

EQUITY RESEARCH

January 24, 2022

Earnings Update

WELL HEALTH TECHNOLOGIES CORP.

A Focus On Organic Growth – Valuation Implies Upside

Our Conclusion

We hosted WELL Health Chairman and CEO Hamed Shahbazi for a fireside chat at the virtual CIBC Western conference last week, with the conversation providing insight on WELL's plans for 2022 and beyond. With transformational M&A now in the rear-view, we expect that the upcoming year will provide additional clarity on the organic growth profile of WELL's portfolio of assets. We continue to appreciate the combination of stable free cash flow provided by CRH/MyHealth and the higher growth and cross-sell potential offered by the virtual services. With this note, we update our sum-of-the-parts methodology to value WELL's omnichannel clinical assets on an EV/EBITDA basis and reduce our EV/sales multiple on the virtual services business to reflect sector-wide multiple contraction. While we reduce our price target from \$11 to \$8, we retain our Outperformer rating and see current levels as attractive given the valuation implied by the sum-of-the-parts.

Key Points

Focus On Tuck-ins & Organic Growth: With WELL committing over \$900 million in capital towards M&A in 2021, management has now turned its focus to driving organic growth in the existing business while remaining open to smaller tuck-in M&A. A move away from large-scale M&A should lead to better insight into organic growth and provide important clarity on how effective WELL's decentralized operating structure is at driving growth post acquisition. While management has previously outlined the organic profile of its individual businesses, significant M&A has made it challenging to validate those organic growth figures in recent quarters.

Q4 Preliminary Results: A January 19 press release included updated language around run-rate revenue at the end of Q4. We have increased our Q4 revenue estimate to reflect a revenue run-rate "exceeding" \$450 million vs. previous guidance of "approaching" \$450 million. The lift in guidance was driven by a 19% Q/Q increase in patient visits and growth at Circle Medical and WISP. The release also noted that WELL has board approval to use its NCIB, with plans to start repurchasing shares following Q4 reporting.

Valuation Methodology: We are now valuing all of WELL's omnichannel clinical businesses using an EV/EBITDA multiple (12x 2023E), while continuing to use EV/Sales to value WELL's virtual services businesses (4x 2023E). With CRH, MyHealth and the primary care clinics largely operating in a profitable steady-state, we believe that an EBITDA multiple is more reflective of the value of those businesses. We have also reduced our target EV/Sales multiple from 5.5x to 4.0x as digital health valuations have contracted. Our sum-of-the-parts results in ~\$5/share of value for the omnichannel clinical assets alone, implying little to no value currently ascribed to the virtual services. With that dynamic, we see current levels as attractive and see significant returns to our revised price target.

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Outperformer

WELL-TSX, Sector: Health Care

Current Price (1/24/22): C\$4.16

Price Target (12-18 mos.): **↓C\$8.00**

Previous: C\$11.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Revenue(mln)	50.24A	299.18E	503.50E	542.01E
Prior		294.82E	482.65E	
Adj. EBITDA(mln)	(0.1)A	57.7E	102.8E	126.4E
Prior		57.3E	101.4E	

Revenue(mln)	Q1	Q2	Q3	Q4
2022	114.94E	125.10E	130.20E	133.26E
Prior	113.43E	121.38E	125.01E	122.84E
2021	25.56A	61.79A	99.29A	112.54E
Prior				108.17E

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2022	23.2E	25.2E	26.9E	27.5E
Prior	23.8E	25.5E	26.3E	25.8E
2021	0.5A	11.9A	22.3A	23.0E
Prior				22.6E

Valuation	2020	2021	2022	2023
EV/Sales	24.3x	4.1x	2.4x	2.3x
EV/EBITDA	NM	21.2x	11.9x	9.7x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	1,094K	Shares O/S:	205.3M
Market Cap.:	C\$854M	Float:	181.5M
52-wk Range:	C\$3.83 - C\$9.23	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. WELL-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 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

WELL Health Technologies Corp. (WELL-TSX) — Outperformer

Price (1/24/22) C\$4.16 12-18 mo. Price Target C\$8.00

Sector: Health Care

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Per Share Data	2020	2021E	2022E	2023E
EPS	(0.03)	(0.24)	(0.11)	(0.05)
Diluted EPS	(0.03)	(0.24)	(0.10)	(0.05)
Wgt Avg # of Shares	133.9	190.7	208.3	208.7
FD Number of Shares	133.9	194.3	222.5	222.9
Income Statement	2020	2021E	2022E	2023E
Revenue	50	299	503	542
Cost of Goods Sold	29	153	252	266
Gross Profit	21	146	252	276
Gross Margin %	42.23%	48.96%	50.00%	51.00%
Tot Operating Exp	27	115	162	165
Adj. EBITDA	(0)	58	103	126
Adj EBITDA Margin	(0.2%)	19.3%	20.4%	23.3%
thereof Depreciation	4	51	81	87
thereof Amortization	0	0	0	0
Net Income	(4)	(46)	(22)	(10)
Cash Flow Statement	2020	2021E	2022E	2023E
Net CFO	(5)	29	81	97
Capex	(1)	(2)	(5)	(5)
Acquisitions	(26)	(498)	0	0
Net CFI	(44)	(502)	(5)	(5)
Change in Debt	10	65	0	0
Equity Raised	112	298	0	0
Net CFF	121	504	(19)	(19)
Net Cash Flow	71	31	57	73
Free Cash Flow	(7)	17	57	73
Balance Sheet	2020	2021E	2022E	2023E
Cash & ST Investment	87	117	175	248
Accounts Receivable	9	49	76	82
Total Current Assets	103	211	295	375
Net PP&E	21	88	82	76
Intangible Assets	131	886	796	701
Total Assets	263	1,223	1,212	1,189
Tot Curr Liab	23	125	152	155
LT Int-Bearing Debt	0	312	312	312
Total Liabilities	44	536	543	526
Shareholders' Equity	219	687	668	663
Minority Interest	2	114	104	94

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

Company Profile

WELL Health operates with a goal of consolidating and modernizing the primary healthcare space through the use of technology-enabled services and digital experiences.

Investment Thesis

1) Strategic M&A Leads To Accretive Deals 2) CRH Acquisition Provides Large Customer Base For Cross-Sell ; 3) Geographic Expansion Leads To TAM Growth

Price Target (Base Case): C\$8.00

Our price target is based on a 12x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 4.0x EV/Sales multiple on the virtual services revenue

Upside Scenario: C\$12.50

Upside scenario is based on a 14x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 6.0x EV/Sales multiple on the virtual services revenue

Downside Scenario: C\$2.50

Downside scenario is based on a 7x EV/2022 Adj. EBITDA on the omnichannel clinical business and a 1.0x EV/Sales multiple on the virtual services revenue



Updated Sum Of The Parts

We are updating our valuation methodology to value all of WELL's clinical assets (CRH, MyHealth and Primary Care Clinics) on an EV/EBITDA multiple. We had previously been valuing only the CRH business using an EV/EBITDA multiple. We value the omnichannel clinical assets at 12x 2023E EBITDA, in keeping with our prior CRH valuation multiple and in line with a group clinical services peers. We also reduce our target multiple on the virtual services businesses from 5.5x to 4x, reflecting the downtrend in multiples on publicly traded virtual care and technology-enabled healthcare companies. This sum-of-the-parts results in a value per share of \$8.00. \$8/share implies a blended EV/Sales (2023E) multiple of 3.1x on the entire business.

Exhibit 1: WELL Health – Sum-Of-The-Parts Calculation

Segment	Multiple	F2023E Revenue (\$000s)	F2023 Adj. EBITDA (est) (\$000s)	Multiple	Per Share
Primary	EV/EBITDA	73,597	7,360	12.0x	\$ 0.40
Specialized (MyHealth)	EV/EBITDA	116,165	25,556	12.0x	\$ 1.50
Specialized (CRH)	EV/EBITDA	207,323	82,929	12.0x	\$ 4.80
Virtual Services	EV/Revenue	144,926	NA	4.0x	\$ 2.80
Net Debt					\$ (0.95)
Minority Interest					\$ (0.55)
					\$ 8.00

Source: CIBC World Markets Inc.

An important takeaway from the sum-of-the-parts analysis is that the current share price appears to allocate little value to the higher-growth, lower-margin virtual services businesses. Using a 12x EV/EBITDA multiple on the clinical assets and excluding any contribution from the virtual services businesses results in a value of ~\$5.00/share, ~25% above the current share price. We see current levels as an attractive opportunity given the value implied by the sum-of-the-parts.

Exhibit 2: WELL Health – Clinical Services Providers Comp Table – C21E – C23E

	Ticker	Share Price	F23 EBITDA	F23 Revenue Growth	Shares Out (mlns.)	Enterprise Value (\$mlns.)	EV/EBITDA		
							C21E	C22E	C23E
Clinical Services Providers									
Surgery Partners, Inc.	SGRY	42.09	15.33%	10.61%	88	6,805	20.9x	18.4x	16.2x
Option Care Health Inc	OPCH	22.06	8.86%	7.62%	180	5,004	17.4x	15.8x	14.2x
MEDNAX, Inc.	MD	24.42	14.03%	5.18%	86	2,720	10.9x	10.1x	9.4x
Cross Country Healthcare, Inc.	CCRN	17.49	6.83%	-8.66%	38	783	5.2x	6.4x	7.8x
Clinical Services Providers Average							13.6x	12.7x	11.9x

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

Rolling Forward Our Model

With this note, we are rolling over our model to include 2023 estimates. Notably, our 2023 estimates include revenue of \$542 million and adjusted EBITDA of \$126 million at 23.3% margins. A summary of our 2022E and 2023E estimates is included in the table below.

Exhibit 3: WELL Health – Financial Summary – 2020 – 2023E

	Revenues (\$mln.)	EBITDA - Operating (\$mln.)	Cash Flow From Operations
2020A	50	0	-5
2021E			
CIBC est. – new	299	58	29
CIBC est. – prior	295	57	31
Consensus	297	56	36
2022E			
CIBC est. – new	503	103	81
CIBC est. – prior	483	101	91
Consensus	480	101	83
2023E			
CIBC est. – new	542	126	97
Consensus	511	117	NA

Source: Company reports and CIBC World Markets Inc.

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

Key Risks To Price Target

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

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CIBC World Markets Inc. Price Chart

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