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**IMAC, Holdings, Inc. (NASDAQ/IMAC)**

March 19, 2021

**Files an S-1 – Selling Stock After Using Cash to Make Acquisitions**

*The business model behind IMAC (when the company first came public) was to use stock to make acquisitions of clinics and grow the footprint of these clinics around a theme of regenerative medicine. What we have seen is few acquisitions and cash-based. As a result, the company is now back in the market looking to sell stock, raise cash, and perpetuate the cycle. We remain Neutral-rated.*

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**Investment Highlights**

**We remain Neutral-rated.** Last year, IMAC generated \$12.8M in revenues versus \$19M in expenses for a \$5M-plus loss. In our previous note (Jan. 2021), "Running on Fumes," we discussed the lack of operating capital. We are not surprised to see the company now returning to the capital markets to raise cash. What concerns us is the company's failure to execute its business plan, acquiring profitable clinics with stock, not cash, and the current lack of profitability associated with the existing clinic footprint. On the regenerative medicine side, we do not see IMAC as a developer of therapeutics.

**Way Below Plan.** The company remains well below our forecasts and its initial plan (from the IPO) for clinic acquisitions for stock. Instead of being on track to achieve \$15-20 million in top-line revenues this year, the actual numbers were \$12.8M with a significant operating loss (\$6.5M). 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." That continues to be our position as the company now returns to the capital markets and attempts a "reboot."

**What Happened to the Forecast?** IMAC's acquisition of clinics remains underwhelming. The strategy for the IPO was to use stock to acquire clinics and build revenues. The last few 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. The idea is that we would see higher margins for these services translating to greater profitability. That has not been seen in the numbers. We have adjusted our model to reflect this reality.

**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. A weak balance sheet 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	\$2.21	
Price Target	NA	
<b>Estimates</b>	<b>F2020A</b>	<b>F2021E</b>
<b>Expenses (\$000s)</b>	\$ 19,308	\$ 21,467
1Q March	\$ 5,317	\$ 5,367
2Q June	\$ 4,282	\$ 5,367
3Q September	\$ 4,784	\$ 5,367
4Q December	\$ 4,925	\$ 5,367
	<b>F2020A</b>	<b>F2021E</b>
<b>EPS (diluted)</b>	\$ (0.51)	\$ (0.63)
1Q March	\$ (0.18)	\$ (0.15)
2Q June	\$ (0.17)	\$ (0.17)
3Q September	\$ (0.12)	\$ (0.15)
4Q December	\$ (0.04)	\$ (0.15)
<b>EBITDA/Share</b>	(\$0.50)	(\$0.61)
<b>EV/EBITDA (x)</b>	0.0	0.0
<b>Stock Data</b>		
52-Week Range	\$0.42 -	\$4.95
Shares Outstanding (mil.)	13.3	
Market Capitalization (mil.)	\$29	
Enterprise Value (mil.)	\$26	
Debt to Capital	0%	
Book Value/Share	\$0.10	
Price/Book	-	
Average Three Months Trading Volume (K)	1,112	
Insider Ownership	39.8%	
Institutional Ownership	3.4%	
Short interest (mil.)	1.1%	
Dividend / Yield	\$0.00/0.0%	



## 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 1. Income Statement**

IMAC, Inc. Income Statement (\$000)																				
IMAC : YE Dec. 31	1Q20A	2Q20A	3Q20A	4Q20A	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
<b>Revenue (\$000)</b>																				
Clinic Gross Revenues	3,309	2,573	3,478	3,463	12,823	3,526	3,526	3,526	3,526	14,105	16,926	20,311	24,373	29,248	32,173	35,390	38,929	42,822	47,104	
<b>Total Revenues</b>	<b>3,322</b>	<b>2,573</b>	<b>3,478</b>	<b>3,463</b>	<b>12,823</b>	<b>3,526</b>	<b>3,526</b>	<b>3,526</b>	<b>3,526</b>	<b>14,105</b>	<b>16,926</b>	<b>20,311</b>	<b>24,373</b>	<b>29,248</b>	<b>32,173</b>	<b>35,390</b>	<b>38,929</b>	<b>42,822</b>	<b>47,104</b>	
<b>Revenue Breakdown</b>																				
High Margin Stem Cells (estimated)	50	50	50	50	200	50	50	50	50	200	1,550	2,075	3,117	3,853	4,564	5,909	6,695	7,586	9,669	
Percent of Revenues	2%	2%	1%	1%	2%	1%	1%	1%	1%	1%	9%	10%	13%	13%	14%	17%	17%	18%	21%	
Clinic Revenues	3,272	2,523	3,428	3,413	12,636	3,476	3,476	3,476	3,476	13,905	15,376	18,236	21,256	25,395	27,609	29,481	32,234	35,236	37,435	
Percent of total revenues	99%	98%	99%	99%	99%	99%	99%	99%	99%	99%	91%	90%	87%	87%	86%	83%	83%	82%	79%	
<b>Clinic Gross revenues</b>	<b>3,322</b>	<b>2,573</b>	<b>3,478</b>	<b>3,463</b>	<b>12,836</b>	<b>3,526</b>	<b>3,526</b>	<b>3,526</b>	<b>3,526</b>	<b>14,105</b>	<b>16,926</b>	<b>20,311</b>	<b>24,373</b>	<b>29,248</b>	<b>32,173</b>	<b>35,390</b>	<b>38,929</b>	<b>42,822</b>	<b>47,104</b>	
<b>Expenses</b>																				
High Margin Stem Cells COGS	-	-	-	-	-	38	38	38	38	150	201	259	374	443	502	620	670	721	870	
Stem Cell Margin	86%	86%	86%	86%	86%	87%	87%	87%	87%	87%	87%	88%	89%	89%	89%	90%	90%	91%	91%	
Clinic COGS	3,387	2,620	3,158	3,863	13,028	3,489	3,489	3,489	3,489	13,955	16,725	20,052	23,999	28,805	31,671	34,770	38,260	42,101	46,234	
Clinic Margin	46%	46%	46%	46%	46%	47%	47%	47%	47%	47%	47%	48%	48%	49%	49%	50%	50%	51%	51%	
Sales (Advertising & Marketing) expense	242	174	234	284	933	238	238	238	238	952	971	990	1,010	1,030	1,051	1,072	1,094	1,115	1,138	
General and administrative	1,236	1,208	961	1,151	4,557	1,162	1,162	1,162	1,162	4,648	4,741	4,835	4,932	5,031	5,131	5,234	5,339	5,446	5,554	
Depreciation and amortization	450	453	430	389	1,722	439	439	439	439	1,757	1,792	1,828	1,864	1,902	1,940	1,979	2,018	2,059	2,100	
<b>Total expenses</b>	<b>5,317</b>	<b>4,282</b>	<b>4,784</b>	<b>4,925</b>	<b>19,308</b>	<b>5,367</b>	<b>5,367</b>	<b>5,367</b>	<b>5,367</b>	<b>21,467</b>	<b>24,435</b>	<b>27,966</b>	<b>32,182</b>	<b>37,212</b>	<b>40,297</b>	<b>43,676</b>	<b>47,381</b>	<b>51,443</b>	<b>55,898</b>	
Operating Profit	(1,995)	(1,709)	(1,306)	(1,461)	(6,472)	(1,840)	(1,840)	(1,840)	(1,840)	(7,362)	(7,509)	(7,655)	(7,808)	(7,964)	(8,124)	(8,286)	(8,452)	(8,621)	(8,793)	
Oper Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Interest Income																				
Interest expense		39	6	(39)	6															
Beneficial conversion interest expense																				
Equity in earnings (loss) of non-consolidated affiliate																				
Other (loss)		(264)	(171)	1,358	923															
<b>Pre-tax income</b>	<b>(1,995)</b>	<b>(1,975)</b>	<b>(1,471)</b>	<b>(142)</b>	<b>(5,543)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(7,362)</b>	<b>(7,509)</b>	<b>(7,655)</b>	<b>(7,808)</b>	<b>(7,964)</b>	<b>(8,124)</b>	<b>(8,286)</b>	<b>(8,452)</b>	<b>(8,621)</b>	<b>(8,793)</b>	
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Income Tax (Benefit)	260	(56)	43	291	539	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
<b>GAAP Net Income</b>	<b>(1,734)</b>	<b>(2,031)</b>	<b>(1,428)</b>	<b>(433)</b>	<b>(5,004)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(1,840)</b>	<b>(7,362)</b>	<b>(7,509)</b>	<b>(7,659)</b>	<b>(7,812)</b>	<b>(7,969)</b>	<b>(8,128)</b>	<b>(8,290)</b>	<b>(8,456)</b>	<b>(8,625)</b>	<b>(8,798)</b>	
GAAP-EPS	(0.18)	(0.17)	(0.12)	(0.04)	(0.51)	(0.15)	(0.17)	(0.15)	(0.15)	(0.63)	(0.62)	(0.63)	(0.64)	(0.65)	(0.67)	(0.68)	(0.69)	(0.70)	(0.71)	
Non GAAP EPS (dil)	(0.18)	(0.17)	(0.12)	(0.04)	(0.51)	(0.15)	(0.17)	(0.15)	(0.15)	(0.63)	(0.62)	(0.63)	(0.64)	(0.65)	(0.67)	(0.68)	(0.69)	(0.70)	(0.71)	
Wgtd Avg Shrs (Bas) - '000s	9,611	10,184	11,839	12,000	11,050	12,012	12,024	12,036	12,048	12,048	12,096	12,145	12,193	12,242	12,291	12,341	12,390	12,440	12,489	
Wgtd Avg Shrs (Dil) - '000s	9,611	10,184	11,839	12,000	11,050	12,012	11,061	12,024	12,036	12,036	12,072	12,108	12,145	12,181	12,218	12,255	12,291	12,328	12,365	

Source: Dawson James estimates, company reports

**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  
 Update: Neutral – March 19, 2021 – Price Target \$NA

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Market Perform (Neutral)	9	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	29	100%	6	21%

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