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CUBEWEALTH

TELADOC HEALTH EQUITY REPORT

JUNE 28TH, 2020

TELADOC HEALTH

BY THE NUMBERS

TICKER: TDOC
PRICE: $193.26

Teladoc Health, Inc. provides virtual healthcare services on a business-to-business basis in the United States and internationally. It covers various clinical conditions and offers telehealth solutions, expert medical services, behavioral health solutions, guidance and support, and platform and program services. The company's platform enables patients and providers to have an integrated smart user experience through mobile, Web, and phone based accessed points. They serve health employers, health plans, hospitals, health systems, and insurance and financial services companies.

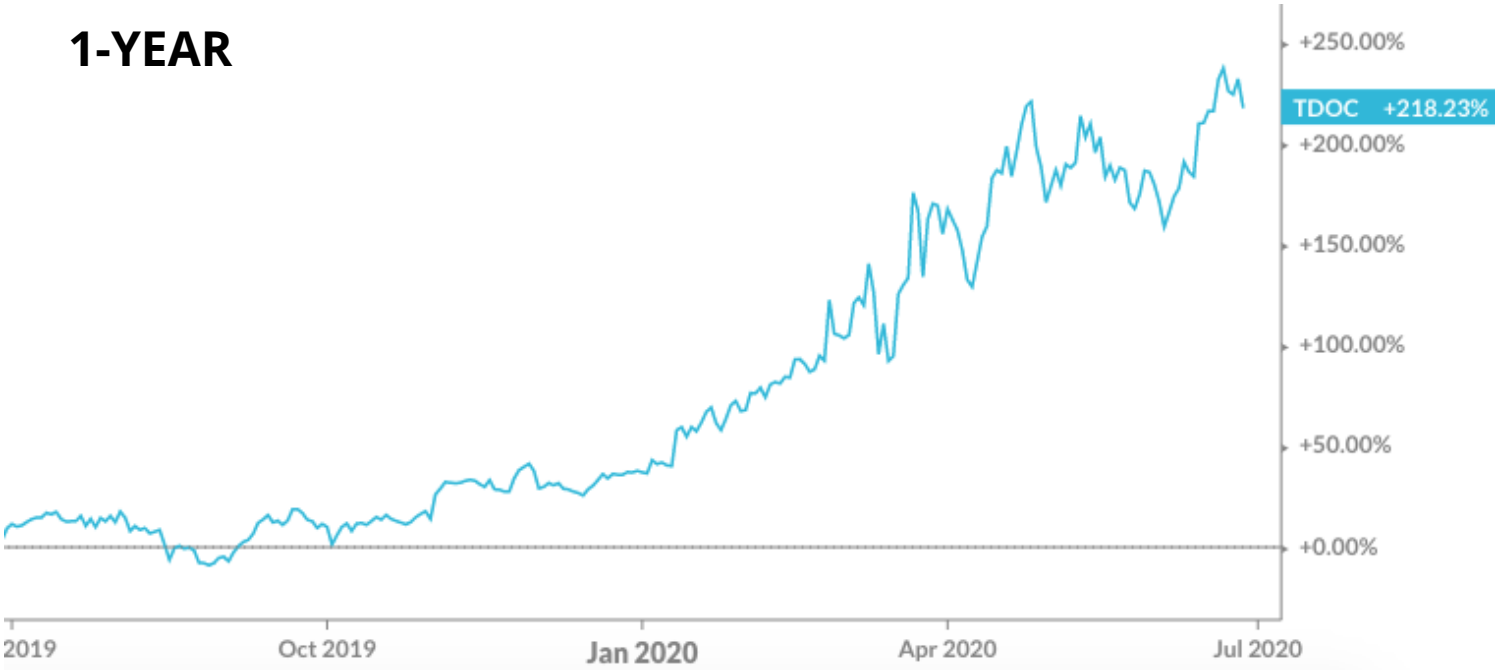
Teladoc Health, Inc. was founded in 2002 and is headquartered in Purchase, New York.

N/A	+131%	$14.3B
DIVIDEND YIELD	YTD RETURN	MARKET CAP

TDOC

SHARE PRICE PERFORMANCE

1-YEAR

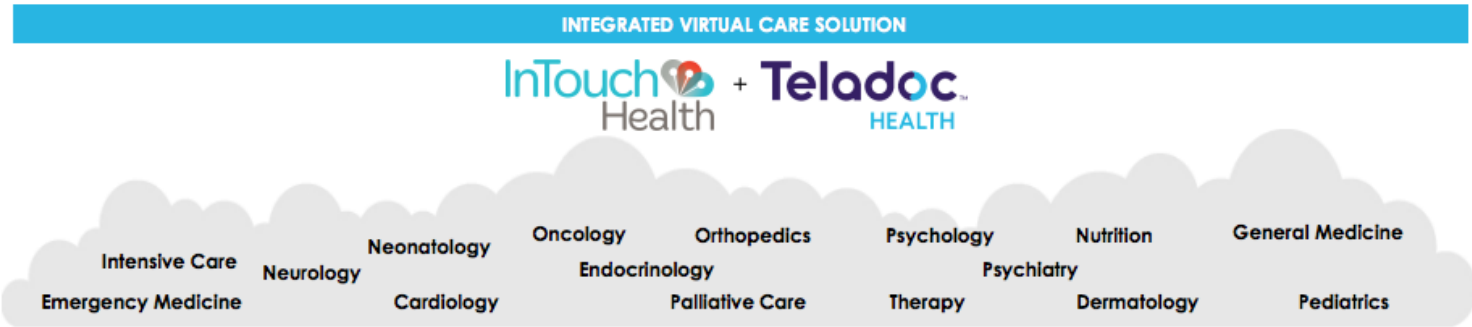


ALL-TIME

ANALYSIS

Teladoc (TDOC) has been one of the main beneficiaries of the COVID19 outbreak as seen by their skyrocketing stock price. TDOC provides virtual health care services 24/7 every day of the year through Teladoc and their other brands such as InHealth, Advance Medical, Best Doctors, BetterHelp and HealthiestYou. The company offers online video meetings with health professionals along with telephone interactions. TDOC generates revenue from clients via two ways: One-time fees and subscriptions.

Clients purchase access to their professional provider network or medical experts for their employees, dependents and other beneficiaries. Their client contracts include a per-member-per-month subscription access fee as well as certain contracts that generate additional revenue on a per-telehealth visit basis for general medical and other specialty visits and expert medical service on a per case basis. They also have certain contracts that generate revenue based solely on a per telehealth visit basis for general medical and other specialty visits. For their direct to consumer (D2C) behavioral health product, members purchase access to TDOC's professional provider network for a subscription access fee.



PARTNERS & CLIENTS

Health Systems	Health Plans	Employers
Allegheny Health Network	HIGHMARK HEALTH	3M
Bon Secours	CENTENE Corporation	State Farm
Dignity Health	blue of california	T-Mobile
KAISER PERMANENTE	PREMERA BLUE CROSS	Bank of America
Jefferson	UnitedHealthcare	BOEING
PARTNERS HEALTHCARE	aetna	THE HOME DEPOT
HCA Healthcare		
SSMHealth		
RUSH UNIVERSITY MEDICAL CENTER		
Stanford MEDICINE		
PinnacleHealth		
CHARITÉ		
Duke University School of Medicine		
Providence St.Joseph Health		
Banner Health		
Geisinger		
Children's Mercy		
MAYO CLINIC		
Cleveland Clinic		
Yale NewHaven Health		
The Ohio State University Wexner Medical Center		

They have over 50 health plan clients, including some of the largest in the U.S. such as Aetna, Blue Shield of California, Blue Cross and Blue Shield of Alabama, Premera and United Healthcare. While health plans are clients, they also serve as distribution channels to self-insured employers that contract with them through the relationships with the health plan. TDOC works with more than 70 global insurance and financial services firms, such as AIG, AXA Global, Great West Life and MLC. They also serve more than 300 hospital and health system clients. Their employer clients include over 40% of the Fortune 500 companies and the remainder of their clients are from channel partners such as brokers, resellers and consultants who sell into a range of small, medium and large enterprises.

The company also formed an important D2C enterprise partnership with CVS to be their virtual care provider and that rollout took place throughout 2019.

BENEFITS

There are a multitude of benefits using Teladoc's platform. Let's walk through them:

- Improves access
  - First, and most obvious, the telehealth industry improves access to doctors. Since there are widespread shortages of doctors (more on this to come) and other healthcare providers, in both rural and urban areas, telemedicine provides access to services and doctors that would otherwise be nearly impossible. Similarly, patients with rare diseases can connect with hard-to-find specialists who are too far to see in person.
- Saves time
  - Studies found the average in-office medical visit takes 121 minutes – 20 minutes seeing the doctor and 101 minutes traveling to/from the doctor and sitting in the waiting room.
- Saves money
  - Veracity Analytics, an independent healthcare data analytics company, performed a study of several TDOC clients representing nearly two million members as of the end of 2016. To date, the study found that these clients saved ***$472 on average*** per general medical visit when its members received healthcare through Teladoc Health instead of receiving healthcare in other settings for the same diagnosis
- Safer Alternative
  - As we are seeing today, it's actually a safer alternative to use platforms like TDOC to avoid spreading contagious illnesses like that of COVID19.

MARKET STATS

Let's now breakdown some market stats:

- Shortage of physicians
  - Physician shortage is a growing concern in many countries around the world, due to a growing demand for physicians that outmatches the supply. The World Health Organization (WHO) estimates that there is a global shortage of 4.3 million physicians, nurses, and other health professionals.
  - The demand for physicians is projected to grow by 17% by 2025, due primarily to the growth in population size and the aging population. The population below 18 years is projected to grow by 5%, whereas the elderly population over 65, who typically require more care from physicians, is expected to grow by 41%.
  - Over a third of physicians today are over the age of 55, and less than half of primary care physicians are available for after-hours attendance.
  - By 2025, it is projected that the demand for physicians in the United Stated will exceed the supply by 46,000 - 90,000. This comprises a shortage of 12,500 - 31,100 primary care physicians, 5,100 - 12,300 medical specialists, 23,100 - 31,600 surgical specialists, and 2,400 - 20,200 other specialists
  - The Association of American Medical Colleges (AAMC) predicts a total shortage of 46,900 to 121,900 physicians by 2032. That includes a projected shortfall of 21,100 to 55,200 primary care physicians
  - 25% of adults and nearly half of adults under 30 don’t have a - primary care doctor

MARKET STATS

- Telehealth Industry
  - The Telehealth Market was valued at $8.30B in 2019 and expected to reach $22.9B by 2025 with the CAGR of 18.43% over the forecast period.
  - In general, telehealth could supplant a big chunk of in-person healthcare interactions. Business Insider Intelligence estimates that existing telehealth tools and solutions can serve anywhere between 42% and 45% of the 1.2B instances of outpatient medical care that occur every year, per the CDC.
  - The U.S. Department of Health and Human Services estimates that approximately 96.5M Americans live in areas where there are shortages of mental health providers
  - Including virtual physicians, the U.S. total addressable market is around $25-30B.
  - According to 2019 JPMorgan research, 40% of hospitals surveyed reported planning to increase their budgets for telemedicine solutions. 61% of hospital revenue is forecasted to come from managed and value-based care models by 2021
- Mental Health, specifically, is a huge target market for telehealth
  - Cultural norms make those with mental health issues embarrassed and having digital access to physicians is a huge benefit
    - 1 in 5 U.S. adults experience mental illness each year
    - 1 in 25 U.S. adults experience serious mental illness each year
    - 1 in 6 U.S. youth aged 6-17 experience a mental health disorder each year
    - 50% of all lifetime mental illness begins by age 14, and 75% by age 24
    - Suicide is the 2nd leading cause of death among people aged 10-34
    - 19.1% of U.S. adults experienced mental illness in 2018 (47.6M people)

CUBE'S TOP PROS FOR TDOC

REVENUE & CLIENT GROWTH

INDUSTRY SHIFT CREATES HUGE TAM

MARKET LEADER

CUBE'S TOP CONS FOR TDOC

DECREASING GROSS MARGINS

POTENTIAL TAPER IN USAGE AFTER COVID19

RICH VALUATION

FINANCIAL STATEMENTS

BALANCE SHEET

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 507,956	$ 514,353
Short-term investments	2,819	2,711
Accounts receivable, net of allowance of $4,651 and $3,787, respectively	70,721	56,948
Prepaid expenses and other current assets	14,932	13,990
Total current assets	596,428	588,002
Property and equipment, net	10,092	10,296
Goodwill	734,386	746,079
Intangible assets, net	214,666	225,453
Operating lease - right-of-use assets	32,175	26,452
Other assets	15,330	6,545
Total assets	$ 1,603,077	$ 1,602,827
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 8,142	$ 9,075
Accrued expenses and other current liabilities	71,927	49,848
Accrued compensation	17,095	31,258
Total current liabilities	97,164	90,181
Other liabilities	10,237	11,539
Operating lease liabilities, net of current portion	29,430	24,994
Deferred taxes	18,848	21,678
Convertible senior notes, net	447,221	440,410
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 150,000,000 shares authorized as of March 31, 2020 and December 31, 2019; 74,076,286 shares and 72,761,941 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	74	73
Additional paid-in capital	1,572,024	1,538,716
Accumulated deficit	(537,128)	(507,525)
Accumulated other comprehensive loss	(34,793)	(17,239)
Total stockholders' equity	1,000,177	1,014,025
Total liabilities and stockholders' equity	$ 1,603,077	$ 1,602,827

As far as the balance sheet goes, TDOC is in good standing. The company is sitting on around $507M in cash and cash equivalents at the end of Q1. Accounts receivable appear to be healthy and in-line Y/Y along side short term liabilities.

As we'll discuss in the cash flow section, TDOC is still reliant on debt and equity to maintain the business and they have been tapping the debt markets quite a bit this year.

Their total debt outstanding as of March 31 was $562M, which consists of two convertible notes. We also know that in mid May, they raised an additional $850M (up from the original $800M they set out for) in convertible senior notes due 2027. The initial conversion rate is 4.1258 shares per $1,000 principal amount of notes which is equivalent to ~$242.38/share.

Net proceeds are going to come in at about $829M and will be used to exchange $228.2M existing 2022 notes for a combination of cash and shares of Teladoc Health common stock, for working capital and other general corporate purposes.

The fact that they were able to raise debt with a convertible note that far above the stock price is amazing as the stock was around $180 at the time of the offering. All in all, TDOC was able to shuffle some shorter term debt further out and the company is well capitalized for the next several years.

FINANCIAL STATEMENTS

INCOME STATEMENT

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019
Revenue	$ 180,799	$ 128,573
Expenses:		
Cost of revenue (exclusive of depreciation and amortization shown separately below)	72,382	44,677
Operating expenses:		
Advertising and marketing	32,515	26,404
Sales	17,940	16,212
Technology and development	19,257	15,987
Legal and regulatory	1,222	1,586
Acquisition and integration related costs	3,664	1,012
General and administrative	45,120	35,982
Depreciation and amortization	9,710	9,600
Total expenses	201,810	151,460
Loss from operations	(21,011)	(22,887)
Interest expense, net	9,303	6,521
Net loss before taxes	(30,314)	(29,408)
Income tax (benefit) expense	(711)	742
Net loss	$ (29,603)	$ (30,150)
Net loss per share, basic and diluted	$ (0.40)	$ (0.43)
Weighted-average shares used to compute basic and diluted net loss per share	73,278,857	70,919,496

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019
Subscription Access Fees:		
U.S.	$ 107,939	$ 80,979
International	29,114	24,975
Visit Fee Revenue:		
U.S. Paid Visits	30,898	18,248
U.S. Visit Fee Only	12,586	4,121
International Paid Visits	262	250
Total Revenues	$ 180,799	$ 128,573

QUARTERLY REVIEW

TDOC reported Q1 GAAP EPS of -$0.40 missing by $0.04 on revenue of $180.8M (+40.6% Y/Y) in-line with Wall Street estimates.

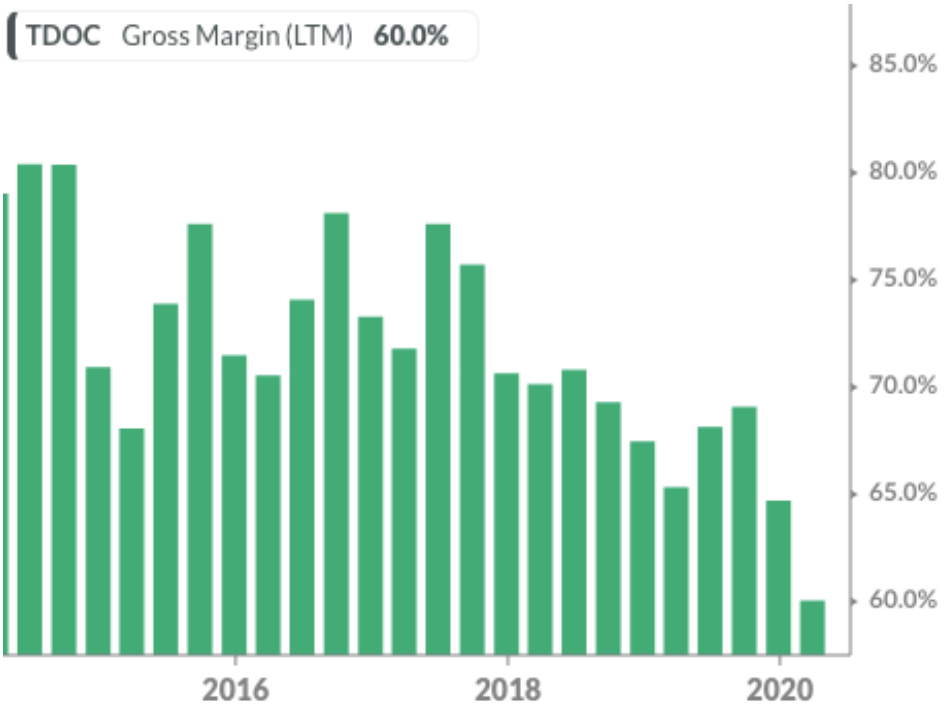
- Net loss was $(29.6) million for the first quarter 2020 compared to $(30.2) million for the first quarter 2019.
- Net loss per basic and diluted share was $(0.40) for the first quarter 2020 compared to $(0.43) for the first quarter 2019.
- Gross margin was 60.0% for the first quarter 2020 compared to 65.3% for the first quarter 2019.
- EBITDA was $(11.3) million for the first quarter 2020 compared to $(13.3) million for the first quarter 2019.
- Adjusted EBITDA was a positive $10.7 million for the first quarter 2020 compared to a positive $1.2 million for the first quarter 2019.
- During the first quarter alone, TDOC onboarded over 6 million new paid members in the U.S. across government and commercial populations. They anticipate onboarding an additional 6 million to 7 million new members during the second quarter, which would be the strongest first half membership growth in company history.

CUBE's takeaways are that it was a pretty solid quarter on the revenue side of things. The company was able to grow revs by over 40% and this type of growth was most certainly anticipated due to COVID19 forcing people to seek different ways to get in touch with doctors.

QUARTERLY REVIEW

What is a little concerning is that gross margins fell by 530 basis points, or 5.3% Y/Y. As a software company we'd like to see margins growing so we can get a better idea of how scalable the business is. Falling below the 60% mark is not going to be a good look and the trend over the years has not been in their favor as you can see below.

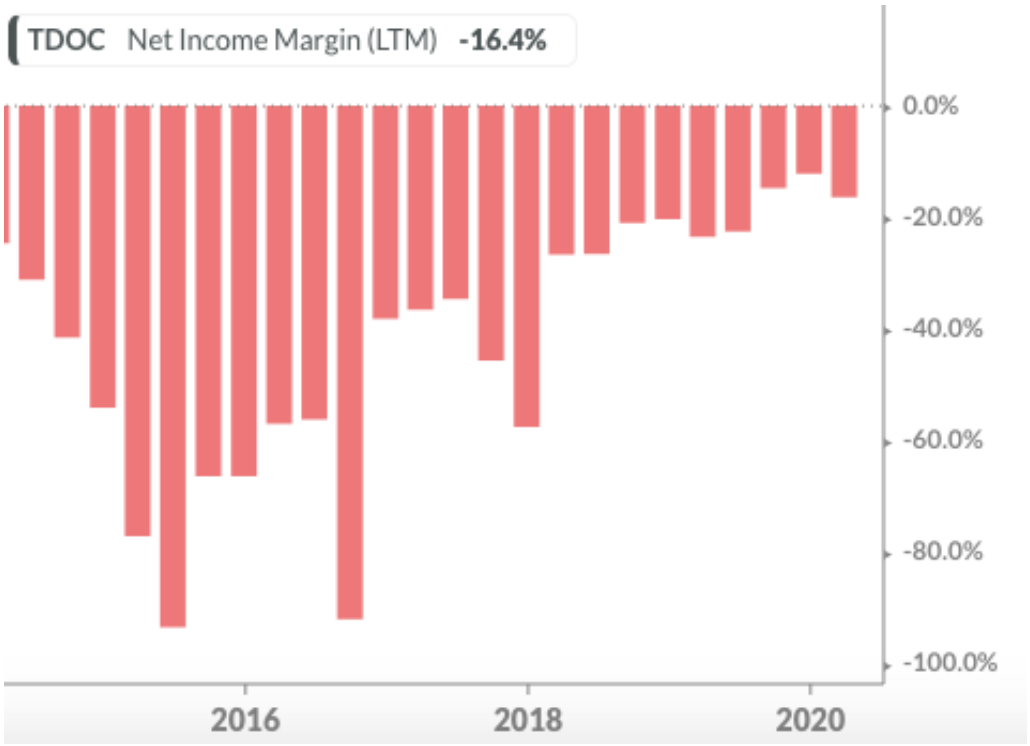
For a while, TDOC was mainting but 70-75% gross margins, seeing almost as high as 80% at times. The reasoning for this number appears to be from TDOC's acquisitions as well as a less favorable revenue mix. For example, TDOC made $4 million in incremental investments to expand physician capacity in response to the outbreak of COVID-19 which hurt their gross profits a bit and also saw their visit-fee revenue grow during the quarter which is less favorable than their subscription-based margins (17% of revs in 2019 vs 23% in 2020).



QUARTERLY REVIEW

On the conference call, management said, "I would say for the medium to long-term, my expectation is that we will – we still have confidence in the mid-60s gross margin that we have talked about in the medium to long-term." In other words, this is where it should stick around for quite sometime.

On the flipside, it is good to see TDOC converting some of this additional revenue to reduce their net losses. While they still aren't profitable they are most certainly making the right progress to get there. CUBE believes the company will not see any meaningful profits until the back half of 2021/potentially 2022 as the company is committed to grabbing as much market share as they can.



GUIDANCE

For the second quarter 2020, TDOC expects:

- Total revenue to be in the range of $215 million to $225 million - implied growth of 69% Y/Y
- EBITDA to be in the range of $(1) million to $3 million.
- Adjusted EBITDA to be in the range of $20 million to $24 million.
- Total visits to be between 2.3 million and 2.4 million.
- Net loss per share, based on 74.6 million weighted average shares outstanding, to be between $(0.28) and $(0.23).

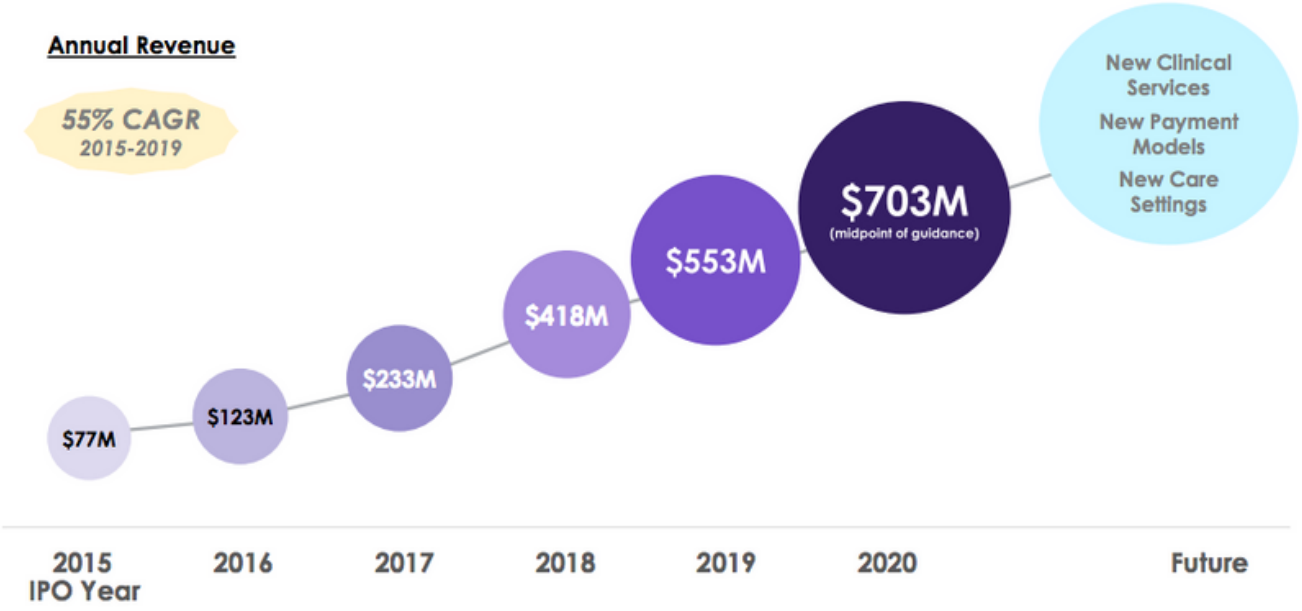
For the full year 2020:

- Total revenue to be in the range of $800 million to $825 million - implied growth of 47% Y/Y
- EBITDA loss to be in the range of $(14) million to $(4) million.
- Adjusted EBITDA to be in the range of positive $70 million to $80 million.
- Total visits to be between 8 million to 9 million.
- Net loss per share, based on 74.7 million weighted average shares outstanding, to be between $(1.27) and $(1.13).

*Note the guidance also does not include their InHealth acquisition as that deal is expected to close here in late Q2.

GUIDANCE

To add a little more color to the guidance. The full-year revenue guidance of $800-$825M represents an increase of over $100M relative to their prior range. See image below:



Furthermore, their guidance assumes COVID19 to taper and is inherently conservative it seems. "We expect volumes to settle in the second half of the year at a permanently higher level of utilization then pre-COVID levels as we benefit from increased consumer awareness and the impact of our engagement engine applied to newly activated and onboarded members. As the current path of the virus is unknown, *our guidance ranges do not include an incremental increase in volume that could result from the virus reemerging in the fall* with the same level of intensity we are currently experiencing. As such, should the virus return in the fall, particularly if it were in conjunction with the typical flu season, it could result in higher-than-expected visit volume and revenue growth." - Jason Gorevic CEO

FINANCIAL STATEMENTS

CASH FLOW

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019
Cash flows used in operating activities:		
Net loss	$ (29,603)	$ (30,150)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,228	11,563
Allowance for doubtful accounts	1,247	783
Stock-based compensation	18,315	13,523
Deferred income taxes	(2,820)	(2,672)
Accretion of interest	6,859	6,060
Changes in operating assets and liabilities:		
Accounts receivable	(17,219)	(8,251)
Prepaid expenses and other current assets	101	350
Other assets	137	30
Accounts payable	(502)	(28)
Accrued expenses and other current liabilities	21,565	14,530
Accrued compensation	(13,798)	(11,737)
Operating lease liabilities	(1,287)	(479)
Other liabilities	(543)	(1,414)
Net cash used in operating activities	(6,320)	(7,892)
Cash flows (used in) provided by investing activities:		
Purchase of property and equipment	(962)	(571)
Purchase of internal-use software	(1,966)	(1,099)
Proceeds from marketable securities	0	9,000
Sale of assets	0	6
Pre-funding associated with the pending acquisition	(9,000)	0
Net cash (used in) provided by investing activities	(11,928)	7,336
Cash flows provided by financing activities:		
Net proceeds from the exercise of stock options	14,889	8,854
Cash received for withholding taxes on stock-based compensation, net	164	1,848
Net cash provided by financing activities	15,053	10,702
Net (decrease) increase in cash and cash equivalents	(3,195)	10,146
Foreign exchange difference	(3,202)	(177)
Cash and cash equivalents at beginning of the period	514,353	423,989
Cash and cash equivalents at end of the period	$ 507,956	$ 433,958

The good news behind TDOC's statement of cash flows is that the company isn't burning a ton of cash. We figured with the huge surge in demand for their service the company might be able to surprise the Street with some positive cash flow but that wasn't the case.

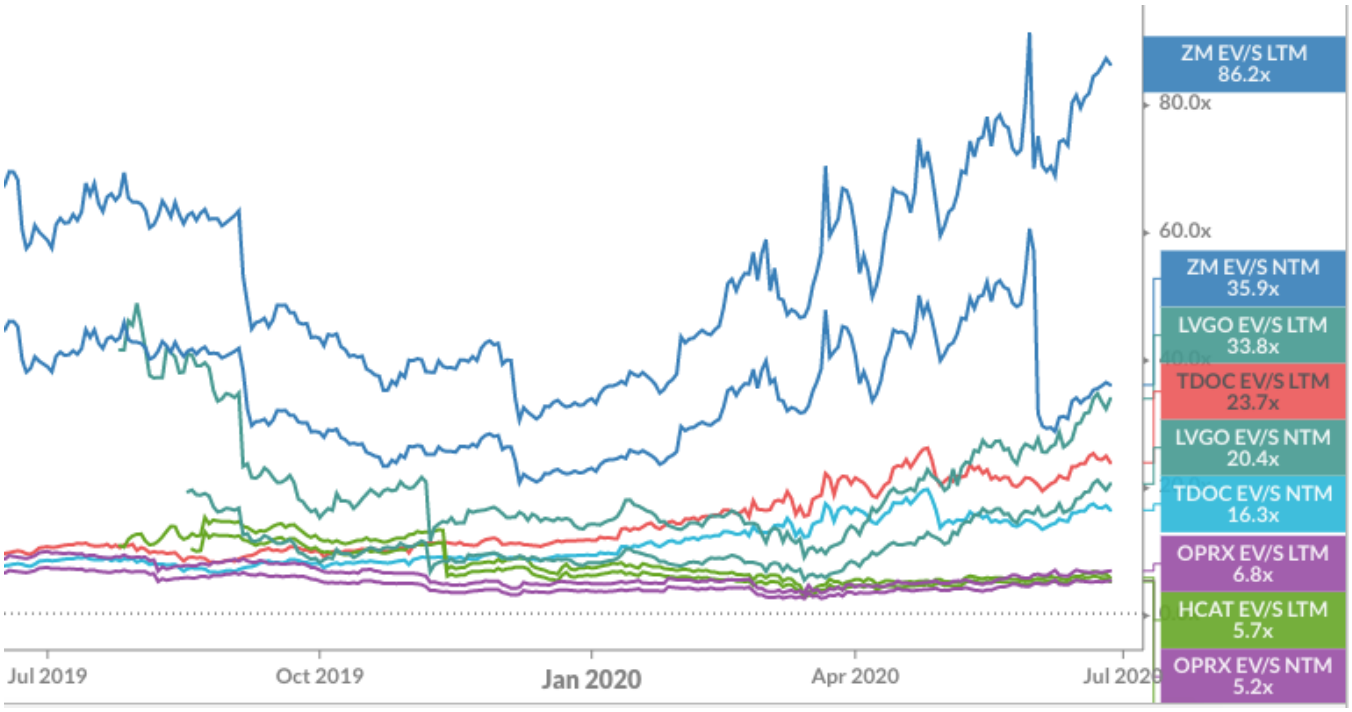
In Q1, the company burned about $6.3M in operating cash flow and after deducting for capex saw about $9M in free cash flow burn. Given how much cash they have on hand, especially with the recent convertible debt offerings, TDOC still has plenty of cash left to operate the business.

On a Y/Y basis, the cash burn was virtually identical. Compared to other software and high growth companies this still isn't bad with all things considered. The company is completely locked in on investing for growth via marketing and advertising as well as acquisition and we simply can't blame them. This is an emerging industry and getting out in front of others to capture clients is all that truly matters at this point in time, especially as other companies look to get in the space.

TDOC FUNDAMENTALS

CUBE is going to compare TDOC to Livongo Health (LVGO), Health Catalyst (HCAT), Zoom Video (ZM), and OptimizeRx (OPRX). The reason for using these companies is so we can get a full view of how growth companies are being valued in both video conferencing and telehealth and then also some in-between companies like HCAT and OPRX.

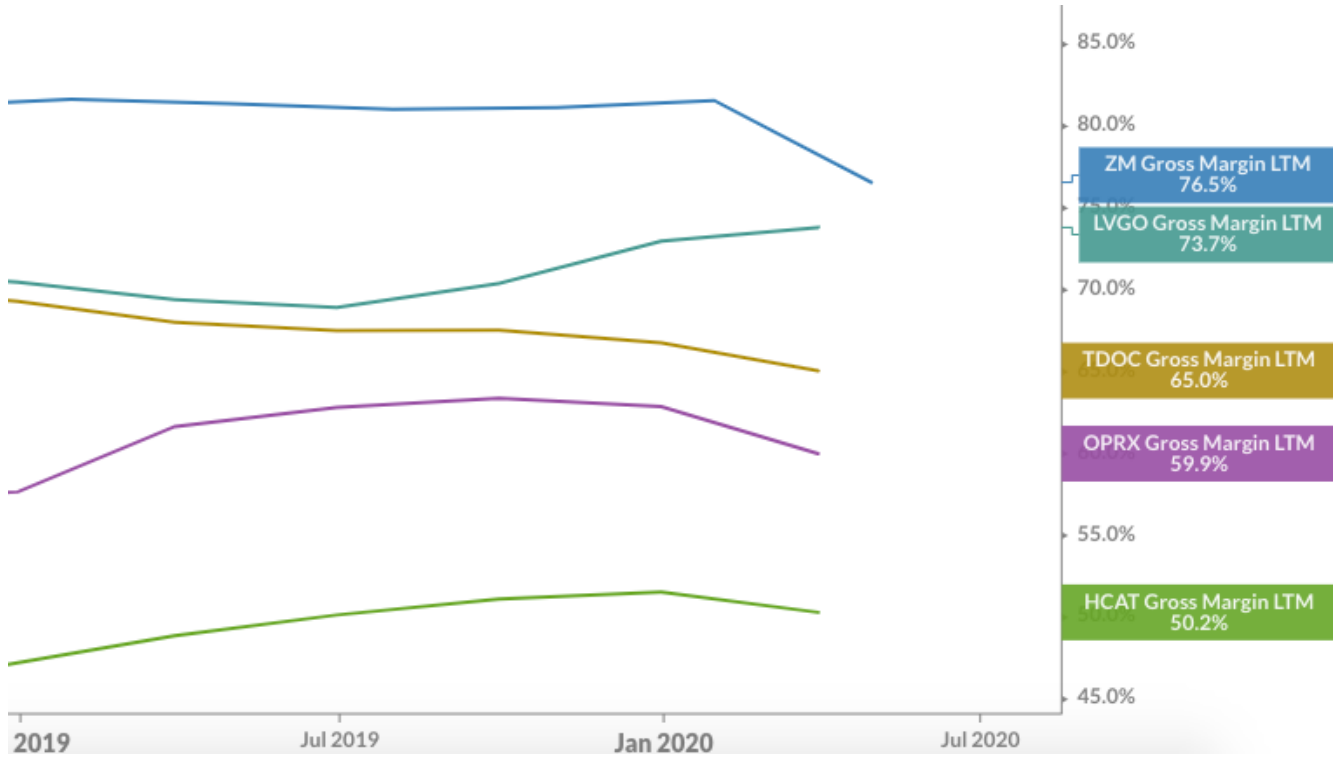
If we look at the companies on an enterprise value to sales ratio, both last twelve months (LTM) and forward looking, TDOC is right down the middle. Please note that ZM is trading at levels that are very hard to comprehend and that TDOC's 16.3x forward sales is still pretty steep. As you know, CUBE does not like to pay more than 15x forward sales for a company but we anticipate TDOC to beat their estimates for 2020 guidance. CUBE expects revenue of $875M which would put their multiple closer to 16x.



TDOC FUNDAMENTALS

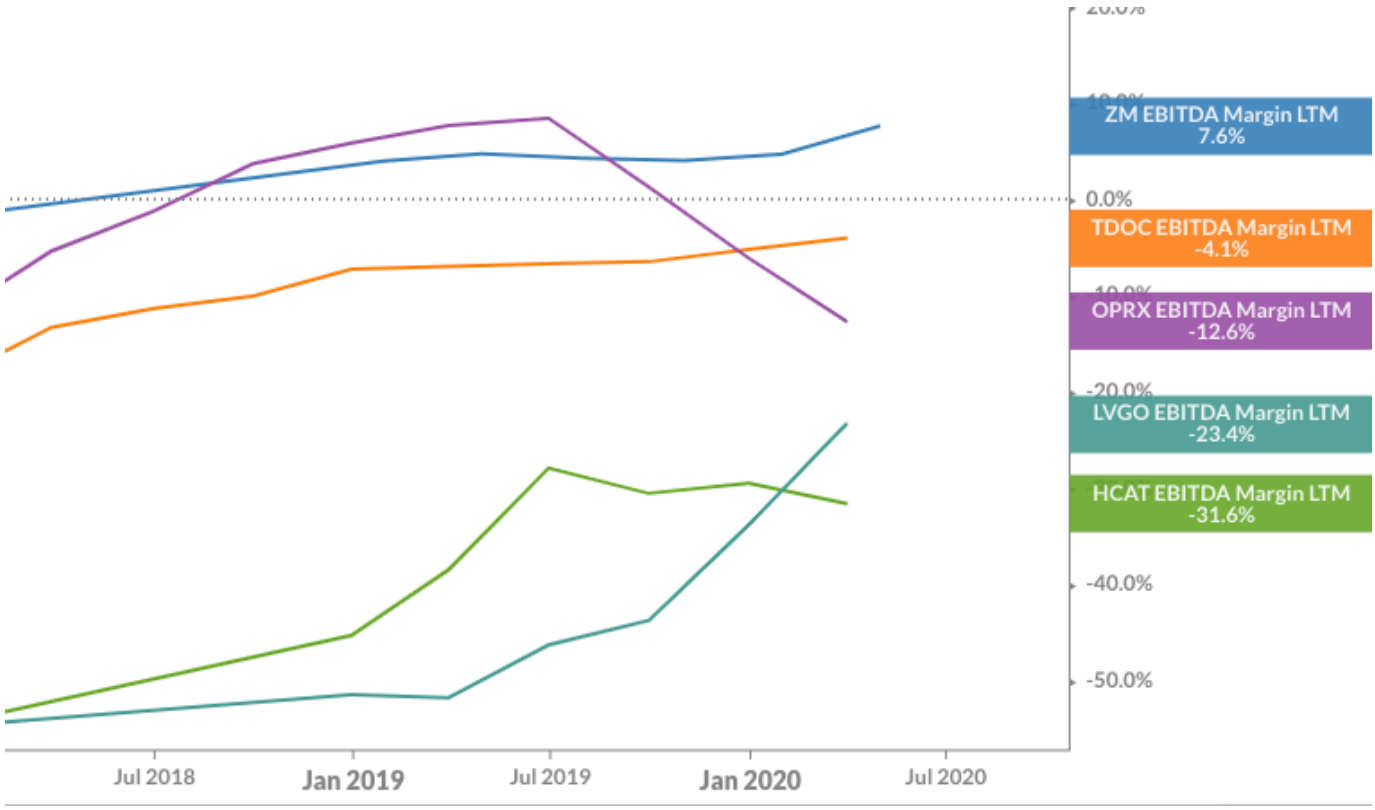
Much of the reason TDOC trades at a rich valuation is because of its growth rate and the fact that its gross margins are still pretty healthy and above those seen at companies like HCAT. Over the last twelve months, TDOC is averaging 65% gross margins but we know that in their most recent quarter it fell to 60% which puts it right inline with OPRX (for more info on OPRX review the CUBEFolio May report).

If TDOC can get to LVGO's margins it would unlock even more multiple expansion and allow the company to send much more to the bottom line. For example, an increase in gross margins from 60% to 73.7% would result in additional gross profit of nearly $25M in TDOC's most recent quarter.

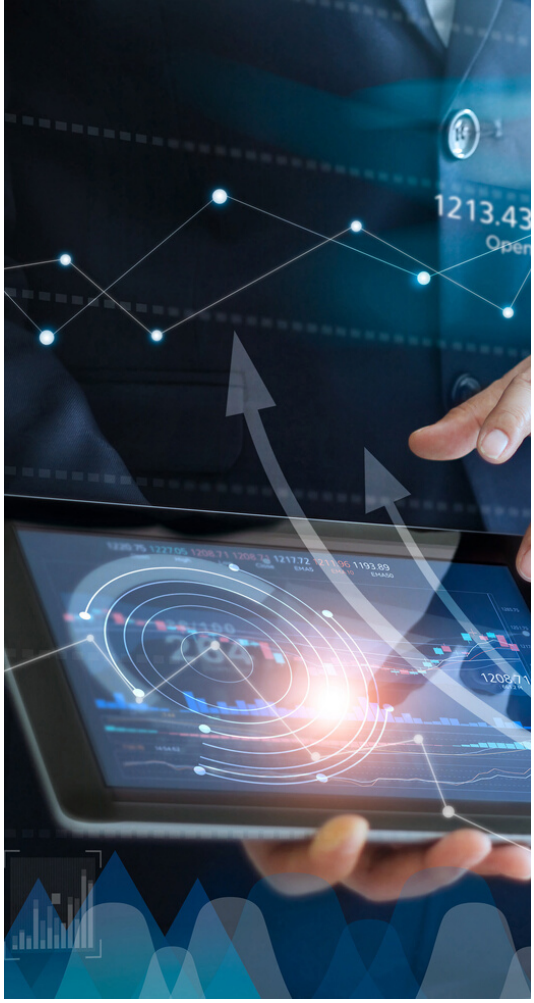


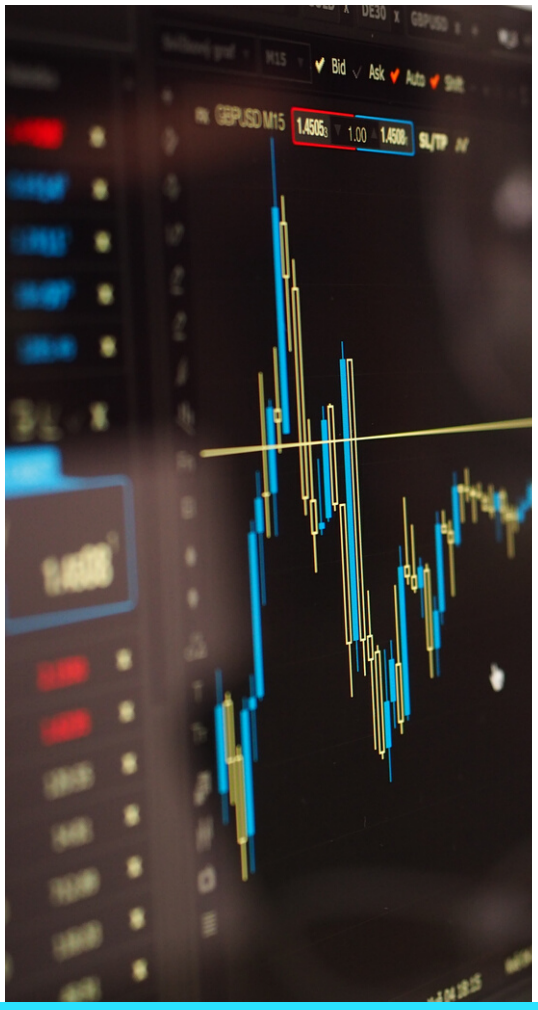
TDOC FUNDAMENTALS

As we move down the income statement, we see that TDOC is close to EBITDA breakeven while LVGO, OPRX, and HCAT are not very close at all. According to TDOC's guidance they expect EBITDA to come in around -$9M for 2020 at their midpoint which is literally -1% EBITDA margins. On an adjusted basis, the company expects to generate $70-80M in EBITDA which would be EBITDA margins of 9%. This is actually pretty nice in our eyes. CUBE expects the company to grow these margins very well in 2021 and beyond.



TDOC
TECH ANALYSIS





TECH ANALYSIS SUMMARY

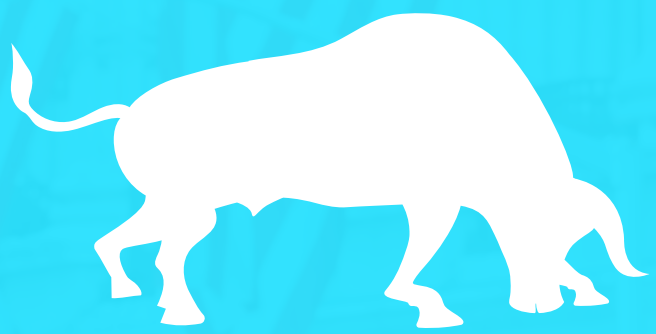
Based on the technicals, CUBE expects a short-term pullback on TDOC shares.

The stock was unable to hold its R1 level of $197.60 and closed Friday at $193.26. The next support level we see is the 20DMA of $182.10 and we expect shares to visit this level and potentially even the 50DMA of $178.99.

This kind of pullback is necessary for shares as the RSI, MFI, and W%R all hit overbought levels and its important shares pullback, regroup, and then make their way higher as the long-term uptrend is still well intact.

We expect shares of TDOC to find support at the 20DMA and 50DMA and, if so, this will be an area CUBE considers entering as at those levels it will also fulfill our requirement of not paying more than 15x forward sales for a company.

BULLISH OR BEARISH?



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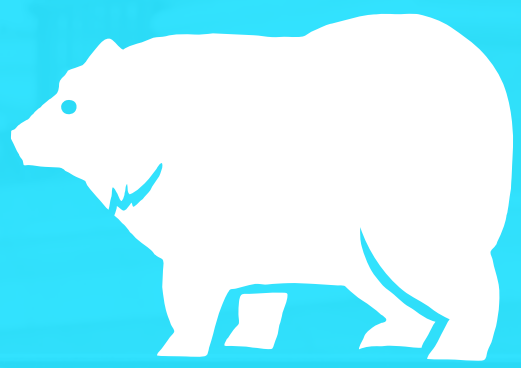

MORE BULLISH (POSITIVE)

MORE BEARISH (NEGATIVE)

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TDOC CONCLUSION

All in all, CUBE is bullish on Teladoc (TDOC). The company is one of the first movers in this blossoming space of telehealth and all COVID19 really did was speed up the progress of this seismic shift that was inevitable and bound to happen. Many argue that companies like Zoom (ZM) can be a threat to TDOC but they forget that TDOC has a serious advantage and that is the size of its doctor network which is now well over 50,000 doctors on their platform.

One thing that CUBE will be keeping a close eye on is their gross margins and how well they can scale their business and if, in fact, users will stay on their platform after quarantine measures are lifted. We believe they will and also believe TDOC is going to post much larger revenue numbers than they are guiding for to the tune of $875M+ for 2020.

While the valuation is rich, so is the addressable market and the growth to come. When we take into account the younger population who is a much bigger fan of digital interactions or we look at the other side of the spectrum and take into account aging baby boomers who simply have trouble leaving their homes, there is a huge market for TDOC to explore and capitalize on for years to come - both domestically and internationally.

DISCLAIMER

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