



# TELADOC HEALTH (TDOC) OVERWEIGHT

MARKET SHARE GAINS; REVENUE AND VISITS BEAT IN Q4;  
INITIATE BUY & TARGET \$270

# TELADOC HEALTH (TDOC) OVERWEIGHT

**MARKET SHARE GAINS; REVENUE AND VISITS BEAT IN Q4; INITIATE BUY & TARGET \$270**

## THESIS

We are initiating a buy rating for Teladoc Health after it beat revenue for Q4 2020 and issued company guidance for 2021 that is in line with our estimates. We value it at 22x P/S for FY 2021 with a 12-month target price of \$270, representing an 22% upside as of February 26th, 2021. We expect Teladoc Health to further gain market share and establish market leadership in the virtual healthcare sector from its acquisition of InTouch and Livongo Health last year. We are also confident that Teladoc Health's revenue and visit numbers are likely to remain strong and beat expectations in 2021.

## KEY DRIVERS

**Market share gain in the virtual healthcare sector.** Teladoc Health successfully acquired virtual care platform InTouch Health in July 2020 and digital disease management company Livongo Health in November 2020. In 2019, Teladoc Health had 9.8% market share in the virtual healthcare sector, while Livongo Health had 4.1% by market cap. As of the end of January 2021, Teladoc Health has become the largest player in the virtual healthcare sector, taking up 18.9% of the virtual healthcare sector. We anticipate Teladoc Health to take up 31.4% of market share by 2023 as the company continues to realize synergies created from the two acquisitions.

**Revenue and visit numbers beat estimates for 2020 Q4.** Given the rise in Covid-19 cases in the United States and Europe in Q4, while lockdown measures remained in place in the UK, Germany, France, Italy, Spain and many other European countries, an increasing number of patients are switching to Telehealth from in-office visits. A Piper Sandler survey in December 2020 indicated that of those who reported using Telehealth services, 57% switched from in-office visits to Telehealth. We expect this trend to continue and we anticipate Teladoc Health to reach record levels in both its revenue and visit numbers in 2021.

**Massive upside for international subscription fees.** After comparing Teladoc Health's average revenue per visit (ARPV) in the US and in international markets, we noticed that its international ARPV is significantly lower than its domestic ARPV. Its low base in ARPV internationally is mainly due to the new partnerships it established with local companies such as Telefonica in Europe and Latin America. We expect these partnerships to generate higher revenue growth in 2021 and we forecast its international visits to grow 50% in 2021.

**Growing demand from mental health patients likely to boost visit numbers.**

Teladoc data shows that mental health visits for patients over the age of 65 increased 16% in Q3, as many switched from in-office therapies to virtual counselling. We expect mental illnesses numbers to continue to grow in Q4 and 2021 as a result of Covid-19, and many patients would continue to switch from in-office visits to virtual consultations.

PRICE:  
US \$221.09  
(Reflects price on 02/26/21)

TARGET:  
US \$270

**Stanley Wang**

Head of Research, Global Investment Society  
[wangstan@usc.edu](mailto:wangstan@usc.edu)

**Brian Chi-Kit Tse**

Investment Analyst, Global Investment Society  
[briancht@usc.edu](mailto:briancht@usc.edu)

**Tyler Wong**

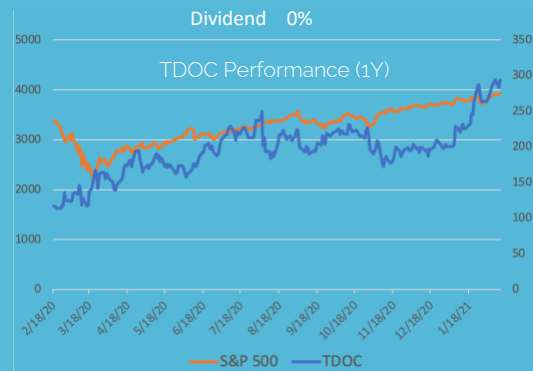
Investment Analyst, Global Investment Society  
[twong@usc.edu](mailto:twong@usc.edu)

**Ishan Chhabra**

Research Assistant, Global Investment Society  
[ichhabra@usc.edu](mailto:ichhabra@usc.edu)

## SUMMARY

Rating	Buy
Price Target	US \$270.00
FY21E Rev (mil)	US \$1,094.00
FY21E EPS	US \$-1.60
52-Week High/Low	US \$102.01/US \$308.00
Shares Out (mil)	150.3
Market cap. (mil)	US \$33,226.00
Net Cash/Share	0.314
Price/Earnings	N/A
Price/Book	1.1
Price/Sales	26.5
Price/Cash Flow	N/A
EV/EBITDA	127.0
Quick ratio	6.3
Current ratio	6.3
Dividend	0%

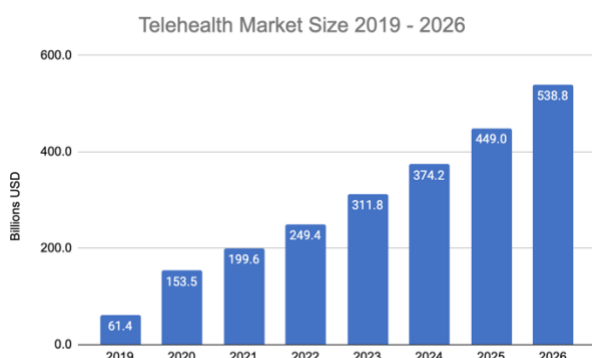


## COMPANY OVERVIEW

Founded in 2002 by George B. Brooks, M.D., and Michael Gorton, Teladoc Health is the nation's oldest telemedicine corporation. Initially, patients could consult remotely with doctors during any hour. Today, the company has diversified its services into different categories: platform and program services, guidance and support, expert medical services, mental health services, telehealth, and integrated virtual care. Teladoc Health has also incorporated advancements in the technological field into its platform, such as artificial intelligence and advanced analytics. The company uses video conferencing software and telephone to assist users with on-demand medical care within minutes.

## EXPANDING TELEHEALTH SECTOR

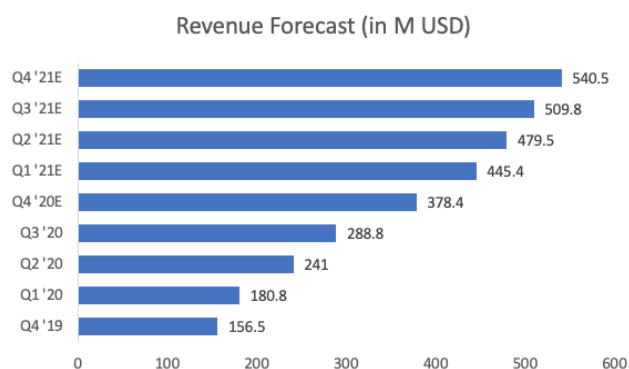
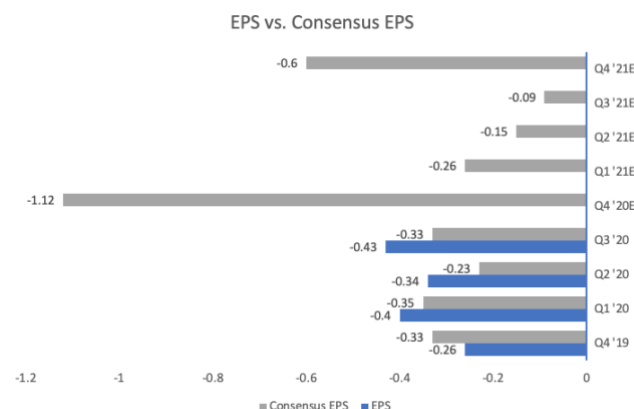
The virtual healthcare sector experienced an unprecedented growth in demand and revenue in 2020 due to Covid-19 and stay-at-home orders forcing people to seek medical assistance virtually. We expect the telemedicine market to grow from 61.4 billion in 2019 to 539 billion in 2026, indicating a 25.2% CAGR in the next five years.



Not only are patients switching from in-office visits to virtual healthcare management, but many local health systems are also relying more on Telehealth platforms to provide virtual healthcare services to their patients. Prior to Covid-19, a McKinsey study shows that health systems demonstrated 17 percent savings when they provided virtual health care with their existing healthcare professionals instead of using an outsourced provider.

We see the largest demand growth in patients of mental illnesses and chronic diseases seeking medical assistance on these platforms. We expect this trend to continue as growth in chronic diseases among patients between 45 and 64 remains high, and Telehealth has lowered the cost for both the patients and the professional health care workers.

## STRONG EARNINGS PRESENTED THROUGH PANDEMIC



Teladoc reported an EPS in December 2020 of -0.27 and now has an expected EPS of 0.01 at the end of the fiscal year 2021, a 103% growth rate in the EPS in one year alone. This primarily indicates a company that is experiencing a boost in sales and revenue from the pandemic and is, therefore, on the verge of breaking through to generating larger profits.

Teladoc also reported 378.4 in sales (millions) in December 2020 and has an expected sales value of 540.5 at the end of fiscal year 2021, a 142% growth rate in sales in a one year period. Furthering analysis from outlook on EPS history, this growth substantiates the claim of a company in a market that is capitalizing on COVID-19.

Partially using the new partnership with Livongo Health as an impetus, Teladoc's board increased their full-year revenue guidance from \$1.005 billion to \$1.015 billion. During the third quarter, total revenue increased to \$209 million (approximately 109%). Compared to \$9 million in the third quarter of 2019, adjusted EBITDA increased to \$39.5 million in the quarter, and third-quarter adjusted EBITDA margin of 13.7% increased by over 700 basis points year over year. This massive increase was mainly driven by the advertising and marketing efforts between the third and fourth quarters. Lastly, net loss in the quarter was \$35.9 million, compared to a net loss of \$20.3 million in the third quarter of 2019.

## BOARD WITH PERTINENT EXPERIENCE LEADS

CEO and Director Jason N. Gorevic is on the board of the New York Road Runners Foundation and Doximity Inc. Gorevic brings a lot of executive experience to Teladoc with his past CEO position at Gemfinity, Senior VP and CPO at Anthem, Inc. Gorevic received his bachelor's degree from the University of Pennsylvania. Gorevic also holds 0.364% of insider holdings (top 5 holder), bringing in an annual total compensation of around \$8M.

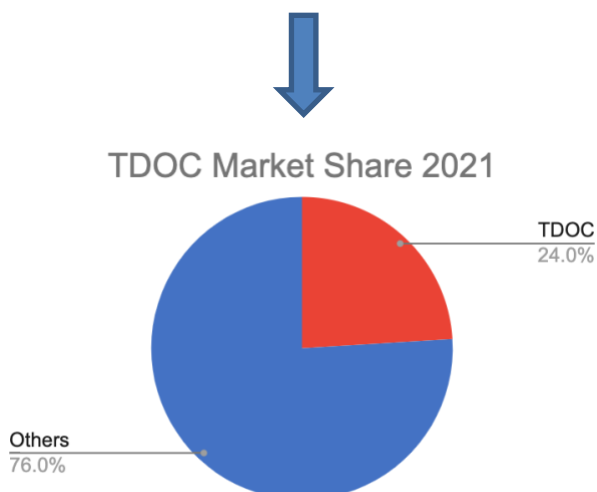
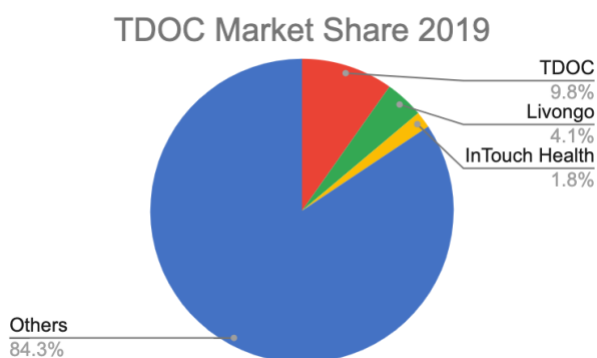
Teladoc's board consists of 13 members, with approximately half having direct experience in the medical field and around a quarter having direct experience in corporate business. Overall, we are very confident in the board's consolidated experience and management skills to set Teladoc for more future success.

## MARKET SHARE GAIN FROM ACQUISITIONS

We expect there to be further market consolidation in the telehealth sector in 2021, given 2020 as an unusual year that saw the telehealth market grow more than 100% from 2019, from 61.4 billion to 153.5 billion. As shown in the graph below, we forecast Teladoc Health's market share to grow from 9.8% in 2019 to 24% in 2021, partially due to its recent acquisitions of InTouch Health and Livongo Health in 2020 that strengthened the company's exposure to mobile virtual healthcare management platforms.

Since 2017, Teladoc Health has acquired multiple telehealth businesses including Best Doctors (a medical consulting firm), Advance Medical (a telemedicine company that operates in Latin American and Asia), MedecinDirect (a French telehealth software company), InTouch Health (a virtual healthcare platform) and Livongo Health (a chronic diseases management platform). We expect Teladoc Health to complete more acquisitions in the next two years, given the market leadership the company has established in the telehealth sector, and its management's confident outlook for the telehealth sector.

Teladoc Health has created a virtual healthcare powerhouse from its recent acquisition of InTouch Health and Livongo Health. In the third quarter of 2020, Teladoc Health has recorded 51.5 million paid memberships in the United States, indicating a 47% growth from the same quarter in 2019. The company also has a strong client retention rate, as most of its clients are employers who subscribe to its service so that their workers could stay healthy. Acquiring InTouch Health and Livongo Health increases the client base for these platforms, as Teladoc doctors could now prescribe clients to these platforms. It greatly improves the convenience, familiarity, and reputation of the three virtual health care systems. A successfully integrated virtual healthcare platform would allow Teladoc Health to become the largest virtual healthcare powerhouse.

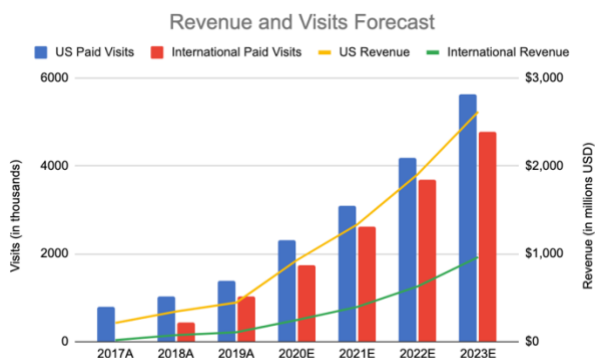
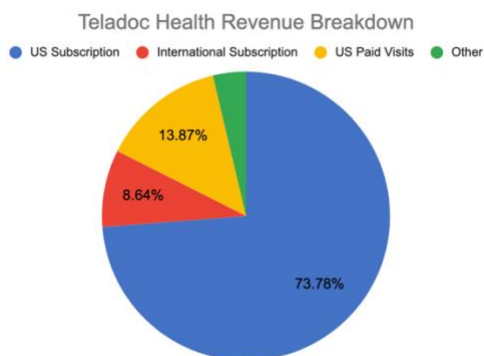


FY 20-21' Acquisitions	Livongo Health	InTouch Health
Acquisition Cost	18.5 billion	600 million
Estimated Close	Closed in November 2020	Closed in July 2020
Additional Details	Offers an all-in-one app that tracks various health data for patients with chronic medical conditions	Provides virtual healthcare software, platforms, and devices that support over 3,600 care sites globally

## HIGH VISIT NUMBERS LEADS TO STRONGER REVENUE GROWTH

For 2020, Teladoc Health recorded a 98% revenue growth from 2019. The company generates revenue through two main sources--recurring subscription access fees, and per-case visit fees. Subscription access fees are usually paid monthly by clients on behalf of their employees, dependents or beneficiaries that would give them full access to Teladoc Health's platform. Visit fees are generally paid by clients who do not frequently utilize Teladoc Health's platform and choose to pay a fee per visit.

As shown in the chart below, subscription fees made up 82.4% of its revenue in Q4 20. We expect this trend to continue as Teladoc Health continues to convert per-case visit fees into monthly subscription fees in 2021. For Q4 20, we saw the largest growth in US visits since an increasing number of employers are subscribing to Teladoc Health's service, and we visit numbers grew 139% from the same period in 2019. For 2021, we anticipate Teladoc Health to benefit from its acquisition of Livongo Health. We forecast its revenue to grow 75% to 1.91 billion, compared to 1.09 billion in 2020.



## GROWTH-DRIVEN APPROACH

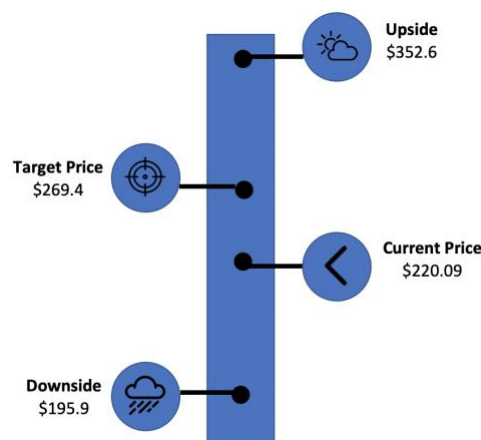
To arrive at our base case valuation for TDOC, we forecasted revenue for Teladoc until 2023 to arrive at a revenue per share of 12.24 in 2021 and applied a 22x P/S multiple to calculate the 12-month price target for TDOC. With this valuation method, we've reached an intrinsic value per share of \$269.4.

Given Teladoc's success during the pandemic, we believe that its experienced management team will continue to drive revenue growth and expand market share post-pandemic. Furthermore, their recent acquisitions of InTouch Health and

Livongo Health will only further solidify their position as industry leaders for the foreseeable future. For these reasons, our team is confident that TDOC can reach our projected price target of \$269.4 in the next 12 months, representing an upside of roughly 22% from current levels.

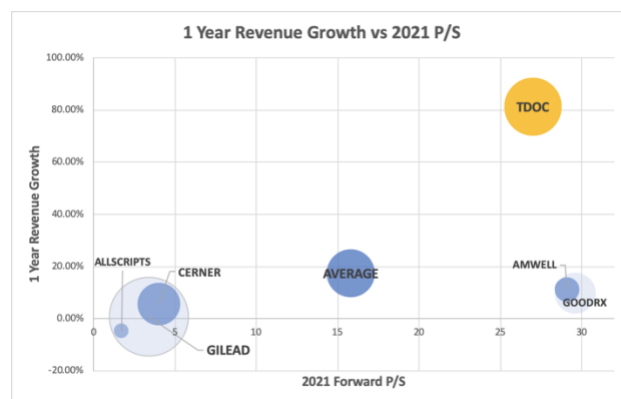
Our upside valuation case of \$352.6 is based on a stronger-than-expected revenue growth in 2021 as the pandemic continues to drive user-growth and international ARPU. This upside valuation reflects the possibility that another wave of infections from the new Covid-19 strain may prolong the need for telehealth services.

In our downside valuation case of \$195.9, we considered the possibility of a bounce-back recovery from an efficient and fault-free roll-out of the vaccine such that traditional healthcare may resume normal operations and thus lower the demand for telehealth services.



## VALUATION PREMIUM AGAINST PEERS

While Teledoc is the clear market leader in a rapidly-growing telehealth industry, the company still has several competitors to consider. These companies include MDLIVE, American Well, GoodRx, and Grand Rounds. The P/S ratio used for our valuation of TDOC was 22, which is above the industry average of 15.8, but lower than companies such as American Well and GoodRx. Our justification for giving TDOC a higher P/S ratio is due to Teladoc being the largest player in the telehealth sector by a considerable margin, as evidenced by their superior revenue growth.

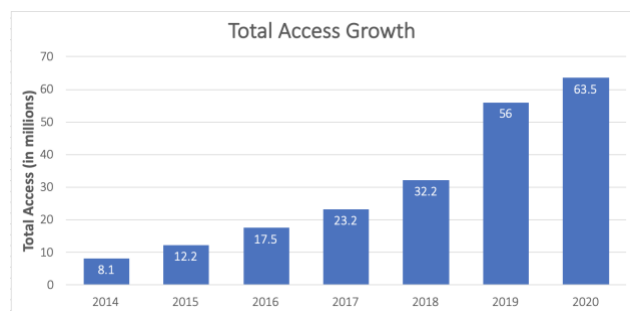


## STRONGER GLOBAL PRESENCE IN 2021

Overall, the outlook for Teladoc is positive as the only telehealth company to build a global presence, we believe Teladoc is poised for an even stronger position in the rapidly growing telehealth market moving forward.

### Increasing Volume

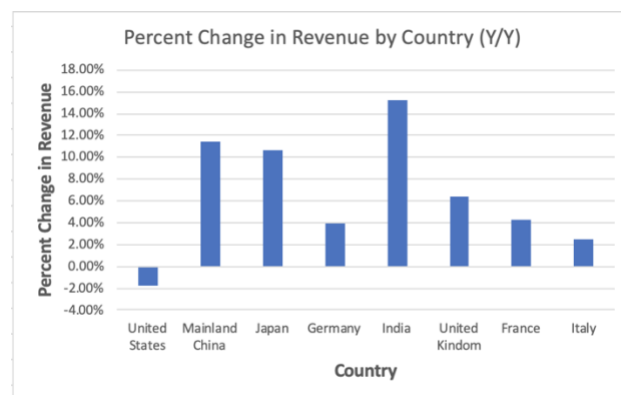
Teladoc's ability to provide users high-quality service anywhere and anytime will continue to attract a larger user base. This convenience will convince many patients to seek care for issues that may have otherwise gone untreated in the past due to the inconvenience of visiting a hospital or clinic. Additionally, physicians can now spend more time focusing on treating patients as there is less turn-around time between one visitor and the next. This increased volume has allowed Teladoc to experience an accelerated adoption of their platform as can be observed through the non-linear growth in total access and total visits since 2014.



### Global Reach

While Teladoc is an American company, their global presence cannot be overlooked. Through strategic mergers and acquisitions, Teladoc has successfully positioned itself to penetrate beyond the domestic market and into Asian, European, and Latin American countries. On top of that, Teladoc employs 2,400 employees and 50,000 clinicians around the world, allowing them to provide global service. As global market leaders in telehealth, alongside the increasing digitalization of services worldwide, we expect Teladoc to experience similar levels of growth abroad as they have domestically in the near future. While some countries outside of the United States are experiencing greater percent change in revenue, such as China, Japan, and India, all countries exhibited are showing positive revenue growth. In other words, while a

huge slice of Teladoc's revenue still comes from the domestic market, we can observe from the percent change in revenue that global expansion is heading towards the right direction.



## RISK FACTORS

### Service slowdown post-COVID

Teladoc may be at its current high performance levels right now due to the global pandemic since patients can't really go and visit their doctors in person. We feel that there is potential for a revenue downturn post-pandemic due to an increase in physical interactions.

### Privacy breach

The risk of privacy breach is potent to any online software system that stores tons of data. However, this risk is quite large in terms of Teladoc's future performance solely because of the type of data the system stores: patient health and history.

### Software imperfections

Similar to the risk of privacy breaches, software imperfections in Teladoc's platform could result in extreme potentially negative consequences due to the type of data being stored in servers regarding patient health and history.

### Inaccessibility to medical devices

Due to the remote nature of Teladoc's platform, doctors and certified professionals cannot use medical devices to get a gauge for their patients' hard medical statistics, such as heart rate, blood pressure, etc. This restrains patients to only using Teladoc for somewhat minor medical issues.