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IMAC, Holdings, Inc. (NASDAQ/IMAC)

January 14, 2021

We Remain Neutral – Another Acquisition? Running on Fumes...

IMAC announced another cash acquisition today. The company has "executed a definitive agreement to acquire assets of NCH Chiropractic, PLLC dba Synergy Healthcare in Orlando, Florida." Terms were not disclosed other than a statement: "The purchase price of Synergy Healthcare represents 1.4 times 2020 adjusted cashflow. IMAC is scheduled to complete the cash transaction on February 28, 2021." In the last quarter, IMAC generated \$3.4M in revenues and reported \$4.7M in expenses with just \$1.6M in cash on the balance sheet. As such, we remain Neutral-rated.

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Investment Highlights

We Lower(ed) our rating from Buy to Neutral (almost exactly a year ago), as cash was and is still ...tight. IMAC reported another cash acquisition, a second clinic also in Fla. This was never the plan.

Way Below Plan. The company is below our forecasts and their own plan (from the days of the IPO) for clinic acquisitions for stock. Instead of being on track to achieve \$15-20 million in top-line revenues this year, the numbers so far, in the first nine months, are revenues of \$9.3M with an operating loss of \$5.5M. A year ago, we said, "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 (last year), we believe it's prudent to lower our rating to Neutral" and expect additional dilution. We remain concerned.

14 + 1 last year and now + 1 this year. What Happened to the Forecast? IMAC today owns just 15 +1 clinics. The strategy for the IPO was to use stock to acquire clinics and build revenues. The last two acquisitions were for cash, and the company continues to show anemic revenues with mounting losses. The business model of these clinics was to offer alternatives to conventional surgery and joint replacement procedures by delivering non-surgical (high margin) medical treatments (stem cells and such) to help patients with sports injuries, back pain, knee pain, joint pain, ligament, and tendon damage, and other related soft tissue conditions. We're not sure that's happening, and certainly, the plan has been interrupted by COVID.

Valuation. We remain Neutral-rated. Our model initially assumed a combination of acquisition and organic growth (product mix) and efficiency – expense control with scale, which hasn't been realized. Our uncertainty regarding the balance sheet remains, which shows 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 includes the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; (7) acquisition and (8) intellectual property.

Current Price	\$1.85		
Price Target	NA		
Estimates	F2020E	F2021E	
Expenses (\$000s)	\$ 19,832	\$ 20,718	
1Q March	\$ 4,958	\$ 5,179	
2Q June	\$ 4,958	\$ 5,179	
3Q September	\$ 4,958	\$ 5,179	
4Q December	\$ 4,958	\$ 5,179	
	F2020E	F2021E	
EPS (diluted)	\$ (0.15)	\$ (0.10)	
1Q March	\$ (0.04)	\$ (0.03)	
2Q June	\$ (0.04)	\$ (0.03)	
3Q September	\$ (0.04)	\$ (0.03)	
4Q December	\$ (0.04)	\$ (0.03)	
EBITDA/Share	(\$0.28)	(\$0.23)	(\$0.17)
EV/EBITDA (x)	0.0	0.0	0.0
Stock Data			
52-Week Range	\$0.42	-	\$4.95
Shares Outstanding (mil.)			11.8
Market Capitalization (mil.)			\$22
Enterprise Value (mil.)			\$19
Debt to Capital			0%
Book Value/Share			\$0.10
Price/Book			-
Average Three Months Trading Volume (K)			566
Insider Ownership			40.0%
Institutional Ownership			1.3%
Short interest (mil.)			1.3%
Dividend / Yield			\$0.00/0.0%



Modeling Assumptions: IMAC Regeneration Centers

- Growth Driven by Expansion.** We originally assumed that the number of clinics owned (owned and managed) expands from the current 15+1 could expand to 134 by 2030, which now seems aggressive.
- 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 cell therapy as well as low margin services like physical therapy and chiropractic treatments. We assume that high margin cell therapy represents 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 its profits. Each year profit margins should 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 – Our Original Revenue Model – IMAC is dramatically behind their initial expectations.

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of Clinics Owned	6	8	8	9	12	16	20	24	27	30	33	36	40
Number of Clinics Managed	5	7	8	8	11	14	18	21	24	27	29	32	35
Net Operating Clinics (NOC)	11	15	16	17	23	30	37	45	51	57	62	69	75
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	\$16,974	\$18,576	\$25,830	\$34,587	\$44,531	\$55,040	\$65,195	\$73,866	\$83,690	\$94,821	\$107,432
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	\$ 845	\$ 849	\$ 1,115	\$ 1,550	\$ 2,075	\$ 3,117	\$ 3,853	\$ 4,564	\$ 5,909	\$ 6,695	\$ 7,586	\$ 9,669
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	\$ 15,017	\$ 16,126	\$ 17,462	\$ 24,281	\$ 32,512	\$ 41,414	\$ 51,187	\$ 60,631	\$ 67,956	\$ 76,995	\$ 87,235	\$ 97,763
Stem Cell Margin	85%	86%	86%	87%	87%	88%	88%	89%	89%	90%	90%	91%	91%
Stem Cell Net \$	\$ 468	\$ 723	\$ 730	\$ 964	\$ 1,348	\$ 1,816	\$ 2,743	\$ 3,410	\$ 4,062	\$ 5,289	\$ 6,026	\$ 6,865	\$ 8,799
Clinic Margin	45%	46%	46%	47%	47%	48%	48%	49%	49%	50%	50%	51%	51%
Clinic Net \$	\$ 4,702.50	\$ 6,833	\$ 7,418	\$ 8,120	\$ 11,412	\$ 15,443	\$ 19,878	\$ 24,826	\$ 29,709	\$ 33,638	\$ 38,497	\$ 44,054	\$ 49,859
Total Gross Profit	\$5,170	\$7,555	\$8,148	\$9,084	\$12,760	\$17,259	\$22,622	\$28,235	\$33,771	\$38,927	\$44,523	\$50,919	\$58,658

Source: Dawson James estimates

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	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue (\$000)															
Clinic Gross Revenues	16,974	4,644	4,644	4,644	4,644	18,576	25,830	34,587	44,531	55,040	65,195	73,866	83,690	94,821	107,432
Total Revenues	16,974	4,644	4,644	4,644	4,644	18,576	25,830	34,587	44,531	55,040	65,195	73,866	83,690	94,821	107,432
Revenue Breakdown															
High Margin Stem Cells	849	279	279	279	279	1,115	1,550	2,075	3,117	3,853	4,564	5,909	6,695	7,586	9,669
Percent of Revenues	5%	6%	6%	6%	6%	6%	6%	6%	7%	7%	7%	8%	8%	8%	9%
Clinic Revenues	16,126	4,365	4,365	4,365	4,365	17,462	24,281	32,512	41,414	51,187	60,631	67,956	76,995	87,235	97,763
Percent of total revenues	95%	94%	94%	94%	94%	94%	94%	94%	93%	93%	93%	92%	92%	92%	91%
Clinic Gross revenues	16,974	4,644	4,644	4,644	4,644	18,576	25,830	34,587	44,531	55,040	65,195	73,866	83,690	94,821	107,432
Expenses															
High Margin Stem Cells COGS	119	38	38	38	38	150	201	259	374	443	502	620	670	721	870
Stem Cell Margin	86%	87%	87%	87%	87%	87%	87%	88%	88%	89%	89%	90%	90%	91%	91%
Clinic COGS	8,708	2,336	2,336	2,336	2,336	9,342	12,869	17,069	21,535	26,361	30,922	34,318	38,497	43,181	47,904
Clinic Margin	46%	47%	47%	47%	47%	47%	47%	48%	48%	49%	49%	50%	50%	51%	51%
Sales (Advertising & Marketing) expense	3,000	765	765	765	765	3,060	3,121	3,184	3,247	3,312	3,378	3,446	3,515	3,585	3,657
General and administrative	6,000	1,530	1,530	1,530	1,530	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171	7,314
Depreciation and amortization	2,000	510	510	510	510	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390	2,438
Total expenses	19,832	5,179	5,179	5,179	5,179	20,718	24,520	29,003	33,817	38,951	43,813	47,575	52,057	57,049	62,184
Operating Profit	(2,858)	(535)	(535)	(535)	(535)	(2,141)	1,310	5,584	10,713	16,089	21,382	26,290	31,633	37,771	45,247
Oper Margin	NM	NM	NM	NM	NM	NM	0	0	0	0	0	0	0	0	0
Interest Income															
Interest expense															
Beneficial conversion interest expense															
Equity in earnings (loss) of non-consolidated affiliate															
Other (loss)															
Pre-tax income	(2,858)	(535)	(535)	(535)	(535)	(2,141)	1,311	5,584	10,714	16,090	21,382	26,291	31,634	37,772	45,248
Pretax Margin	NM	NM	NM	NM	NM	NM	0	0	0	0	0	0	0	0	0
Income Tax (Benefit)	(429)	(107)	(107)	(107)	(107)	(428)	288	1,340	2,786	4,505	6,415	7,887	9,490	11,331	13,574
Tax Rate	15%	20%	20%	20%	20%	20%	22%	24%	26%	28%	30%	30%	30%	30%	30%
GAAP Net Income	(2,429)	(428)	(428)	(428)	(428)	(1,713)	1,022	4,241	7,926	11,582	14,965	18,401	22,141	26,438	31,671
GAAP-EPS	(0.15)	(0.03)	(0.03)	(0.03)	(0.03)	(0.10)	0.06	0.25	0.47	0.69	0.89	1.09	1.31	1.56	1.86
Non GAAP EPS (dil)	(0.15)	(0.03)	(0.03)	(0.03)	(0.03)	(0.10)	0.06	0.25	0.47	0.69	0.89	1.09	1.31	1.56	1.86
Wgtd Avg Shrs (Bas) - '000s	12,572	12,585	12,597	12,610	12,622	12,622	12,673	12,724	12,775	12,826	12,877	12,929	12,981	13,033	13,085
Wgtd Avg Shrs (Dil) - '000s	16,568	16,584	16,584	16,601	16,617	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
 Update: Neutral – January 14, 2021 – Price Target \$NA

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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	78%	3	14%
Market Perform (Neutral)	6	22%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	27	100%	3	11%

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