



STOCKTRADES PREMIUM COMPANY SUMMARY

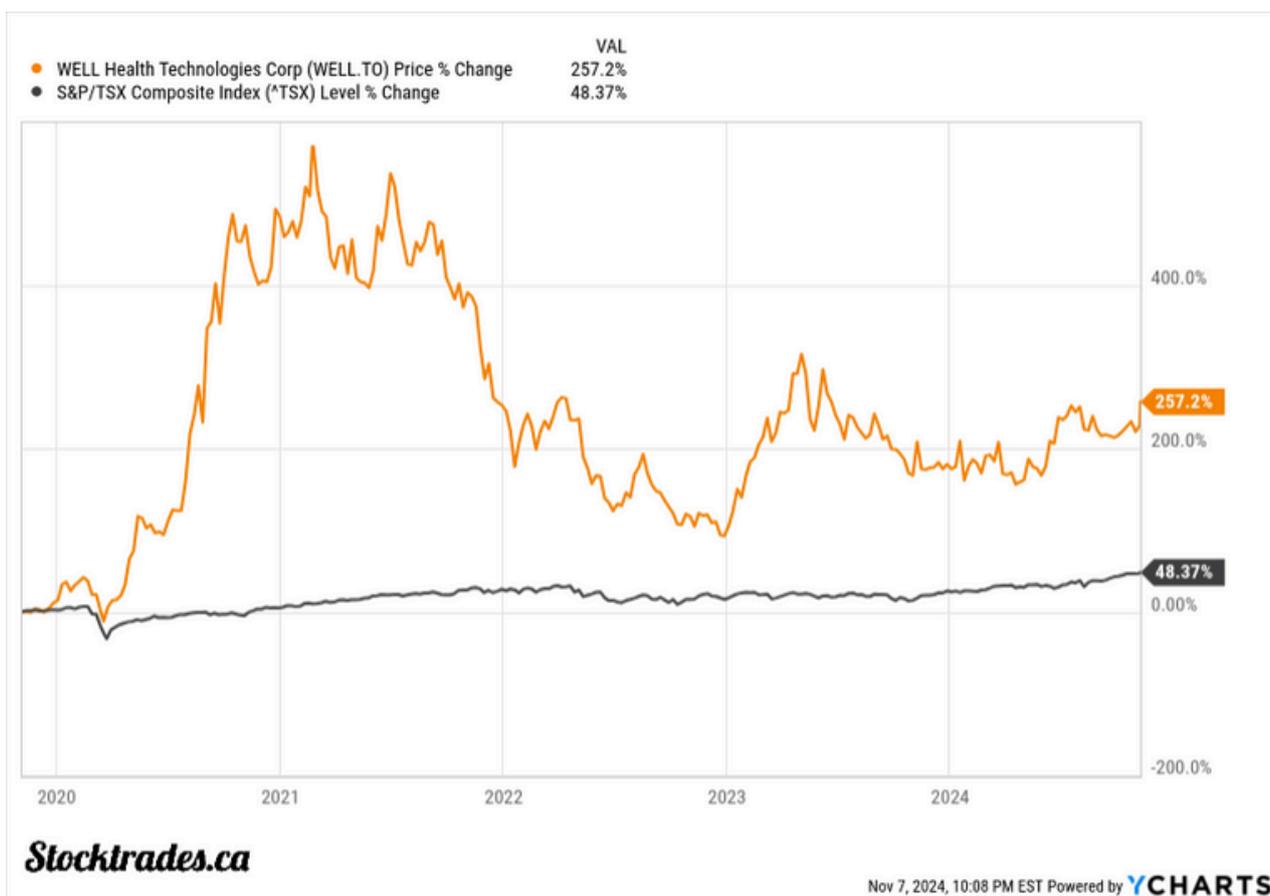
WELL HEALTH TECHNOLOGIES
WELL.TO

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NOTE: DAN IS LONG WELL

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WELL Health Technologies Corp is a practitioner-focused digital healthcare company. It has seven reportable segments that are grouped into three key business units: Canadian Patient Services that includes Primary and Specialized MyHealth. WELL Health USA Patient Services includes Primary Circle Medica, Primary WISP, Specialized CRH Medical, and Specialized Provider Staffing and SaaS and Technology Services. It generates the majority of its revenue from Well Health USA Patient and Provider Services unit.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	74	Dividend	N/A
Profitability	57	Outlook	92
Risk	20	Debt	45
Returns	50	Growth	95
Overall	56		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- Covid-19 pandemic accelerated the shift to virtual medicine
- Diversified base, including physical clinics, virtual health care, and EMR
- Third-largest electronic medical record (EMR) provider in Canada
- A fast-growing company with impressive growth rates
- Starting to generate positive cash flow and EBITDA (Guided to +15% in FY' 24)
- Strong revenue growth (+25%) in FY '24 expected
- Company is continually revamping its guidance upwards
- Insiders are buying large chunks of shares in 2024

CONS

- Earnings are still volatile
- At risk of potentially growing too fast
- Higher interest rates are putting a damper on most growth stocks
- Slowing virtual health adoption as the pandemic starts to subside
- Growth through acquisition strategy could become more expensive as competition increases

OVERALL THESIS

WELL Health Technologies is one of the top virtual health stocks in the country. This isn't just a one-trick pony, and its multipronged business model has proven successful.

Although virtual health is here to stay, there will always remain a need for physical clinics, and we believe those who can seamlessly integrate the two will be winners in the long run. The company continues to perform well operationally. All companies in the telehealth sector have seen a valuation reset.

The good news is that WELL keeps growing the business, and despite its recent run-up, it remains attractively valued. One of the most interesting aspects of Well Health is that it is backed by one of the wealthiest men in the world, billionaire Li Ka-Shing. A willing backer with deep pockets will ensure WELL has ample access to the capital it needs to expand.

The markets referred to its acquisition of CRH Medical as a "transformational acquisition." It significantly increases its presence south of the border and provides a foundation of clinics that generate strong cash flows. The company is on the path to profitability, and we feel long-term holders of the business will be rewarded.

Finally, the company's growth through acquisition strategy is starting to be self-funded through cash flows. This is a good sign, especially in an environment that makes it very hard to grow through the issuance of debt.

POTENTIAL RISKS

WELL Health's business model relies on growth by acquisition. Although it can be a successful and rewarding strategy, there are potential pitfalls. The most common is a lack of synergies. Typically, serial acquirers pick up companies and integrate them into the fold, reducing duplication and achieving synergies.

However, this doesn't always go smoothly and can lead to write-downs and negative or lower-than-expected financial benefits.

A second risk that is most prevalent to Well Health is the increased competition for assets.

Beta	1.13
Alpha	10.8
Our Risk Rating	AGG*
Max Drawdown	71.5%

Several virtual health companies have a similar growth through acquisition strategy. Although there is room for multiple players, increased competition for assets will result in higher acquisition prices. A disciplined approach is needed, as turbulence in acquisitions or synergies can lead companies to overpay for assets.

Another risk is slowing growth as we come out on the other side of the pandemic. Although the shift to virtual care is here to stay, the urgent need to adopt technology may subside as we emerge from our current state. This is unlikely to affect the company in the long term; however, it could impact the stock in the short term.

Finally, higher rates are making acquisitions more expensive. So not only does it have to contend with a highly competitive market, but there is now the additional risk of higher borrowing costs which could lead the company to walk away from deals it may have considered in the past.

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VALUATION

	TTM	3 Year Average	Industry Average
P/E	8.5	N/A	9.1
P/S	1.33	1.42	0.938
P/B	1.31	1.27	1.64
P/FCF	15.53	15	14.6
PEG Ratio (FWD)	N/A	N/A	N/A

We have been talking about how cheap WELL has been for a few quarters. While it did rebound when we last reported on the stock, it has been trading flat for the larger portion of 2024. Most small caps are proving to be highly volatile, so this is not unique to WELL Health. That said, nothing has changed regarding valuation - it remains attractively priced. If anything, it just keeps getting better valued since the business is growing and the share price is stagnant.

We can't compare against historical averages too much because we know there has been a valuation reset in the industry. However, the company is cheap. Given double-digit growth rates, it is trading at only 15 times free cash flows.

Yes, we did say free cash flows because the company was profitable in 2023 and guided to profitability in Fiscal 2024. So long as the company delivers on expectations (which it has thus far), the valuation gap will continue to narrow. This is good news for those who insist on investing in companies that generate profit.

COMPETITOR ANALYSIS

	WELL	TDOC	N/A
EV/Sales	1.6	0.7	
P/S	1.33	0.62	
P/B	1.31	1.08	
P/FCF	15.5	7.77	

WELL Health has plenty of competition in both the virtual health and clinic industries. In Canada, the company lists Babylon (Telus), Medeo (Loblaw), Doxy.me, and Maple as key competitors in the telehealth space. As you can see, there are some big names. Not surprisingly, Teledoc (TDOC) in the US has been identified as its

main competition, along with Hims & Hers and OneMedical. All this to say, the industry is still highly fragmented, with many players in the space. This is why WELL's acquisition strategy is sustainable over the long term, as plenty of small-to-mid-sized businesses could be integrated into Well's ecosystem. Over the years, we have witnessed a dramatic shift: Well Health now trades at a premium to Teladoc due to exceptional results from the company, while Teladoc has really struggled.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$0.25	\$0.297	\$0.368
Revenue	\$983M	\$1.08B	\$1.17B
EBITDA	\$127M	\$149M	\$171M
EBITDA Margin	13%	14%	14.6%

Well Health reported an outstanding third quarter. Revenue of \$251.7M missed expectations of \$260M, and earnings per share of \$0.05 came right in line with estimates.

You may be wondering why I called the quarter outstanding, especially considering headline numbers aligned with expectations. I say that primarily due to the company's strong free cash flow generation on the quarter, improved outlook, and outsized growth.

Profitability has been a key issue with Well Health over the last while. Although the company has never really struggled to grow revenues, the market focused more on free cash flow generation. Growing a business is one thing, but making it profitable is another.

Free cash flow came in at \$16.1M on the quarter, which is a staggering 85% bump on a quarter-over-quarter basis. Year over year, growth came in at 69%. The company's updated guidance now expects free cash flow generation to come in at around \$55M. At current valuations, this would place the company at 22X expected free cash flows, which, in my opinion, is a discount relative to its overall levels of growth.

The company is achieving double-digit returns on invested capital across all its primary Canadian segments, including 11% in diagnostics and 24% in primary care.

On the US side of things, strategic acquisitions made during the pandemic are now starting to bear fruit. Wisp revenue has grown by 35% year-over-year, and the company reported a material increase in EBITDA over the same timeframe. Circle Medical, in which it owns a minority stake, grew by 61%. US growth is key for Well Health, as the US healthcare market has proven to be more profitable than Canada.

The company was also overly criticized for issuing shares during the pandemic to fuel acquisitions. It has scaled this back substantially, opting to utilize free cash flow generation now that it is profitable. It diluted shares by 10% in 2022. This number is expected to come in lower than 3.4% for 2024.

The company bumped its guidance, now expecting revenue to come in at \$985M-\$995M, EBITDA to come in at the higher end of its guidance at \$125M-\$130M, and, as mentioned, free cash flow to come in at \$55M.

The company is starting to gain some momentum from a profitability standpoint. In my opinion, it is only a matter of time before the market starts to reward it with a higher valuation multiple.



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