

PALOS

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Weekly Commentary

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By Charles Marleau CIM[®] and William Mitchell CIM[®]

Dialogue Health Technologies Inc. – Saying Goodbye to the Waiting Room

Dialogue Health Technologies Inc. (TSX: CARE) is a virtual healthcare and telemedicine company based in Montreal. Dialogue’s digital platform offers its members on-demand access to a team of healthcare professionals who in turn provide answers to health-related questions and can provide medical advice. The **Integrated Health Platform** focuses on four core areas and includes primary care, mental health, Employee Assistance Programs (EAP), and Occupational Health and Safety (OHS).

In Canada, approximately 2.5 million individual members and their dependents have access to Dialogue’s virtual platform. The service is offered 24 hours per day and 365 days of the year. Members gain access by smartphone, a computer or a tablet. Revenue is generated on a per-Member-per-month (PMPM) subscription basis where “Members”, or corporate clients, pay a fixed monthly rate based on the number of participating members and dependents. In most instances access is unlimited. In Q4/2020, revenues totaled \$13.5 million and \$54 million for the full year. Compared to 2019, revenues grew by 187%, with gross margins above 40%, and 99% of revenues as recurring.

Healthcare has become a top priority for employers as issues like reducing health-related absences, improved productivity, and employee engagement and retention become critical to HR management. As a B2B (business-to-business) company, Dialogue focuses on employers and organizations rather than individuals. The addressable market in Canada is massive and largely untapped. EAP programs can offer employees and their dependents ease of access to company funded services like primary care, mental health services (stress management, depression), personal well-being, and ancillary consultation services.

The onset of Covid-19 accelerated the important role that telemedicine will play in the future. The Dialogue platform was built using a proprietary and sophisticated technological platform that utilizes artificial intelligence (AI), data gathering, machine learning (ML), and natural language understanding (NLU). Augmenting the technological advantage is an approach that incorporates a human element backed by a team of over 500 “Providers” which includes case coordinators, registered nurses, family physicians, psychologists/mental health specialists, occupational therapists, and nutritionists.

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The B2B strategy includes direct sales and engaging “channel partners” as a method of efficiently and effectively building out the business. Channel Partners include insurers, brokers, and consultants and access to their clientele network is key. Current partners include companies like Sun Life, Canada Life, Desjardins and Beneva (formerly La Capitale). In fact, Sunlife is a minority shareholder. The platform is engineered to be highly scalable, uses secure cloud-based technology, can add new applications seamlessly, and is adaptable to new geographies/languages. The goal is to offer the best end-to-end solution for customers, users and practitioners.

The company made its debut on the Toronto Stock Exchange on March 30 with an IPO price of \$12 per share netting proceeds of approximately CAD\$90 million to expand the business. Approximately \$30 to \$35 million will be used to enhance the product offering, \$20 to \$28 million to developing new end markets, and \$20 to \$28 million to support customer growth. Some of the cash may also be used for the acquisition of complementary businesses.

Investors warmly welcomed CARE to the public domain with shares trading as high as \$18.00 and closing at \$17.70 on Thursday for a gain of 47.5% on the week. Palos funds participated in the IPO. As adoption of digital medicine is certain to gather momentum, we believe that Dialogue, with disruptive technology and B2B approach, puts the company in an enviable position compared to many of its peers.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.48	8.36%
Palos Equity Income Fund - RRSP	PAL101	\$7.03	10.13%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.07	44.50%
Palos-Mitchell Alpha Fund ³	PAL300	\$11.52	-3.17%
S&P TSX Composite (Total Return with dividends reinvested)			9.73%
S&P 500 (Total Return with dividends reinvested)			7.42%
S&P TSX Venture (Total Return with dividends reinvested)			9.80%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.67%
Canadian Government 10-Year			1.51%
Crude Oil Spot			US \$61.45
Gold Spot			US \$1726.50
US Gov't10-Year/Moody BAA Corp. Spread			203 bps
USD/CAD Exchange Rate Spot			US \$0.7970

¹ Period ending April 1, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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