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IMAC, Holdings, Inc. (NASDAQ/IMAC)

January 13, 2020

Lowering from BUY to Neutral – Tight on Cash

IMAC announced a cash acquisition today, which surprised us because as of the last reported quarter the company had just a million dollars on the balance sheet. As such, as a following analyst, we must assume the company may raise additional capital. Our concern is that such a raise, could be dilutive to shareholders. On the positive side, revenues have been rising as the company expands the number of facilities it's operating. As we are lowering our rating to neutral, we are also removing our price target.

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Investment Highlights

Lowering from Buy to Neutral as cash Has to be Tight. IMAC reported today the all-cash acquisition of its first clinic operation in Florida with the purchase of Chiropractic Health of Southwest Florida, Inc. in Bonita Springs. The transaction was completed as an all-cash asset purchase with the assumption of building lease liabilities. The Florida clinic was established in 1998. It delivers physical therapy, chiropractic care, and soft tissue therapies. The practice has modest revenues, historically six-figure net income. The transaction price is reported as approximately one times cash flow. We are a bit surprised that the acquisition is based on cash not stock. We applaud the continued growth through acquisition.

The Challenge – Become Cash Flow Positive. The company is on track to achieve \$15-20 million in top-line revenues this year. With greater expense control, we can see the company achieving cash flow break-even, building its balance sheet gradually versus returning to the capital markets for a raise. With that said, and given the “thin” nature of the balance sheet today, we believe it's prudent to lower our rating to Neutral.

14 Centers and Growing. IMAC today owns or manages 14 clinics that provide regenerative, orthopedic, and minimally invasive procedures and therapies. Revenues are growing from \$3.9M in 1Q19 to \$4.3M in 3Q19. The business model of these clinics is to offer alternatives to conventional surgery and joint replacement procedures by delivering non-surgical medical treatments to help patients with sports injuries, back pain, knee pain, joint pain, ligament and tendon damage, and other related soft tissue conditions. The plan is for the company to grow through both acquisitions and organically delivering systems and other technologies that lower operating costs.

Valuation. While we have lowered our rating to Neutral and removed our price target, we still provide our forecast model. Our model assumes a combination of acquisition and organic growth (product mix) and efficiency – expense control with scale. What's changed is our uncertainty regarding the balance sheet, which is now showing cash below \$1 million. This leaves little flexibility for the company to execute the business plan. As such, we believe it's prudent to wait for the company to either raise capital to strengthen its balance sheet or achieve cash flow positive operations and build its capital gradually over-time.

Risk to our thesis, include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; (7) acquisition and (8) intellectual property.

Current Price	\$1.57		
Price Target	NA		
Estimates	F2019E	F2020E	F2021E
Expenses (\$000s)	\$ 18,638	\$ 22,899	\$ 28,080
1Q March	\$ 3,688	\$ 5,725	\$ 7,020
2Q June	\$ 5,870	\$ 5,725	\$ 7,020
3Q September	\$ 5,993	\$ 5,725	\$ 7,020
4Q December	\$ 3,087	\$ 5,725	\$ 7,020
	F2019E	F2020E	F2021E
EPS (diluted)	\$ (0.55)	\$ (0.00)	\$ 0.24
1Q March	\$ (0.27)	\$ (0.00)	\$ 0.06
2Q June	\$ (0.23)	\$ (0.00)	\$ 0.06
3Q September	\$ (0.19)	\$ (0.00)	\$ 0.06
4Q December	\$ 0.14	\$ (0.00)	\$ 0.06
EBITDA/Share	(\$0.28)	(\$0.00)	\$0.39
EV/EBITDA (x)	0.0	-0.5	0.0
Stock Data			
52-Week Range	\$1.28	-	\$7.21
Shares Outstanding (mil.)	8.6		
Market Capitalization (mil.)	\$13		
Enterprise Value (mil.)	\$10		
Debt to Capital	0%		
Book Value/Share	\$0.10		
Price/Book	-		
Average Three Months Trading Volume (K)	9		
Insider Ownership	53.1%		
Institutional Ownership	0.6%		
Short interest (mil.)	0.4%		
Dividend / Yield	\$0.00/0.0%		



Please find Important Disclosures beginning on Page 5.

Modeling Assumptions: IMAC Regeneration Centers

- Growth Driven by Expansion.** We assume that the number of clinics owned (owned and managed) expands from the current 14 to 134 by 2030.
- Revenues per Clinic.** For modeling purposes, we assume each regenerative center can generate \$1 million in revenues annually, with a 3% growth rate.
- Service Breakdown.** IMAC offers high margin cells therapy as well as low margin services like physical therapy and chiropractic treatments. We assume that high margin cell therapy represent 5% of the services offered but will gradually increase over time. In contrast, we assume that the clinic revenues from low margin offerings will slowly decline and make up less of the total revenues generated.
- Service Margins.** We assume that the profit margins for both the high margin cell therapy and low margin services will both gradually increase allowing the company to retain more of their profits. Each year profit margins increase by half a percent for both the high and low margin services because IMAC will revise their operating procedures so that they are more efficient and effective at treating patients.

Exhibit 1. IMAC Clinic – Revenue Model

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of Clinics Owned	6	8	12	16	22	29	36	43	50	55	60	66	73
Number of Clinics Managed	5	7	10	14	19	24	30	36	42	46	50	55	61
Net Operating Clinics (NOC)	11	15	22	30	41	53	66	79	91	101	111	122	134
Revenues per Clinic (\$000)	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305	1,344	1,384	1,426
Percent Change in Revenues	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Total Revenues	\$11,000	\$15,862	\$22,873	\$32,983	\$45,863	\$61,410	\$79,066	\$97,725	\$115,755	\$131,151	\$148,594	\$168,357	\$190,748
High Margin Stem Cells (Percent of RPC)	5%	5%	5%	6%	6%	6%	7%	7%	7%	8%	8%	8%	9%
High Margin Stem Cells (\$)	\$ 550	\$ 793	\$ 1,144	\$ 1,979	\$ 2,752	\$ 3,685	\$ 5,535	\$ 6,841	\$ 8,103	\$ 10,492	\$ 11,888	\$ 13,469	\$ 17,167
Clinic Revenues(Percent of RPC)	95%	95%	95%	94%	94%	94%	93%	93%	93%	92%	92%	92%	91%
Clinic Revenues w/o Stem Cells (\$)	\$ 10,450	\$ 15,069	\$ 21,729	\$ 31,004	\$ 43,111	\$ 57,726	\$ 73,531	\$ 90,884	\$ 107,652	\$ 120,659	\$ 136,706	\$ 154,888	\$ 173,581
Stem Cell Margin	85.0%	85.5%	86.0%	86.5%	87.0%	87.5%	88.0%	88.5%	89.0%	89.5%	90.0%	90.5%	91.0%
Stem Cell Net \$	\$ 468	\$ 678	\$ 984	\$ 1,712	\$ 2,394	\$ 3,224	\$ 4,870	\$ 6,054	\$ 7,212	\$ 9,390	\$ 10,699	\$ 12,189	\$ 15,622
Clinic Margin	45%	46%	46%	47%	47%	48%	48%	49%	49%	50%	50%	51%	51%
Clinic Net \$	\$ 4,703	\$ 6,856	\$ 9,996	\$ 14,417	\$ 20,262	\$ 27,420	\$ 35,295	\$ 44,079	\$ 52,750	\$ 59,726	\$ 68,353	\$ 78,219	\$ 88,526
Total Gross Profit	\$5,170	\$7,534	\$10,979	\$16,129	\$22,656	\$30,644	\$40,165	\$50,133	\$59,961	\$69,116	\$79,052	\$90,408	\$104,149

Source: Dawson James

Risk Analysis

Acquisition Risk. IMAC intends to grow through the acquisition of clinics. There can be no assurances that the company will be able to find clinics that meet the required criteria and can successfully negotiate the purchase terms.

Commercial Risk: The company is attempting to treat patients with the use of cell therapy and other leading-edge technologies that are not conventional. The adoption of this new treatment approach may take longer than expected. Additionally, physician practice management has been utilized as a business strategy before and failed, so there is no guarantee that IMAC will be successful in implementing this approach.

Employee Risk. IMAC Holdings has an experienced management team in its director and CEO, CFO, COO, and CSO. The company plans to rapidly expand the number of clinics owned to become a profitable organization. The success of the company may depend on the experience, abilities, and continued services of its senior officers and key medical personnel.

Financial Risk: The company may need to raise additional capital. There is no guarantee that market conditions will be favorable and or that the company will be able to raise the required capital to support its acquisition-driven growth strategy.

Intellectual Property Risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and the company may infringe on third party patents.

Market Share Risk. The physical therapy industry is highly competitive, and we can make no assurances that the company will be able to capture a significant percentage of market share to become profitable.

Regulatory risk. IMAC is working to develop NeoCyte and must obtain FDA approval before commercial sales of the product can commence in the United States. The timing of these approvals is uncertain.

Exhibit 2. Income Statement

IMAC, Inc. Income Statement (\$000)																					
IMAC - YE Dec. 31	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue (\$000)																					
Clinic Gross Revenues	11,000	3,966	3,757	4,356	4,356	15,862	5,718	5,718	5,718	5,718	22,873	32,983	45,863	61,410	79,066	97,725	115,755	131,151	148,594	168,357	190,748
Total Revenues	11,000	3,966	3,757	4,356	4,356	15,862	5,718	5,718	5,718	5,718	22,873	32,983	45,863	61,410	79,066	97,725	115,755	131,151	148,594	168,357	190,748
Revenue Breakdown																					
High Margin Stem Cells	550	211	7	7	7	845	286	286	286	286	1,144	1,979	2,752	3,685	5,535	6,841	8,103	10,492	11,888	13,469	17,167
Percent of Revenues	5%	5%	0%	0%	0%	5%	5%	5%	5%	5%	5%	6%	6%	6%	7%	7%	7%	8%	8%	8%	9%
Clinic Revenues	10,450	3,754	3,750	4,349	4,349	15,017	5,432	5,432	5,432	5,432	21,729	31,004	43,111	57,726	73,531	90,884	107,652	120,659	136,706	154,888	173,581
Percent of total revenues	95%	95%	100%	100%	100%	95%	95%	95%	95%	95%	95%	94%	94%	94%	93%	93%	92%	92%	92%	92%	91%
Clinic Gross revenues	11,000	3,966	3,757	4,356	4,356	15,862	5,718	5,718	5,718	5,718	22,873	32,983	45,863	61,410	79,066	97,725	115,755	131,151	148,594	168,357	190,748
Expenses																					
High Margin Stem Cells COGS	83	31	31	31	31	123	40	40	40	40	160	267	358	461	664	787	891	1,102	1,189	1,280	1,545
Stem Cell Margin	85%	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%	87%	87%	88%	88%	89%	89%	90%	90%	91%	91%
Clinic COGS	5,748	2,046	3,490	920	920	8,184	2,933	2,933	2,933	2,933	11,734	16,587	22,849	30,306	38,236	46,805	54,903	60,933	68,353	76,670	85,055
Clinic Margin	45%	46%	46%	46%	46%	46%	46%	46%	46%	46%	46%	47%	47%	48%	48%	49%	49%	50%	50%	51%	51%
Sales (Advertising & Marketing) expense	859	347	521	2,991	550	4,409	750	750	750	750	3,000	3,060	3,121	3,184	3,247	3,312	3,378	3,446	3,515	3,585	3,657
General and administrative	3,063	977	1,430	1,627	1,300	5,334	1,500	1,500	1,500	1,500	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171	7,314
Depreciation and amortization	651	286	397	422	286	1,391	500	500	500	500	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390	2,438
Total expenses	10,405	3,688	5,870	5,993	3,086	19,442	5,725	5,725	5,725	5,725	22,895	28,076	34,652	42,441	50,808	59,738	68,183	74,671	82,432	91,097	100,010
Operating Profit	595	278	(2,113)	(1,637)	1,270	(3,580)	(7)	(7)	(7)	(7)	(22)	4,907	11,210	18,969	28,257	37,987	47,572	56,480	66,163	77,261	90,738
Oper Margin	0	0	NM	NM	0	NM	NM	NM	NM	NM	NM	0	0	0	0	0	0	0	0	0	0
Interest Income	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(154)	(31)	(85)	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beneficial conversion interest expense	(106)	(639)	2	(74)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in earnings (loss) of non-consolidated affiliate	(106)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (loss)	18	(16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax income	362	(408)	(2,196)	(1,711)	1,270	(3,580)	(7)	(7)	(7)	(7)	(22)	4,907	11,211	18,969	28,258	37,987	47,572	56,480	66,163	77,261	90,739
Pretax Margin	0	NM	NM	NM	0	NM	NM	NM	NM	NM	NM	0	0	0	0	0	0	0	0	0	0
Income Tax (Benefit)	36	(41)	(296)	(163)	127	(358)	(1)	(1)	(1)	(1)	(3)	981	2,466	4,553	7,347	10,636	14,272	16,944	19,849	23,178	27,222
Tax Rate	10%	10%	10%	10%	10%	10%	15%	15%	15%	15%	15%	20%	22%	24%	26%	28%	30%	30%	30%	30%	30%
GAAP Net Income	326	(367)	(1,901)	(1,548)	1,143	(3,222)	(6)	(6)	(6)	(6)	(22)	3,923	8,742	14,414	20,908	27,349	33,299	39,534	46,312	54,080	63,515
GAAP-EPS	0.05	(0.06)	(0.23)	(0.19)	0.14	(0.35)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.24	0.53	0.86	1.25	1.63	1.98	2.34	2.73	3.18	3.73
Non GAAP EPS (dil)	(0.46)	(0.27)	(0.23)	(0.19)	0.14	(0.55)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.24	0.53	0.86	1.25	1.63	1.98	2.34	2.73	3.18	3.73
Wght Avg Shrs (Bas) - '000s	6,583	5,920	8,106	8,366	8,450	7,711	12,534	12,547	12,560	12,572	12,572	12,622	12,673	12,724	12,775	12,826	12,877	12,929	12,981	13,033	13,085
Wght Avg Shrs (Dil) - '000s	6,583	5,920	8,106	8,366	8,450	7,711	16,534	7,718	16,551	16,568	16,568	16,617	16,667	16,717	16,767	16,818	16,868	16,919	16,970	17,021	17,072

Source: Dawson James estimates

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

Initiated – Buy – August 5, 2019 – Price Target \$7.00

Lower to Neutral – January 13, 2020 – Price Target \$NA

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- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	86%	2	8%
Market Perform (Neutral)	4	14%	1	25%
Market Underperform (Sell)	0	0%	0	0%
Total	29	100%	3	10%

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