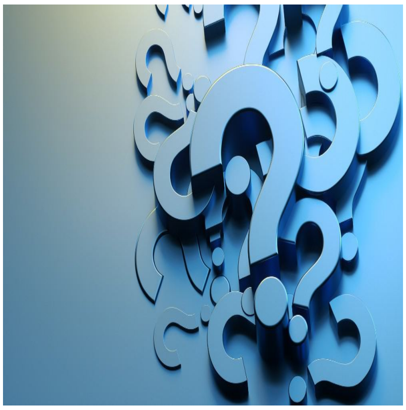

Up Over 440%: Should You Still Buy WELL Health Technologies (TSX:WELL)?

Description

WELL Health Technologies (TSX:WELL) is one of the top performers of this year. It has returned around 440% despite the pandemic-infused weakness in the broader equity markets, with the **S&P/TSX Composite Index** down 3.7% for the year. Its aggressive expansion strategy and impressive second-quarter performance have led to a rise in its stock price.

Its operations and second-quarter performance

WELL Health Technologies owns and operates 20 medical clinics and provides digital EMR (electronic medical records) solutions to the clinics. In March, it had also launched VirtualClinic+, which connects patients with physicians over digital health communication platforms.

In the second quarter, the company's revenue grew 43% year over year to $10.58 million, driven by the strong performance from its digital services segment, which increased by 1212%. The expansion of its WELL EMR Group's services to over 2,000 clinics covering 10,000 physicians across Canada drove its digital segment revenue.

Also, amid the pandemic, patients were afraid to visit hospitals. So, an increased number of patients turned to telehealth services, which benefited the company. In the second quarter, telehealth platforms' visits increased 730% on a sequential basis to above 124,800 visitors. Since launching its VirtualClinic+ in March, the company has onboarded over 1,000 physicians.

Improvement in adjusted EBITDA

In the second quarter, WELL Health's adjusted EBITDA losses improved marginally to 543,015 due to improved gross margins from 30.4% to 40%. Meanwhile, the increased spending in marketing and promotion programs on launching its VirtualClinic+ negatively impacted its adjusted EBITDA. The company has claimed that its adjusted EBITDA could have been closer to breakeven without these expenses.

Moving to its balance sheet, the company had cash and cash equivalents of $24.51 million at the end of the second quarter. Meanwhile, subsequent to the quarter, the company has raised additional capital to fund its future acquisitions and expand its digital healthcare operations.

Outlook

For the third quarter, WELL Health's management expects its digital services revenue to rise mainly due to the revenue contributions from Indivica, which was acquired in June. Indivica services 390 clinics, covering around 2,000 physicians.

Further, it has signed an agreement to acquire a significant stake in the United States telehealth company, Circle Medical, which operates in 35 states and has planned to expand to other states. The company has raised $23 million from a group of investors led by Li Ka-Shing, a Hong Kong businessman, to complete this transaction.

The company has also launched "apps.health," a marketplace where digital health technology companies and third-party software developers can collaborate with WELL Health to increase the adoption of their products and services. Currently, the company has 20 applications developed by 12 publishers. Meanwhile, the company expects the number to triple by mid-2021.

Along with these initiatives, the company is focusing on acquisitions to expand its footprint. As reported by Cantech Letter, Stifel GMP analyst Justin Keywood has stated that the company had evaluated around 100 assets before signing a letter of intent with 10 companies. So, I believe the company's growth prospects look robust.

Bottom line

The strong surge in its stock price has raised its valuations. As of October 16, the company's price-to-sales multiple for the trailing 12 months stood at 31.17, which was on the higher side. However, the company is in the growth stage, with significant scope for expansion.

Further, the second wave of COVID-19 cases could drive the volume on its digital telehealth platform. The telehealth business could thrive even after the pandemic, given its convenience and accessibility. So, I believe WELL Health is a buy despite its high valuation.

CATEGORY

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