

GoodRx

Less volatility could mean more volatility for GoodRx: Downgrade to Underperform

Rating Change: UNDERPERFORM | PO: 4.50 USD | Price: 6.70 USD

Competitive threats create downside revision risk in 2025

We downgrade GoodRx to Underperform from Buy driven by uncertainty created by recent announcements from some of the largest stakeholders in the pharmacy ecosystem. GoodRx allows patients to save money on prescription drugs at the pharmacy counter by leveraging an ecosystem of PBM network rates that can often be cheaper than a patient's rate through insurance. Over the past year, there have been several changes to the competitive landscape including the introduction of competing offerings from some of the largest PBMs and retail pharmacies. And last month, CVS announced CostVantage, a new pharmacy reimbursement model that could reduce volatility of PBM reimbursement rates. 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. Our new \$4.50 PO (previously \$8) represents 8.5x CY24 EBITDA. We see downside risk to GoodRx' earnings, with risks beginning in 2025 if CVS' model is broadly adopted.

GoodRx makes money from PBM reimbursement volatility

One of the main ways GoodRx makes money is when PBM reimbursements vary substantially. GoodRx negotiates network fill rates with several PBMs and provides consumers access to these rates through its app or discount card. Under today's model, prices for individual drugs can vary by tens of dollars or more per prescription because reimbursements are not standardized. We dive into an example in this note (Exhibit 2). CVS' new model could standardize PBM reimbursements, which could cause the variability of PBM network prices to dissipate. GoodRx' value proposition to patients could weaken if PBMs reimburse pharmacies using a more consistent framework.

PBM/retail pharmacy initiatives threaten GoodRx's model

Over the past year, OptumRx (owned by UnitedHealth) and CaredonRx (owned by Elevance) have introduced new discount programs that are directly integrated into their pharmacy benefits. In November, Walgreens launched the Rx Savings Finder, which allows patients to access multiple third-party discount cards including GoodRx. These offerings increase competition and reduce the likelihood that GoodRx wins at the pharmacy counter and could put pressure on discount card economics. The most likely winner from these changes could be the consumer through lower pharmacy prices.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.35	0.30	0.27	0.27	0.29
GAAP EPS	(0.07)	(0.07)	0.04	0.09	0.09
EPS Change (YoY)	-23.9%	-14.3%	-10.0%	0%	7.4%
Consensus EPS (Bloomberg)			0.26	0.27	0.34
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	19.1x	22.3x	24.8x	24.8x	23.1x
GAAP P/E	NM	NM	167.5x	74.4x	74.4x
EV / EBITDA*	12.2x	13.2x	13.1x	12.9x	12.5x
Free Cash Flow Yield*	5.2%	3.3%	5.2%	4.7%	5.1%

* For full definitions of *IQmethod*SM measures, see page 13.

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Timestamp: 02 January 2024 06:00AM EST

02 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-3-9
Inv. Rating	BUY	UNDERPERFORM
Price Obj.	8.00	4.50
2024E Rev (m)	800.1	782.6
2025E Rev (m)	892.1	813.6
2024E EPS	0.29	0.27
2025E EPS	0.39	0.29

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Stock Data

Price	6.70 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
Mrkt Val (mn) / Shares Out (mn)	2,781 USD / 415.1
Free Float	80.8%
Average Daily Value (mn)	10.04 USD
BofA Ticker / Exchange	GDRX / NAS
Bloomberg / Reuters	GDRX US / GDRX.OQ
ROE (2023E)	13.9%
Net Dbt to Eqty (Dec-2022A)	-12.1%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

PBM – pharmacy benefit manager

iQprofileSM GoodRx

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.2%	10.0%	10.2%	9.5%	9.7%
Return on Equity	19.1%	15.3%	13.9%	14.3%	14.6%
Operating Margin	28.6%	23.8%	22.9%	22.3%	22.2%
Free Cash Flow	144	92	145	131	142

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	1.2x	1.9x	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%	24.2%	24.4%
Net Debt-to-Equity Ratio	-33.5%	-12.1%	-4.3%	-1.8%	-0.7%
Interest Cover	9.0x	5.3x	3.1x	4.5x	4.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	745	767	755	783	814
% Change	35.3%	2.8%	-1.5%	3.6%	4.0%
Gross Profit	700	702	691	718	747
% Change	34.3%	0.3%	-1.7%	4.0%	4.0%
EBITDA	230	213	215	218	225
% Change	12.9%	-7.0%	0.5%	1.8%	3.2%
Net Interest & Other Income	(24)	(25)	(26)	(26)	(24)
Net Income (Adjusted)	147	126	111	113	118
% Change	10.3%	-14.4%	-11.9%	1.5%	5.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	147	126	111	113	118
Depreciation & Amortization	16	31	43	44	45
Change in Working Capital	(12)	(20)	2	0	4
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	27	10	49	37	40
Capital Expenditure	(34)	(55)	(60)	(63)	(65)
Free Cash Flow	144	92	145	131	142
% Change	30.3%	-36.6%	58.3%	-9.8%	8.5%
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	635
Trade Receivables	118	117	119	124	127
Other Current Assets	30	45	43	42	42
Property, Plant & Equipment	22	20	29	48	67
Other Non-Current Assets	497	665	680	701	721
Total Assets	1,608	1,605	1,552	1,568	1,592
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	74	69	67	67	68
Long-Term Debt	663	659	649	639	629
Other Non-Current Liabilities	39	62	61	65	69
Total Liabilities	776	790	776	770	765
Total Equity	832	815	776	798	827
Total Equity & Liabilities	1,608	1,605	1,552	1,568	1,592

* For full definitions of iQmethodSM measures, see page 13.

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 see 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 1,497,927

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

New models, competition, & less visibility

The discount card landscape has rapidly changed over the past year, with CVS' CostVantage announcement representing a potentially significant evolution of the PBM/pharmacy reimbursement model. In many cases, GoodRx makes money when there are significant differences between reimbursement rates across PBMs. If CVS' new product is broadly adopted by pharmacies and PBMs, the volatility between PBM reimbursements could dissipate. Without significant differences between PBM reimbursements, GoodRx's value in the ecosystem could contract over time.

While CVS' new product will not go into effect until 2025, we see increasing risk to the multiple investors are willing to pay for GoodRx' earnings stream. Furthermore, the competitive landscape has also evolved rapidly over the past year, creating an even more uncertain outlook. PBMs like OptumRx/CarelonRx are offering their own discount programs and retailers like Walgreens are offering similar alternatives. For these PBMs and retail pharmacies, the goal is to keep prescriptions and associated economics within their own ecosystem.

Taken together, the outlook for GoodRx is as uncertain as at any time during the company's life as a public company. Given this uncertainty, we downgrade shares to Underperform and reduce our PO to \$4.50, 8-9x CY24 EV/EBITDA.

CVS' new pharmacy reimbursement model could reduce reimbursement volatility

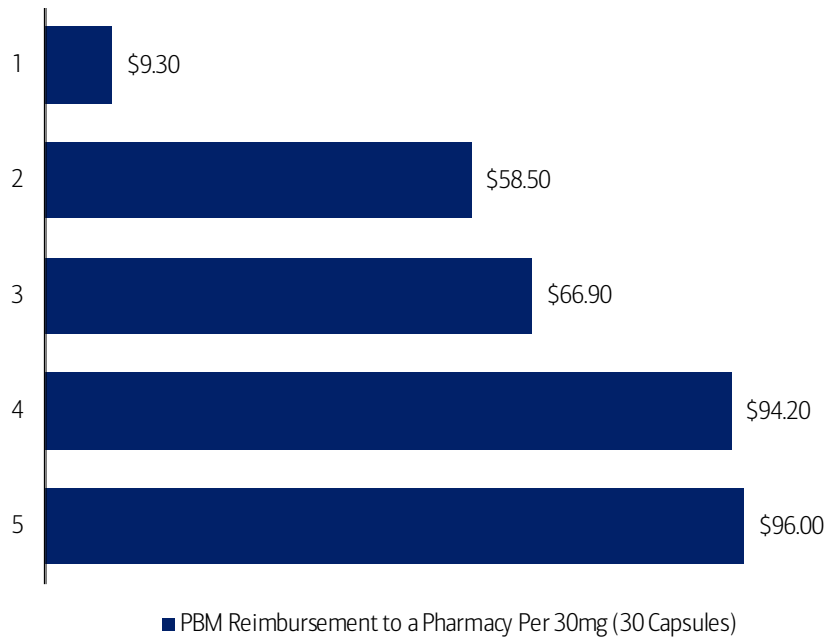
At CVS' December 2023 Investor Day, the company introduced a new pharmacy reimbursement model, "CostVantage", representing a major shift in how pharmacies contract with PBMs. In the new model, CVS' pharmacies will define their reimbursement as (the price at which a pharmacy acquires the drug * a mark-up %) + a patient management fee. If PBMs and pharmacies accept this new model, it could standardize the prices pharmacies are paid for drugs. This would cause relative differences in drug reimbursement between PBMs and pharmacies to dissipate.

Pharmacy reimbursements vary widely today, benefitting GoodRx

Today's PBM-to-pharmacy reimbursement model puts immense pressure on retail pharmacies because reimbursement rates set by PBMs are often unrelated to the price a pharmacy pays to acquire a drug. For example, a pharmacy may acquire generic Cymbalta (duloxetine) for ~\$50. In the average situation, the pharmacy will be reimbursed \$60-\$65, which equates to a \$10-\$15 gross profit on the prescription.

However, PBM reimbursements can vary widely. 3 Axis Advisors, a healthcare consulting firm, recently published an analysis of how volatile PBM reimbursements can be. For example, Exhibit 1 shows the reimbursement rates by a single PBM to a single pharmacy on the same day for the same drug. This chart shows the "ingredient cost" component of pharmacy reimbursement, which is the vast majority of a pharmacy's revenue. The other component of pharmacy revenue is a dispensing fee, which is typically less than \$1. These dramatic differences in reimbursement can be due to different plan designs (between the PBM and the plan sponsor) as well as different rebate/discount economics (between the PBM and the drug manufacturer).

Exhibit 1: PBM reimbursement to the same pharmacy, same PBM, same day, and same drug
The current PBM/pharmacy model results in material variations in pharmacy reimbursements



Source: Three Axis Advisors, Prepared for American Pharmacy Cooperative, Inc. September 2023

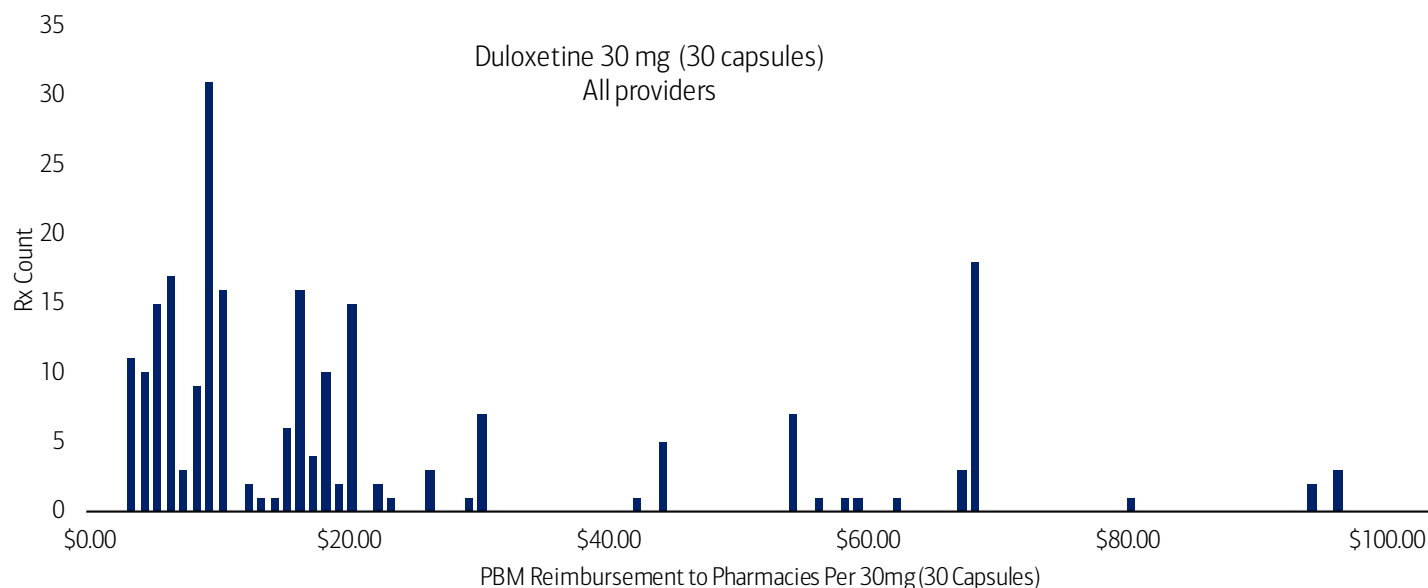
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Exhibit 2 provides an even broader look into reimbursements across multiple PBMs and pharmacies for the same drug on the same day. Under today’s model, one pharmacy can be reimbursed nearly \$100 for a script of Duloxetine while another can be reimbursed \$5. This variability of PBM reimbursement to pharmacies is one of the primary reasons a patient’s responsibility at the pharmacy counter can vary so dramatically. This volatility of PBM reimbursement creates a significant opportunity for GoodRx. When PBM reimbursements are low and a patient’s copayment is high, GoodRx can often find better prices outside of a patient’s pharmacy benefit.



Exhibit 2: PBM Reimbursement variance among pharmacies for duloxetine for the same PBM on the same day

Pharmacy reimbursements can vary widely, driving volatility in pharmacy profit margins per script



Source: Three Axis Advisors, Prepared for American Pharmacy Cooperative, Inc. September 2023

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GoodRx benefits from volatility because it sources multiple PBM rates

GoodRx partners with multiple PBMs to provide pricing at different pharmacies in its app. In Exhibit 3, we list hypothetical PBM reimbursement rates from CVS, Cigna, MedImpact and Navitus to three different pharmacies. The rates quoted in Exhibit 3 represent the amount paid by the patient. This amount will be split between the PBM, the retail pharmacy, and GoodRx.

For this example, Cigna's PBM quotes the consumer's price at pharmacy 1 at \$22, pharmacy 2 at \$19 and pharmacy 3 at \$48. GoodRx captures the same information for the other three PBMs. GoodRx's app shows consumers only the lowest patient copay at each pharmacy. For example, at Pharmacy 1, Cigna's network rate is the lowest at \$22. If the patient fills its prescription at Pharmacy 1 and uses GoodRx, Cigna will win that script.

A patient will select GoodRx when the price quoted in the GoodRx app is less than the copay using their own pharmacy benefit. For example, in Exhibit 3, the patient's copay under insurance is \$20. When GoodRx wins, the patient's copayment will be less than \$20 (otherwise the patient would just use their insurance). If the patient copayment shown in GoodRx's app is less than \$20, a PBM has contracted with that specific pharmacy at a rate lower than \$20.

If that price is \$13, the PBM, GoodRx and the retail pharmacy will split that sum. GoodRx typically captures ~15% ($15\% \times \$13 = \1.95); the retail pharmacy may get \$7-\$9, and the PBM will capture the residual \$2.05-\$4.05.

Exhibit 3: Sample Insurance/GoodRx based on a \$20 insurance copay

Less volatility in PBM reimbursement rates weakens the incentive for patients to shop around

	Current Model	Future Model	
Insurance Copay	\$20.0	\$20.0	No change to insurance copay
GoodRx Quoted PBM Rates By Pharmacy			GoodRx partners with each PBM for rates at each pharmacy Only the lowest price is quoted in the GoodRx app
CVS Caremark			
Pharmacy 1	\$51.00	\$17.00	
Pharmacy 2	13.00	21.00	
Pharmacy 3	26.00	20.00	
Cigna Express Scripts			
Pharmacy 1	\$22.00	\$18.00	
Pharmacy 2	19.00	17.50	
Pharmacy 3	48.00	19.00	
MedImpact			
Pharmacy 1	\$41.00	\$21.00	
Pharmacy 2	28.00	18.00	
Pharmacy 3	16.00	18.00	
Navitus			
Pharmacy 1	\$23.00	\$17.50	
Pharmacy 2	22.00	20.00	
Pharmacy 3	15.00	18.00	
Lowest Patient Copay			What a patient sees in the GoodRx app Less volatility between pharmacy options creates a weaker incentive for patients to shop around for better prices
Pharmacy 1	\$22.00	\$17.00	
Pharmacy 2	13.00	17.50	
Pharmacy 3	26.00	18.00	
Standard Deviation	\$12.81	\$1.41	
Savings using GoodRx	\$7.00	\$3.00	

Source: BofA Global Research

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In the “Future Model” portion of Exhibit 3, reimbursement rates between different PBMs and pharmacies would tighten around an estimated acquisition cost * a mark-up + a transparent fee. If PBM reimbursements become more predictable, consumers could see relatively similar pricing between PBMs and pharmacies in the GoodRx app. If prices in the GoodRx app are relatively similar, there becomes a smaller incentive to shop around for better prices. More importantly, less volatility of PBM reimbursement rates may also mean a smaller likelihood the patient can capture a relatively low price using the GoodRx app.

Today’s PBM reimbursement model creates the opportunity for GoodRx to leverage alternative prices. Imagine walking into a pharmacy and the price of a loaf of bread varied as dramatically as the drug in Exhibit 2. Over time, consumers would leverage the internet to identify where bread was the cheapest and adjust their spending patterns accordingly. Consumers generally know how much bread should cost.

CVS’ new CostVantage plan would require PBMs to reimburse CVS’ pharmacies at a set formula based on estimated acquisition costs. Using the generic Cymbalta example, let’s assume that CVS’ retail pharmacy acquires Cymbalta for \$50. A PBM contracting with CVS would reimburse the pharmacy at (the drug price * a mark-up %) + a patient management fee. Let’s assume the mark-up is 15% and the patient management fee is \$5. Smaller pharmacies may only be able to negotiate a 13.0-13.5% mark-up due to less scale. The biggest takeaway from Exhibit 4 is that each PBM reimbursement is highly concentrated around \$60-\$65. This is much different than in Exhibit 2 where PBM reimbursements are broadly dispersed.

Exhibit 4: Example Reimbursement of generic Cymbalta if CVS' model is broadly adopted

New model would substantially reduce reimbursement volatility

	CVS & Red Oak	Mid-sized Pharmacy	Independent Pharmacy	
Pharmacy acquisition cost	\$50.0	\$53.0	\$54.0	CVS/Red Oak buy generics better than peers
Negotiated Mark-up	15.0%	13.5%	13.0%	Pharmacies negotiate mark-up rates w/ each PBM
Ingredient Cost Reimbursement	57.5	60.2	61.0	
Patient Management Fee	5.0	5.0	5.0	
Total PBM Reimbursement	\$62.50	\$65.16	\$66.02	Limited volatility of PBM reimbursement
Pharmacy Economics				
Total Revenue	\$62.5	\$65.2	\$66.0	
Total COGS	50.0	53.0	54.0	
Gross Profit	\$12.5	\$12.2	\$12.0	
Margin %	20.0%	18.7%	18.2%	

Source: BofA Global Research estimates

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If PBM reimbursements are highly predictable and tightly concentrated around the acquisition cost plus a spread, we would expect the ability to leverage another PBMs' network reimbursement (GoodRx's business model) could be impacted. For example, today the GoodRx app may show patients a drug priced at \$10 at Walgreens and \$40 at Walmart. If CVS' new model is broadly adopted, that same prescription could be \$10 at Walgreens and \$12 at Walmart. If there is more limited volatility of drug prices, it could weaken the usefulness of drug discount cards.

Competition/discount card integration creates new issues**Expect less price discovery at the pharmacy counter**

At the same time CVS' new offering could reduce the volatility of PBM network rates. PBMs like OptumRx and CarelonRx, and retail pharmacies like Walgreens are introducing their own discount card programs. These programs further crowdsource third-party pricing and either integrate it into the pharmacy benefit (as in the case of OptumRx/CarelonRx) or offer it to patients at the pharmacy counter (as in the case of Walgreens). These programs will reduce prices at the pharmacy counter for patients using these pharmacy benefits. These lower prices will make it less likely patients will turn to GoodRx.

The goal of these programs is to retain script volume, particularly script volume that was captured by GoodRx over the past few years. PBMs are willing to accept a slightly lower reimbursement to compete more aggressively as long as they are able to recapture the prescription. These new offerings are likely to eat away at some of the economics that discount card programs capture today, as PBMs would be happy to regain a prescription as well as avoid the ~15% discount card tax by providing the service itself.

Putting it all together: Smaller addressable market

At this point, it is very difficult to frame how GoodRx's model could be impacted in 2025. OptumRx has ~28MM members and CarelonRx has ~27MM members today. OptumRx's discount card program, Price Edge, was launched in January 2023 and management provided commentary in 3Q'23 that millions of consumers are accessing the tool. CarelonRx's drug cost saving program, EnsureRx, is expected to launch in early



2024. While these discount card programs are unlikely to benefit all members immediately, contributions from these programs could ramp over time. Taking a step back, these changes will likely impact the total size of the addressable market for GoodRx.

Other things to consider and where we could be wrong

Unclear if CVS' new model will gain broader adoption

CVS announced its new pharmacy reimbursement model about one month ago, and it is not clear if the new model will be widely adopted. CVS announced it is launching with its commercial payers first, but it is difficult to know at this point if other large PBMs will agree to this model. CVS has substantial industry power and could force the industry to adopt this change; however, there is execution risk. Pharmacies have a weaker position in the supply chain than PBMs and that could impact CVS' ability to change how PBMs reimburse pharmacies. For example, Walgreens attempted to push back against aggressive PBM reimbursement dynamics in 2012 and left Express Scripts' network. This meant Express Scripts patients could not use insurance to fill prescriptions at Walgreens pharmacies. Ultimately Walgreens re-entered the Express Scripts network later that year after experiencing significant volume attrition. This example highlights how much leverage PBMs have with pharmacies in the supply chain.

PBM reimbursements are different than patient copays

The rates at which PBMs reimburse pharmacies are different from the rates patients pay for drugs at the pharmacy counter. For example, PBM reimbursements to pharmacies can be tied to decisions by employers or plan sponsors or by rebate/discount economics between the PBM and the drug manufacturer. Patient copays can be tied to a patient's benefit design. For example, a patient with a \$2,000 deductible may experience substantial out-of-pocket costs for drugs. PBM reimbursement rates to pharmacies and patient copayments can vary for different reasons. When a patient pays a copay to the pharmacy, those funds technically flow back to the PBM and are unrelated to the reimbursement rate that a PBM provides to a pharmacy.

Adjusting 2024-2026 estimates

We broadly reduce our 2024-2026 estimates for revenue and earnings growth. We reduce our 2024/2025/2026 revenue estimates from \$800.1MM/\$892.1MM/\$998.6MM to \$782.6MM/\$813.6MM/\$846.3MM, adjusted EBITDA from \$228MM/\$281MM/\$329MM to \$218.3MM/\$225.4MM/\$232.7MM and adjusted EPS from \$0.29/\$0.39/\$0.48 to \$0.27/\$0.29/\$0.30. The reduction in revenue/EBITDA/EPS growth is primarily driven by greater uncertainty about GoodRx's future win rate, driven by recent announcements from other stakeholders in the pharmacy ecosystem (PBMs, and retail pharmacies).

A review of major competitive changes over the past year

CVS introduces its CostVantage program

At CVS' December Investor Day, the company introduced a new CostVantage pharmacy reimbursement model representing a major shift toward providing greater transparency in drug pricing. In the new model, CVS' pharmacies will define its reimbursement as (the drug price * a mark-up %) + a patient management fee. If adopted more broadly, this new model could reduce volatility of per script economics for pharmacies which could theoretically help normalize reimbursement pressure over time. CVS was the latest company to respond to opaque pharmaceutical prices and PBM business practices, which have been under greater scrutiny under recent healthcare legislation. Ultimately this new model could have outsized impact on the entire downstream prescription ecosystem (PBM/pharmacy/discount card vendors) and is something we will continue to evaluate.

CVS/Express Scripts/MedImpact/Navitus Partnerships

We previously wrote that these partnerships could be positive (and we still expect positive near-term revenue contribution). The risk, however, is that the integration of

GoodRx's benefit into the plan design weakens the incentive for patients to open the GoodRx app at the pharmacy counter. While GoodRx captures the economics on the back end, these arrangements could actually weaken GoodRx's position with consumers over time.

Direct contracting with CVS and Walgreens

Beginning in late 2022, GoodRx began to enter into direct contractual agreements with pharmacies, which generally provide for lower fees per transaction relative to Rx's filled through agreements with PBMs. The contracts with pharmacies provide consumers with access to discounted prices and GDRX earns a fixed fee per transaction from pharmacies when the Rx is filled using a GDRX code. Having a direct contracting approach helps to ensure network stability for GDRX while increasing market share for retailers. Despite the short-term headwinds given the lower Prescription Transactions Revenue (PTR) per Monthly Active Consumers (MAC) dynamics, the company believes this model is the right approach for the business longer term. While GDRX has not disclosed a full list of pharmacies with which it works with on a direct contracting basis, GDRX has referenced both Walgreens and CVS in this context.

OptumRx and CarelonRx offering competitive products

In late January, UnitedHealth's OptumRx launched Price Edge, a tool for OptumRx members to compare drug pricing for traditional generic drugs with insurance pricing. Price Edge scans available prices and automatically provides the lowest available price for a member, even if the lowest cost is outside of a member's insurance benefit. Optum also noted its pharmacy benefit offers the lowest price nearly 90% of the time. Transactions initiated through PriceRx are applied toward a member's deductible and out-of-pocket maximum. Additionally, plan sponsors do not incur additional administrative fees and members can access the tool within their plan at no cost. The rollout of the new tool adds to OptumRx's suite of products including PreCheck MyScript, which helps to provide real-time information on patients' pharmacy benefits and formulary.

In September, CarelonRx announced the launch of EnsureRx, a cost savings program that automatically applies the lowest cost for CarelonRx members on select generic medications at the pharmacy counter. EnsureRx will be available at no cost to commercial members in early 2024 and will be automatically integrated as a benefit. The program covers 50 generic drugs, with medications filled through the program applied to a member's deductible or out-of-pocket maximum. Through the program, members can preview medication pricing at various pharmacies via the Sydney Health app, CarelonRx website, Anthem website, or through customer service.

Walgreens offering its own discount card

At the end of November, Walgreens announced the launch of Rx Savings Finder, a free digital tool for customers to access savings on prescriptions. Rx Savings Finder finds third-party discount cards for customers to access transparent pricing and save on thousands of medications. Patients can search for the lowest price on an Rx, access free coupons via text message/email, and present the coupon at a WBA pharmacy to apply the savings to the medication. This tool allows patients to access pricing from companies like GoodRx (GDRX) and Inside Rx (owned by Cigna) as well as many others (Exhibit 5). The announcement may help WBA retain/attract incremental Rx volume, given the wide net of its discount card tool.

Exhibit 5: Prescription coupons for Atorvastatin Calcium (generic Lipitor) via Rx Savings Finder

Note that GoodRx is an option within Walgreens' new product

Prescription Coupon Price	Coupon Provider
\$13.95	GlicRx
\$13.97	BuzzRx
\$14.33	Pilly
\$15.33	SingleCare
\$21.25	GoodRx



Exhibit 5: Prescription coupons for Atorvastatin Calcium (generic Lipitor) via Rx Savings Finder

Note that GoodRx is an option within Walgreens' new product

Prescription Coupon Price	Coupon Provider
\$50.13	InsideRx
\$53.94	America's Pharmacy
\$54.18	ScriptSave WellRx
\$55.87	Familywise

Source: Company Website

*Prescription coupon price based on pricing obtained on 11/30/23 for Atorvastatin Calcium in 40mg tablet form (30 count)

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In September, Walgreens partnered with GoodRx to provide savings on select generics across a few high volume categories (see our [note](#)). The goal of Walgreens' partnership with GoodRx is to retain volume and the duration of the partnership is limited.

Valuation

We evaluated both healthcare IT (HCIT) companies and a wide range of internet companies with a combination of technology/consumer solutions for our target multiple. GDRX currently trades at ~11.8x CY24 EV/EBITDA, at the low end of HCIT and Internet peer groups which trade at 6-22x and 6-25x, respectively. We believe that GDRX should trade at the low end of the peer groups given the uncertainty related to the company's intermediate term growth rate and margin profile. Our estimates reflect a slight contraction in EBITDA margins over time given these uncertain variables around partnership models and ongoing competitive threats. Given these factors, an 8-9x CY24 EV/EBITDA multiple appears reasonable as GDRX faces greater outlook uncertainty following recent announcements from large stakeholders in the pharmacy ecosystem.

Exhibit 6: GoodRx Comp Sheet

GDRX currently trades slightly above healthcare IT peers and below Internet peers on an EV/EBITDA basis

(\$ in millions, except per share data)

\$ in millions, except per share data)												
Company	Ticker	Stock Price		Enterprise Value	Enterprise Value to				Revenue Growth		EBITDA	Margin
		12/28/23	Market Cap		CY23E Revenue	CY23E Revenue	CY23E EBITDA	CY24E EBITDA	CY23E	CY24 E	CY23E	CY24E
Healthcare IT												
Accolade	ACCD	\$12.85	979.6	1,001.2	2.4x	2.0x	N.M.	N.M.	13.6%	19.5%	(3.3%)	2.2%
Amwell	AMWL	1.57	399.8	(5.8)	0.0x	0.0x	0.0x	0.0x	(6.7%)	5.1%	(63.4%)	(45.9%)
Allscripts	MDRX	10.48	1,145.0	869.9	1.4x	1.3x	5.2x	5.0x	2.4%	8.6%	26.6%	25.7%
Clover Health	CLOV	0.97	387.4	364.4	0.2x	0.2x	N.M.	N.M.	(42.5%)	(15.5%)	(3.3%)	(0.7%)
Evolent Health	EVH	33.52	3,853.4	4,474.9	2.3x	1.9x	22.9x	17.2x	44.2%	19.4%	10.0%	11.1%
Health Catalyst	HCAT	9.57	550.8	452.3	1.5x	1.4x	40.1x	21.9x	6.6%	11.5%	3.8%	6.3%
HealthEquity	HQY	66.33	5,691.2	6,291.7	6.3x	5.5x	18.0x	14.4x	15.2%	15.9%	35.2%	37.9%
Phreesia	PHR	23.59	1,312.4	1,223.4	3.4x	2.9x	N.M.	N.M.	26.3%	20.7%	(12.2%)	2.0%
Premier	PINC	22.48	2,690.2	3,019.7	2.3x	2.2x	6.4x	6.8x	(6.8%)	0.5%	35.2%	33.2%
Progeny	PGNY	37.75	3,617.8	3,301.8	3.0x	2.5x	17.6x	14.4x	38.8%	20.0%	17.2%	17.5%
R1 RCM	RCM	10.73	4,499.2	6,149.4	2.7x	2.3x	10.1x	8.9x	25.4%	16.7%	26.9%	26.1%
Teladoc	TDOC	22.10	3,658.8	4,211.3	1.6x	1.5x	13.2x	11.7x	8.6%	6.2%	12.2%	12.9%
				Mean	2.3x	2.0x	14.8x	11.2x	10.4%	10.7%	7.1%	10.7%
				Median	2.3x	2.0x	13.2x	11.7x	11.1%	13.7%	11.1%	12.0%
Internet												
Amazon	AMZN	\$153.38	1,585,033.8	1,673,849.8	2.9x	2.6x	15.8x	13.3x	11.0%	11.7%	18.5%	19.7%
Google	GOOG	141.28	1,638,709.1	1,548,220.1	5.1x	4.5x	12.6x	11.1x	8.2%	11.5%	40.0%	40.9%
Zillow	Z	58.85	13,324.3	11,956.3	6.2x	5.6x	31.6x	24.7x	(69.0%)	11.3%	19.7%	22.6%
Etsy	ETSY	81.92	9,809.6	11,221.8	4.1x	3.9x	15.1x	14.3x	6.4%	5.4%	27.2%	27.3%
Chewy	CHWY	24.60	2,957.4	2,555.6	0.2x	0.2x	7.5x	6.3x	9.9%	5.3%	3.1%	3.5%
Pinterest	PINS	37.27	21,853.0	19,690.6	6.4x	5.5x	29.2x	22.3x	9.2%	17.5%	22.0%	24.6%
Fiverr	FVRR	28.07	1,077.3	1,141.6	3.1x	2.8x	19.3x	14.8x	7.4%	12.8%	16.3%	18.9%
Lending Tree	TREE	31.25	406.3	950.2	1.4x	1.3x	12.2x	10.4x	(31.4%)	5.0%	11.5%	12.9%
Cargurus	CARG	24.49	2,357.7	2,104.2	2.3x	2.1x	11.3x	10.5x	(45.0%)	7.8%	20.4%	20.5%
Booking	BKNG	3,550.47	123,875.4	124,241.4	5.8x	5.3x	17.5x	15.2x	24.5%	10.9%	33.3%	34.6%
				Mean	3.8x	3.4x	17.2x	14.3x	(6.8%)	9.9%	21.2%	22.5%
				Median	3.6x	3.3x	15.5x	13.8x	7.8%	11.1%	20.1%	21.6%
GoodRx	GDRX	\$6.60	2,775.9	2,636.8	3.5x	3.4x	12.4x	11.8x	-2.3%	4.7%	28.3%	28.5%

Exhibit 6: GoodRx Comp Sheet

GDRX currently trades slightly above healthcare IT peers and below Internet peers on an EV/EBITDA basis

(\$ in millions, except per share data)												
GoodRx - Price Objective	GDRX	\$4.50	1,854.0	1,839.9	2.4x	2.4x	8.6x	8.4x	-1.5%	3.6%	28.4%	27.9%

Source: FactSet, BofA Global Research

*Note: GoodRx - Price Objective CY23 and CY24 EV/EBITDA multiples are based on BofA Global Research estimates

BofA GLOBAL RESEARCH



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 are 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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US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	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
	Omniceil 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
NEUTRAL				
	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
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	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

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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Important Disclosures

GoodRx (GDRX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{R1} 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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