseeable future as management prioritizes leverage reduction. We are currently modeling the business to generate $113 million in free cash flow by F2024 (ending March), resulting in a natural deleveraging of 0.8x.

Based on the below sensitivity, we find that a 5% reduction in our revenue forecast and 200 bps decline in our margin forecast would take leverage up by ~0.4x turns, regardless of how the metric is calculated. For clarity, we have included a sensitivity under both calculations.

Exhibit 16: RAY.A – Leverage Sensitivity (Management's Calculation) – F2024E

		Changes To F2024E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
Changes To F2024 EBITDA Margin	**32.1%**	3.51x	3.28x	3.08x	2.89x	2.73x
	34.1%	3.26x	3.04x	2.85x	2.68x	2.52x
	36.1%	3.03x	2.83x	2.65x	2.49x	2.34x
	38.1%	2.83x	2.64x	2.47x	2.31x	2.17x
	40.1%	2.65x	2.47x	2.31x	2.16x	2.02x

Source: Company reports and CIBC World Markets Inc.

Exhibit 17: RAY.A – Leverage Sensitivity – F2024E

				Changes To F2024E Revenue		
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	32.1%	4.20x	3.94x	3.70x	3.49x	3.29x
Changes To F2024E	**34.1%**	3.91x	3.66x	3.44x	3.23x	3.05x
EBITDA Margin	**36.1%**	3.65x	3.41x	3.20x	3.01x	2.84x
	38.1%	3.41x	3.19x	2.99x	2.81x	2.65x
	40.1%	3.20x	2.99x	2.80x	2.63x	2.48x

Source: Company reports and CIBC World Markets Inc.

Thomson Reuters

TRI finished Q3 with leverage of 1.8x net debt to EBITDA, a level we view as conservative given the stability of TRI's recurring revenue base and high levels of expected free cash flow. We are currently forecasting $1.9 billion in total free cash flow in 2023 as well as an expectation that TRI monetizes one-third of its stake in LSEG over the course of 2023, in addition to the $1 billion in shares sold to Microsoft in December, providing the business with approximately US$2.5 billion in additional after-tax liquidity.

Using our 2023 FCF forecast and LSEG proceeds, TRI is expected to reduce leverage by ~0.8x in 2023, reaching 0.96x by year-end FY2023 even after spending an estimated $1.5 billion on share repurchases. With TRI's balance sheet in excellent shape and access to significant liquidity, TRI has the flexibility to pursue M&A or spend further on share buybacks. As described in the table in Exhibit 18, we expect TRI will have nearly $6.2 billion in liquidity for capital allocation purposes over the course of 2023. Furthermore, if TRI was to spend the entirety of the liquidity available to it, we calculate leverage would only reach 2.3x, before factoring in EBITDA contributions from any acquired businesses.

Exhibit 18: TRI – Liquidity Overview – Year-end 2023E

F2023 Liquidity Overview	US $MM
Cash	459
Q4 & 2023 Free Cash Flow	2,430
Revolver Availability	1,800
LSES Microsoft Sales (Net of Tax)	800
1/3 of LSEG Stake (Current Market Value Net of Tax)	1,607
Dividends	(917)
Total Liquidity	**6,197**

Source: Company reports and CIBC World Markets Inc.

TRI's leverage is also not particularly sensitive to a decline in revenue or EBITDA margin compression. Given the scenario of a 10% revenue decline versus the baseline forecast and a 4% margin compression, leverage only increases by 0.4x on our 2023 estimate.

Exhibit 19: TRI – Leverage Sensitivity – F2023E

		Changes To 2023E Revenue				
		(10.0%)	**(5.0%)**	**0.0%**	**5.0%**	**10.0%**
	34.7%	1.4x	1.3x	1.2x	1.1x	1.0x
	36.7%	1.3x	1.2x	1.1x	1.0x	0.9x
EBITDA Margin	**38.7%**	1.2x	1.1x	1.0x	0.9x	0.8x
	40.7%	1.1x	1.0x	0.9x	0.8x	0.7x
	42.7%	1.0x	0.9x	0.8x	0.7x	0.6x

Source: Company reports and CIBC World Markets Inc.

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