

# EQUITY RESEARCH

January 24, 2022

Flash Research

## LIFEWORKS

### Announces Tuck-in Acquisition Of 'Breaking Free'

#### Our Conclusion

LifeWorks announced the tuck-in acquisition of Breaking Free, a provider of digital substance use disorder (SUD) treatment. The acquisition is in keeping with LifeWorks' strategy of adding new modules and features to its Wellbeing platform and deepening its focus on mental health solutions. Virtually delivered behavioral health services have grown in popularity in the wake of the pandemic, and CEO Stephen Liptrap foreshadowed a move into the space with comments at the [CIBC Western Institutional Investor Conference](#) last week. The acquisition represents less than 1% of LifeWorks revenue and is not expected to have a material impact on 2022 financial performance.

#### Key Points

**Strategic Fit:** We view LifeWorks' integrated suite of digital and in-person tools as a key differentiator, and tuck-in acquisitions such as Breaking Free underscore the benefit of the integrated solution. We expect LifeWorks to integrate Breaking Free into the LifeWorks wellbeing platform where it can be cross-sold into the existing user base. Single-specialty point solutions like Breaking Free should benefit from the wider reach they gain as a piece of a broader solution. The acquisition comes after Canadian digital wellbeing provider LifeSpeak acquired virtual substance use disorder provider ALAViDA for \$12 million in October 2021. With the market consolidating, we see the opportunity for LifeWorks to continue to add tuck-ins at an attractive valuation as it extends its Wellbeing platform.

**Breaking Free's Solutions:** Headquartered in the U.K., Breaking Free provides a broad range of recovery-oriented resources, techniques and interventions that strengthen digital and in-person treatment for substance use disorder. Its solutions can be used independently or in conjunction with a mental health professional or a patient's own physician. Breaking Free's current customers include public health agencies, treatment providers and correctional facilities. Its solutions have been approved by Ontario Health for rapid adoption by healthcare providers across Ontario and nationally by Canada Health Infoway. Following the acquisition, LifeWorks and Breaking Free will continue to provide support to existing clients in Canada, the U.S. and U.K.

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### Outperformer

LWRK-TSX, Sector: Industrials

Current Price (1/24/22): C\$27.45

Price Target (12-18 mos.): C\$36.50

## **Price Target Calculation**

We derive our \$36.50 price target by applying a multiple of 14.0x to our 2023E EBITDA under the current capital structure, which reflects the company's growth opportunities. This is supported by a discounted cash flow (DCF) valuation, using a 7.68% weighted average cost of capital (WACC) and a terminal growth rate of 0%.

## **Key Risks To Price Target**

The primary risks to our price target include the following: 1) commoditization and pricing pressure, 2) competition, and 3) fixed-price contracts.

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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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