

EQUITY RESEARCH

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Flash Research

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

DIALOGUE HEALTH TECHNOLOGIES, INC.

Expands Into U.S. With Sun Life U.S. License Agreement

Our Conclusion

Dialogue announced today that the company has reached an agreement with Sun Life U.S. to license its integrated health platform (IHP) and provide its wellness services to over ~600k Sun Life U.S. Health and Risk solutions members. The agreement represents an incremental revenue and growth opportunity for Dialogue as it licenses access to its proprietary IHP and eventually looks to expand further into the U.S. market. The license agreement is structured as a true SaaS offering, adding scalable high margin subscription revenue without having to rely on Dialogue’s team of service providers. The Sun Life agreement paves the way for additional IHP licensing deals that are similar in nature in both the U.S. and other geographies, and we expect some level of margin accretion in the coming quarters given the SaaS-only nature of the business. We expect the deal to add somewhere in the range of \$2 million - \$4 million in ARR although we will wait for additional clarity on the total contribution before updating our model.

Key Points

Represents A New Business Line: With the agreement, Sun Life U.S. will license Dialogue’s IHP and add wellness services. With the license, Sun Life can leverage the IHP as a back end for other services - such as virtual primary care – without Dialogue providing its team of practitioners. The IHP will first provide access to CARE’s Wellness service, with the possibility of adding additional asynchronous Dialogue capabilities over time. With the license agreement, Dialogue can clear the technical hurdles that previously prevented the company from extending services to Canadian direct customers with U.S. operations.

Facilitating Geographic Expansion: Prior to this agreement, Dialogue had not expressed interest in moving into the U.S. market given the challenges of providing practitioner-led care outside of Canada. The Sun Life U.S. agreement gives Dialogue a large initial member base, making it worthwhile to adapt the IHP for licensing and U.S. expansion. We expect Dialogue will be able to use the licensing approach in geographies outside the U.S. as well. Despite a more difficult and competitive landscape in the U.S., the initial member base could provide a strong proof point for other potential customers, although management noted they are not actively selling this service into the U.S. market at this time.

Potential Financial Impact: We believe the Sun Life U.S. agreement is at least as large as the Scotiabank and Sun Life Canada EAP deals, which we estimate added low- to mid-single-digit millions of ARR. Given the SaaS nature of the license agreement, we expect gross margins at 85%+, making it accretive to both gross and EBITDA margins. We expect contribution from the license agreement beginning in Q3, and will update our model once we have more clarity on the size of the opportunity.

Neutral

CARE-TSX, Sector: Information Technology

Current Price (7/13/23):	C\$3.00
Price Target (12-18 mos.):	C\$4.00

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

We derive our price target of \$4.00 based on 1.5x EV/2024E 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) 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 PM rates; and 4) changes to the regulatory environment, which may impact service delivery.

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
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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.

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