Stock Rally: M&A Driving Growth in This Canadian Stock

Description

In an interesting development, **WELL Health Technologies** (TSX:WELL) is acquiring **CRH Medical** (TSX:CRH) for US$4 per share, equating to an equity consideration of almost US$293 million and a transaction value of about US$369 million, inclusive of CRH's credit facility.

This led to CRH Medical stock rocketing 80% to close to the US$4-per-share buyout price and WELL Health stock spiking 12% on the good news.

The growth stock is growing by acquisitions

Since 2020, WELL Health stock has been a five-bagger — almost a six-bagger. The COVID-19 pandemic probably accelerated WELL Health's growth, as the company has the mission of digitizing the Canadian healthcare industry. For example, many patients could talk to their family doctor on the phone or virtually without having to meet in person.

M&A is a key part of WELL Health's growth story. In 2020 alone, WELL completed eight acquisitions, including in areas of electronic medical records and cybersecurity. Accordingly, it's growing at an above-average pace with its last-12-month revenue growth at about 262%!

Good news for the Canadian growth stock

Usually, the stock of the company that's making the acquisition will fall on the news. However, WELL Health stock rallied higher instead. There are good reasons for that.

CRH provides innovative products and services to treat gastrointestinal (GI) diseases across 13 U.S. states, representing about 440,000 annual cases on a run-rate basis. Additionally, it has thousands of GI partners in all 48 lower states.

As Hamed Shahbazi, Chairman and CEO of WELL stated in the recent press release, "The proposed acquisition of CRH is a fantastic opportunity to apply WELL's expertise in digitization and modernization of healthcare clinics to GI practices in the United States. Furthermore, CRH's profitability and cash-flow generation will provide WELL with ample opportunities to allocate capital and grow without dilution."

WELL management expects the CRH acquisition to be significantly accretive immediately, including roughly 120% on a revenue-per-share basis and 800% on an EBITDA-per-share basis this year.

CRH will continue to operate under its current leadership and is expected to continue its M&A program.

The CRH transaction is estimated to complete in Q2 2021. Notably, the deal is subject to regulatory, CRH shareholder (two-thirds majority vote), and court approvals.

How the growth stock is financing this acquisition

CRH Medical is a relatively large acquisition compared to WELL's past acquisitions. WELL Health is financing it from three sources, including 1) a $295.5 million non-brokered private placement at $9.80 per share led by Sir Li Ka-shing and leading North American financial institutions, 2) credit facilities, and 3) cash on hand.

Li Ka-shing's continued support in WELL Health is meaningful because the multi-billionaire was an early investor of the company. He began investing in the stock when it was trading at only $0.33 per share in 2018. Since then, WELL Health has been a 27-bagger from that initial investment.

The Foolish takeaway

Analysts currently have a 12-month price target of $10.20 per share on the growth stock, which indicates WELL Health stock is still moderately undervalued. It seems the CRH Medical acquisition is immensely beneficial to WELL Health. It expands WELL's U.S. operations significantly, driving massive growth in WELL's revenue and cash flow for now and into the future.

If you're looking for growth in a Canadian tech stock, you should highly consider WELL Health stock, as its future looks bright and the stock is still a good value.

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