

EQUITY RESEARCH

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Flash Research

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DIALOGUE HEALTH TECHNOLOGIES, INC.

Q2/23 First Look; No Impact Given Pending Acquisition

Our Conclusion

Dialogue reported Q2 results that were in line with guidance on revenue and adjusted EBITDA and slightly ahead on gross margins. The company provided no updates on its pending acquisition by Sun Life, and we continue to see no major hurdles to the deal closing at some point in Q4. A special shareholder vote on the transaction is scheduled for September 19 where a 'majority of the minority' shareholders (excluding Sun Life and certain members of management) will need to approve the transaction.

Key Highlights

Q2 Results: Revenue of \$25.5MM was up 11% Y/Y and in line with guidance of \$25.5MM-\$26.2MM,. Excluding the divested OHS business, Y/Y growth was 17.2%, while ARR increased 18.7% Y/Y driven by new customer wins, price increases and the addition of Tictrac, partially offset by the previously disclosed churn at Optima. ARR in the Canadian digital business (88% of total ARR) was up 36.7% Y/Y. Adjusted EBITDA loss of -\$0.9MM was above guidance of -\$1.7MM to -\$1.3MM and up from -\$4.5MM in the prior year, after adjusting for the OHS divestiture. Gross margins were 59.7%, above guided range of 55%-56.5%.

Segmented Results: Primary Care, Mental Health and Wellness revenue was \$19.2MM, up 28% Y/Y and 4% below CIBCe (\$19.9MM). EAP revenue of \$6.4MM was slightly above our estimate of \$6.2MM.

Profitability: Adjusted EBITDA was -\$0.9MM with -3.3% margins that were up substantially from -21.0% in the prior year. Improving profitability was driven by gross margin expansion, with gross margins improving from 49.7% to 59.7% Y/Y as a result of price increases, scaling of the Mental Health and EAP businesses, and higher-margin Wellness revenue.

Performance Metrics: Member Service units ended Q2 at 4.5MM, up 3.7% Q/Q. Thirty-eight percent of new customers in the quarter added two or more services and the cumulative percentage of direct members with two or more services is 34%, up from 24% in the prior year. Attach rate, or average number of services per member, was 1.57, above the prior quarter at 1.55 and 1.52 in the prior year.

Tender

CARE-TSX, Sector: Information Technology

Current Price (8/11/23):	C\$5.09
Price Target (12-18 mos.):	C\$5.15

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.

Exhibit 1: CARE – Q2/23 First Look

	Q2/F23			Q2/F22	Y/Y%	Q1/F23	Q/Q%
	Actual	CIBC	Cons				
Consolidated							
Revenue (\$MM)	25.5	26.1	26.0	23.0	11%	24.5	4%
Primary Care & Mental Health, Wellness	19.2	19.9	19.6	15.0	28%	18.3	5%
EAP	6.4	6.2	6.4	6.8	-6%	6.2	2%
OHS & Other	-	-	-	1.2	-100%	-	-
Adjusted EBITDA	(0.9)	(1.3)	(1.4)	(4.8)	-82%	(1.8)	-54%
EBITDA Margin	-3.3%	-5.0%	-5.4%	-21.0%	-84%	-7.5%	-56%
Gross Margin	59.7%	56.1%	43.1%	49.7%	20%	57.4%	4%
Annual Recurring Revenue (\$MM)	109.7	107.7	NA	97.1	13%	106.0	3%

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

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; 4) changes to the regulatory environment, which may impact service delivery; and 5) the pending acquisition by Sun Life does not close as expected.

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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

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