

GoodRx

## The duality of GoodRx: 4Q Preview

Maintain Rating: UNDERPERFORM | PO: 4.50 USD | Price: 6.54 USD

## Upside risk near-term vs. industry changes long-term

GoodRx will report its 4Q'23 next Thursday, February 29<sup>th</sup>, before market open. There are two key themes investors should monitor: 1) Commentary/disclosures around GoodRx's Integrated Savings Program (ISP) partnerships with CVS Health, Cigna and others; and 2) potential impacts from CVS' recently announced CostVantage plan (and other competitive developments). GoodRx's ISP partnerships could drive upside to 2024 Street estimates and will depend primarily on how many PBM lives have access to the product on January 1, 2024. On the other hand, CVS' CostVantage plan and other competitive developments could have a dramatic impact on GoodRx's model, but these potential impacts are out of scope of this quarterly call and won't begin to have an impact for at least a year. Upside risk to near-term numbers combined w/ business model risk beyond 2025 creates one of the more unique and challenging set-ups in our coverage. We maintain our Underperform rating and \$4.50 PO ahead of next week's earnings.

## New ISP partnerships may drive 2024 upside

In a note published last year ([link to note here](#)) we estimated GDRX could conservatively generate \$5-\$11MM of incremental EBIT for every 10MM commercial members in its new partnership programs. Assuming the CY24 roll-out of previously announced partnerships is available to ~15MM members, we estimate GDRX could add 9MM-18MM incremental prescriptions to FY24 with a \$8-\$16MM EBIT contribution. At that time, we noted the incremental EBIT partially de-risks the FY24 outlook given contribution could be 4-8% of consensus adj. EBIT or more. Any commentary on membership numbers, GoodRx's win-rate at the pharmacy counter (we estimate mid-single digit win rates), and impact to EBIT margins will be important.

## CostVantage, PBM reimbursement changes out of scope

In our downgrade note last month, we highlighted CVS' new pharmacy reimbursement model and growing competition from health plans and retail pharmacies offering its own discount cards ([link to our note here](#)). Taken together, the outlook for GoodRx is more uncertain than at any point during the company's short life as a public company, and we see near-term risks to valuation and intermediate-term risks to its earnings profile. We do not expect to gain any new information around these changes on next week's call.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.35	0.30	0.27	0.28	0.30
GAAP EPS	(0.07)	(0.07)	0.04	0.09	0.09
EPS Change (YoY)	-23.9%	-14.3%	-10.0%	3.7%	7.1%
Consensus EPS (Bloomberg)			0.27	0.28	0.35
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	18.7x	21.8x	24.2x	23.4x	21.8x
GAAP P/E	NM	NM	163.5x	72.7x	72.7x
EV / EBITDA*	11.9x	12.8x	12.7x	12.3x	11.9x
Free Cash Flow Yield*	5.3%	3.4%	5.3%	4.8%	5.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

23 February 2024

## Equity

**Allen Lutz, CFA**  
Research Analyst  
BofAS  
+1 646 855 4380  
[allen.lutz@bofa.com](mailto:allen.lutz@bofa.com)

**Hanna Lee**  
Research Analyst  
BofAS  
+1 646 855 3682  
[hanna.y.lee@bofa.com](mailto:hanna.y.lee@bofa.com)

**Dev Weerasuriya**  
Research Analyst  
BofAS  
+1 646 855 5707  
[dev.weerasuriya@bofa.com](mailto:dev.weerasuriya@bofa.com)

## Stock Data

Price	6.54 USD
Price Objective	4.50 USD
Date Established	2-Jan-2024
Investment Opinion	C-3-9
52-Week Range	4.14 USD - 9.37 USD
Mkt Val (mn) / Shares Out (mn)	2,715 USD / 415.1
Free Float	80.8%
Average Daily Value (mn)	9.58 USD
BofA Ticker / Exchange	GDRX / NAS
Bloomberg / Reuters	GDRX US / GDRX.OQ
ROE (2023E)	14.0%
Net Dbt to Eqty (Dec-2022A)	-12.1%
ESGMeter™	Medium

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ISP – Integrated Savings Plan

PBM – Pharmacy Benefit Manager

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# iQprofile<sup>SM</sup> GoodRx

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.2%	10.0%	10.3%	9.7%	9.9%
Return on Equity	19.1%	15.3%	14.0%	14.6%	14.8%
Operating Margin	28.6%	23.8%	22.9%	22.3%	22.2%
Free Cash Flow	144	92	145	131	144

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	1.2x	1.8x	1.7x	1.7x
Asset Replacement Ratio	2.1x	1.8x	1.4x	1.4x	1.5x
Tax Rate	22.6%	20.1%	24.4%	24.1%	24.3%
Net Debt-to-Equity Ratio	-33.5%	-12.1%	-4.3%	-1.7%	-1.0%
Interest Cover	9.0x	5.3x	3.1x	4.6x	4.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	745	767	760	798	830
% Change	35.3%	2.8%	-0.9%	5.0%	4.0%
Gross Profit	700	702	695	733	762
% Change	34.3%	0.3%	-1.1%	5.4%	4.0%
EBITDA	230	213	216	223	230
% Change	12.9%	-7.0%	1.1%	3.2%	3.2%
Net Interest & Other Income	(24)	(25)	(26)	(26)	(24)
<b>Net Income (Adjusted)</b>	<b>147</b>	<b>126</b>	<b>112</b>	<b>115</b>	<b>121</b>
<b>% Change</b>	<b>10.3%</b>	<b>-14.4%</b>	<b>-11.3%</b>	<b>3.2%</b>	<b>5.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	147	126	112	115	121
Depreciation & Amortization	16	31	44	45	46
Change in Working Capital	(12)	(20)	1	(2)	4
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	27	10	49	37	40
Capital Expenditure	(34)	(55)	(61)	(64)	(66)
<b>Free Cash Flow</b>	<b>144</b>	<b>92</b>	<b>145</b>	<b>131</b>	<b>144</b>
<b>% Change</b>	<b>30.3%</b>	<b>-36.6%</b>	<b>58.0%</b>	<b>-9.5%</b>	<b>10.3%</b>
Share / Issue Repurchase	35	(93)	(100)	(100)	(100)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(7)	(7)	(10)	(10)	(10)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	941	757	682	653	637
Trade Receivables	118	117	119	126	129
Other Current Assets	30	45	43	43	43
Property, Plant & Equipment	22	20	29	49	68
Other Non-Current Assets	497	665	681	703	723
<b>Total Assets</b>	<b>1,608</b>	<b>1,605</b>	<b>1,553</b>	<b>1,574</b>	<b>1,601</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	74	69	67	68	69
Long-Term Debt	663	659	649	639	629
Other Non-Current Liabilities	39	62	61	66	70
<b>Total Liabilities</b>	<b>776</b>	<b>790</b>	<b>777</b>	<b>773</b>	<b>768</b>
<b>Total Equity</b>	<b>832</b>	<b>815</b>	<b>776</b>	<b>802</b>	<b>833</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,608</b>	<b>1,605</b>	<b>1,553</b>	<b>1,574</b>	<b>1,601</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Internet/e-Commerce

## Company Description

GDRX offers a suite of prescription solutions that provide consumers with higher transparency around prescription drug prices, which can help lower costs. The complexity of healthcare and prescriptions often leads to confusion around drug pricing at the point of sale. In turn, inaccessibility to drugs due to high costs is a leading factor in prescription abandonment, leading to worse medical outcomes and costs. By improving access to medication, GDRX drives savings across the healthcare space.

## Investment Rationale

While GDRX remains the leading marketplace for prescription transparency, we view risks to the size of the addressable market which could impact the company's earnings profile over time. We believe the multiple may come under pressure given recent announcements from some of the largest stakeholders in the pharmacy ecosystem. The rapidly changing competitive landscape including the introduction of competing offerings from large PBMs and retail pharmacies creates near-term risks to valuation.

## Stock Data

Average Daily Volume 1,465,157

## Quarterly Earnings Estimates

	2022	2023
Q1	0.10A	0.07A
Q2	0.06A	0.07A
Q3	0.07A	0.06A
Q4	0.07A	0.07E

## Price objective basis & risk

### GoodRx (GDRX)

Our \$4.50 price objective is based on 8.5x our CY24E EBITDA . We used a blended multiple to arrive at our PO, evaluating both health IT companies as well as a wide range of internet companies that have a combination of technology/consumer solutions. Our target multiple is below the blended peer group to account for the outlook uncertainty that has arisen following recent announcements from large stakeholders in the pharmacy ecosystem. We think EV/EBITDA is the most appropriate metric given the profitable nature of GDRX.

Downside risks to GDRX are the inability to drive prescription volumes through pharmacies/repeatability of model as well as failure to gain traction in subscription services. The rapidly changing competitive landscape including the introduction of competing offerings from large pharmacy benefit managers (PBMs) and retail pharmacies could drive lower and unpredictable utilization trends. We also see downside risks in the inability to gain traction in telehealth and pharma manufacturing services. Finally, any meaningful shift in the drug pricing paradigm could potentially lower the value of GDRX's transparency discount model. Upside risks include higher-than-expected use of repeatability/subscription options and outperformance in utilization and scripts in a post-Covid normalization. Additionally, the shift to the new PBM partnership model could drive incremental upside.

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	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
<b>NEUTRAL</b>				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
<b>UNDERPERFORM</b>				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA



**US - Healthcare Technology & Distribution Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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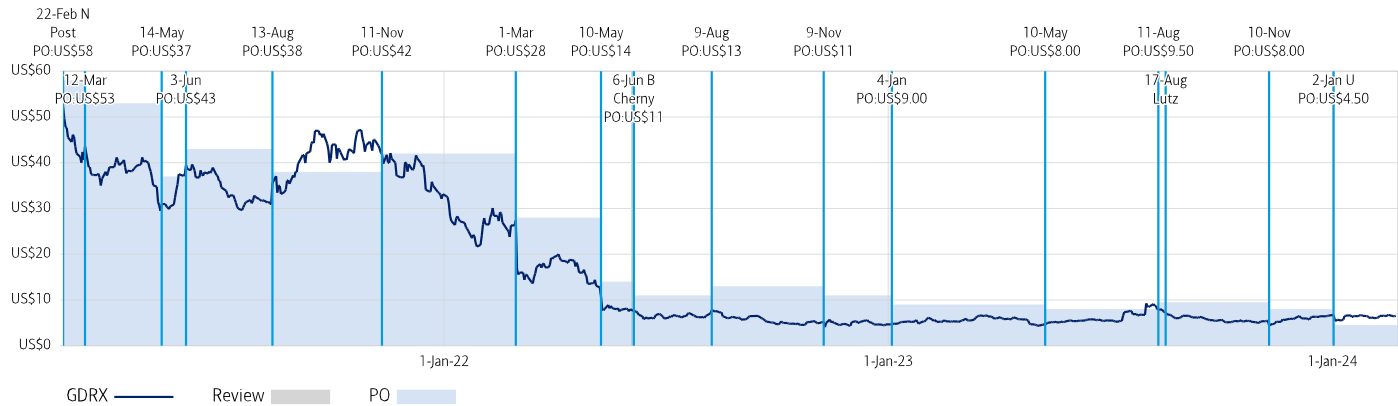
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### GoodRx (GDRX) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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