

Teladoc Health

4Q23 Preview: 4Q results, BetterHelp margins, and FY24 guide in focus

Maintain Rating: NEUTRAL | PO: 24.00 USD | Price: 21.10 USD

FY24 guide and BetterHelp margins the key focus for 4Q

TDOC will report its 4Q'23 results on February 20th after market close. The biggest focus will be on FY24 revenue/margin guidance as well as reported 4Q results. We note that this is the first year TDOC did not preannounce earnings or provide guidance updates at a January competitor conference since its attendance in 2016. Given this, we believe 4Q earnings will face greater investor scrutiny than normal. Overall, we view Visible Alpha consensus estimates of 6% revenue growth and \$369MM of adj. EBITDA in FY24 as a bar that TDOC should meet or exceed, with strong execution in Integrated Care supported by continued top-line growth from BetterHelp. January Sensor Tower data indicates that BetterHelp's revenue growth is reaccelerating to start the year ([link to note here](#)), which should provide TDOC with a path to beat the Street's revenue, though we have some questions on the near-term trajectory of BetterHelp's margins. This set-up appears similar to TDOC's 4Q'22, where BetterHelp margins underwhelmed. We note that at that time, shares of TDOC were ~\$29, roughly 50% higher than current levels. We maintain our Neutral rating and \$24 PO based on 12x CY24E EV/EBITDA as we look for further progress on enterprise revenue growth and margin trajectory.

2024: BetterHelp revenue higher, margins a question

Based on MAU data, we expect BetterHelp's revenue growth will exceed the Street's estimate of 6% growth in FY24, but we have questions on BetterHelp's margin profile, particularly in 1Q. BetterHelp's rapid MAU growth of 12.4% m/m in January is significantly higher than 5.0% m/m growth posted last year (Exhibit 1), when BetterHelp reported a 6.3% adj. EBITDA margin in 1Q'23. Given BetterHelp is growing users much more quickly this January vs. the prior year, we view the Street's 1Q'24 BetterHelp EBITDA margins of 7.5% as somewhat aggressive. For reference, BetterHelp requires significant marketing spend to drive revenue growth, and >50% of this spend occurs in 1H of a given year. We note that TDOC recently added a disclosure that indicated second month retention for BetterHelp is increasing modestly through Covid (Exhibit 4).

Integrated Care operating leverage to offset BetterHelp

TDOC ended 3Q'23 with 90.2MM members compared to 81.9MM in 3Q'22, driven by competitive wins. The recent addition of 4MM lives in 3Q highlights Teladoc's industry leadership position. TDOC should be able to capture some meaningful revenue growth and operating leverage from Integrated Care in FY24 as the company anniversaries new lives and captures greater cross sales.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.89)	(17.02)	0	(0.24)	(0.24)
GAAP EPS	(2.73)	(84.60)	(1.23)	(1.41)	(1.50)
EPS Change (YoY)	-169.7%	NM	NM	NA	0%
Consensus EPS (Bloomberg)			(0.97)	(0.82)	(0.46)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	14.4x	15.6x	11.8x	11.1x	10.4x
Free Cash Flow Yield*	3.9%	0.5%	5.2%	5.2%	5.6%

* For full definitions of *IQmethod*SM measures, see page 7.

13 February 2024

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Stock Data

Price	21.10 USD
Price Objective	24.00 USD
Date Established	2-Jan-2024
Investment Opinion	C-2-9
52-Week Range	15.02 USD - 32.00 USD
Mrkt Val (mn) / Shares Out (mn)	3,376 USD / 160.0
Free Float	99.3%
Average Daily Value (mn)	74.09 USD
BofA Ticker / Exchange	TDOC / NYS
Bloomberg / Reuters	TDOC US / TDOC.N
ROE (2023E)	0%
Net Dbt to Eqty (Dec-2022A)	26.7%
ESGMeter™	High

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MAU – Monthly Active User

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Timestamp: 13 February 2024 05:11AM EST

iQprofileSM Teladoc Health

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	0.4%	-0.1%	1.4%	0.5%	0.6%
Return on Equity	-0.9%	-29.9%	0%	-1.7%	-1.8%
Operating Margin	3.1%	-0.5%	0.7%	0.8%	0.9%
Free Cash Flow	130	17	171	173	183

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.3x	0.7x	0.5x	0.5x	0.5x
Tax Rate	11.5%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	2.1%	26.7%	19.4%	11.8%	4.0%
Interest Cover	0.8x	-1.2x	1.4x	1.6x	1.9x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,033	2,407	2,614	2,769	2,921
% Change	85.8%	18.4%	8.6%	5.9%	5.5%
Gross Profit	1,391	1,669	1,860	1,966	2,074
% Change	97.8%	20.0%	11.4%	5.7%	5.5%
EBITDA	268	247	327	348	370
% Change	115.8%	-8.0%	32.8%	6.3%	6.3%
Net Interest & Other Income	(86)	(10)	26	(13)	(13)
Net Income (Adjusted)	(139)	(2,748)	0	(40)	(42)
% Change	-369.9%	NM	NM	NM	-4.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(341)	(13,667)	(213)	(233)	(259)
Depreciation & Amortization	204	256	308	326	344
Change in Working Capital	(36)	(116)	1	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	366	13,716	226	242	273
Capital Expenditure	(64)	(173)	(151)	(162)	(174)
Free Cash Flow	130	17	171	173	183
% Change	NM	-87.3%	935.2%	1.1%	5.8%
Share / Issue Repurchase	43	13	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	893	918	1,089	1,262	1,445
Trade Receivables	169	211	229	243	256
Other Current Assets	163	187	199	211	223
Property, Plant & Equipment	27	30	26	26	28
Other Non-Current Assets	16,482	3,000	2,854	2,697	2,531
Total Assets	17,735	4,345	4,398	4,439	4,483
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	331	400	432	458	483
Long-Term Debt	1,226	1,535	1,538	1,538	1,538
Other Non-Current Liabilities	132	103	111	118	124
Total Liabilities	1,689	2,038	2,081	2,114	2,145
Total Equity	16,046	2,308	2,318	2,326	2,339
Total Equity & Liabilities	17,735	4,345	4,399	4,440	4,484

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Healthcare Technology & Distribution

Company Description

Teladoc provides virtual access to healthcare providers with a portfolio of services covering 450 medical subspecialties from non-urgent, episodic needs like flu and upper respiratory infections, to chronic, complicated medical conditions like cancer and congestive heart failure. The company has 50MM+ subscription members across 10,000+ employers and 40+ health plans, and has completed 10MM+ visits in 2020.

Investment Rationale

We have a Neutral rating on shares of TDOC. At current valuation, the shares trade at a premium on an EV/sales basis to unprofitable direct peers and a discount to higher-margin peers. We think shares are adequately priced weighing the risk to the behavioral health business and potential upside from GLP-1 related weight management solutions.

Stock Data

Average Daily Volume 3,511,160

Quarterly Earnings Estimates

	2022	2023
Q1	-8.36A	-0.13A
Q2	-3.93A	-0.06A
Q3	-0.17A	-0.06A
Q4	-4.58A	0.25E

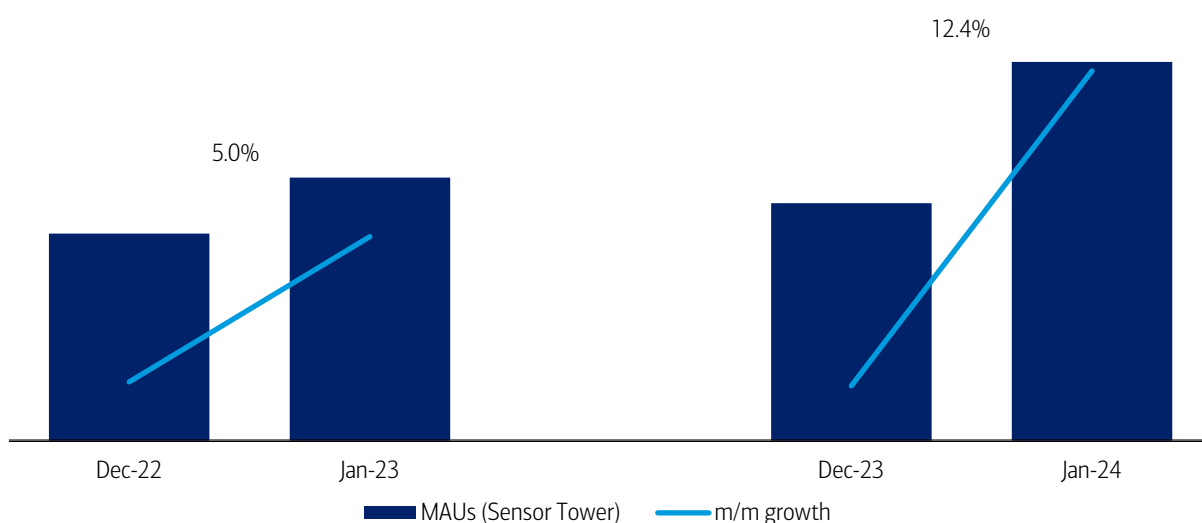
1Q'24 BetterHelp margins likely pressured

Jan. Sensor Tower data suggests elevated ad spend

BetterHelp monthly active user (MAU) growth in January 2024 grew significantly above January 2023 levels suggesting that BetterHelp's advertising spend in 1Q'24 could be relatively higher than 1Q'23 (as a percentage of revenue). January 2024 BetterHelp MAUs hit an all-time high growing 12.4% m/m, above the 5.0% m/m growth in the prior year (Exhibit 1). Visible Alpha consensus is currently estimating 7.5% adj. EBITDA margins in 1Q'24 reflecting 120bps of margin expansion y/y (Exhibit 3). The relatively faster MAU growth in January 2024 could indicate that Teladoc is leaning into advertising spend in the beginning of the calendar year and ad spend could remain elevated over the course of 1Q'24. This dynamic could pressure 1Q'24 BetterHelp adj. EBITDA margins to fall below consensus of 7.5%.

Exhibit 1: BetterHelp m/m Monthly Active User (MAU) growth, January 2023 and January 2024

MAUs in January 2024 grew 12.4% m/m, significantly above the 5.0% m/m growth in the prior year



Source: Sensor Tower

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“Base Case” revenue appears conservative vs. consensus

BetterHelp's MAU strength in January (per Sensor Tower data) could increase the likelihood that Teladoc meets consensus estimates for FY24 revenue (Visible Alpha consensus: \$2,776MM). We highlight a “Base Case” scenario suggesting Teladoc can grow revenue 1.8% above the Street using conservative assumptions. For BetterHelp, we assume January run-rate MAUs are maintained through 1Q'24 (with flat q/q growth for the remainder of the year). For Integrated Care, we assume growth remains consistent with its 2023 exit rate. Given the impressive growth in January 2024 for BetterHelp users, achieving FY24 consensus revenue estimates appears more reasonable.

Exhibit 2: Teladoc's 2024 “Base Case” revenue outlook

2024 “Base Case” revenue outlook assumes BetterHelp does not grow off January's run-rate and Integrated Care growth remains in-line with the 2023 exit-rate

	2022A	2023E	2024 "Base Case"	Growth %	Implied Assumptions
BetterHelp	\$1,019.0	\$1,140.9	\$1,263.1	10.7%	January's 12.4% m/m increase in MAUs implies 11.4% q/q growth; assumes no growth for the remainder of FY24
Integrated Care	1,387.8	1,472.3	1,561.9	6.1%	
Total Revenue	\$2,406.8	\$2,613.2	\$2,825.0	8.1%	Assumes growth remains consistent with its 2023 exit-rate
Consensus		\$2,613.2	\$2,775.7	6.2%	
Delta		-	1.8%		



Exhibit 2: Teladoc's 2024 "Base Case" revenue outlook

2024 "Base Case" revenue outlook assumes BetterHelp does not grow off January's run-rate and Integrated Care growth remains in-line with the 2023 exit-rate

2022A	2023E	2024 "Base Case"	Growth %	Implied Assumptions
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Source: BofA Global Research, Visible Alpha

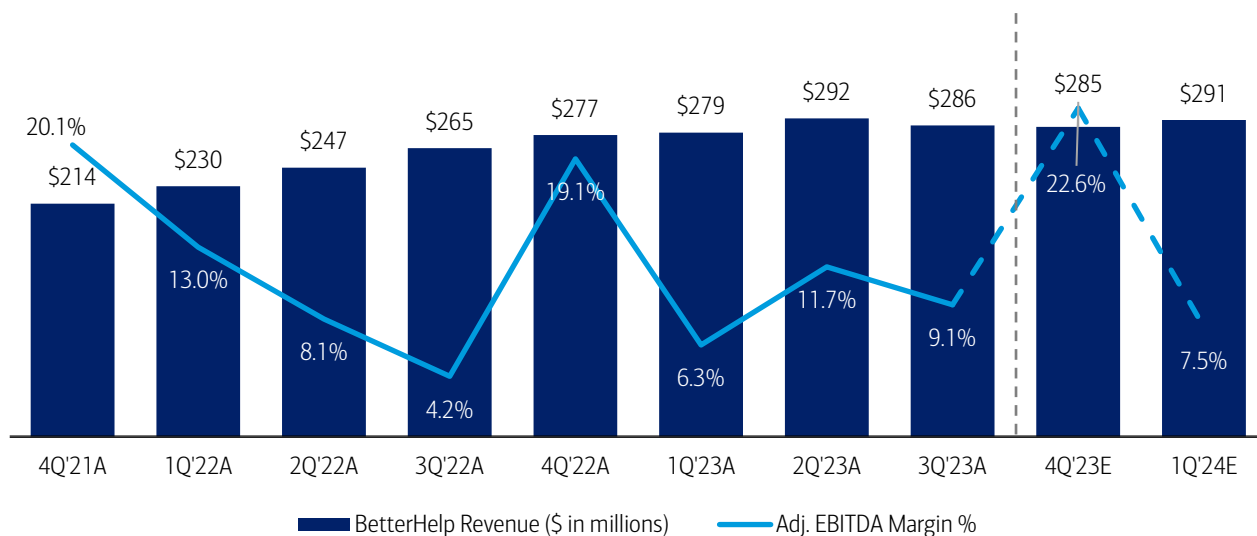
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Seasonal cadence of ad spend weighted towards 1H

While we believe 1Q'24 advertising spend could be elevated compared to the prior year as a percentage of revenue, it is important to note the typical seasonal cadence of Teladoc's advertising spend. For reference, Teladoc typically pulls back advertising spend in 4Q given the holiday season is the most expensive time of year to advertise (naturally resulting in margin expansion in 4Q). The pullback in ad spend exiting the year also results in fewer member acquisitions which impacts revenue in 1Q with typically sequentially weaker revenue growth. As the customer acquisition cost environment improves following the holiday season, Teladoc ramps ad spend in 1Q resulting in the seasonally lowest point for BetterHelp from a margin perspective during the year. At the start of the calendar year, consumers also tend to be more receptive given the New Year's resolution season. Additionally, Teladoc has noted a lag between advertising spend and revenue of 30-60 days, thus can continue to realize revenue capture moving through 2Q. While we expect the seasonal cadence of ad spend to remain directionally consistent with the prior year, early MAU trends indicate ad spend could be more pronounced in 1Q'24 compared to 1Q'23 (as a percentage of revenue).

Exhibit 3: Teladoc's BetterHelp segment reported quarterly revenue and adj. EBITDA margins and consensus estimates, 2021-2023

Visible Alpha consensus estimates 1Q'24 BetterHelp adj. EBITDA margins of 7.5%, representing a 120bps expansion y/y



Source: Company Reports, Visible Alpha

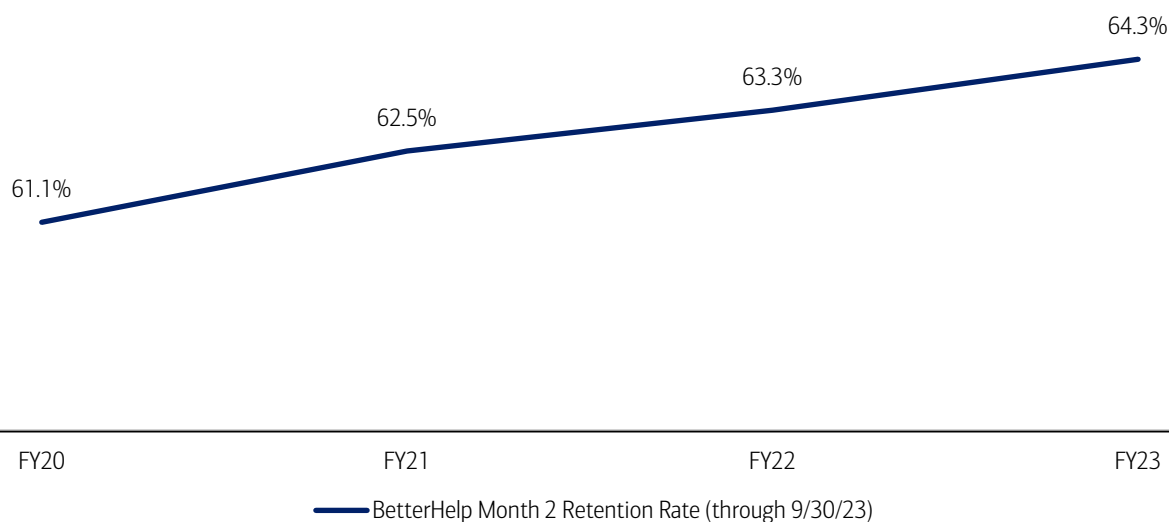
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New disclosure: Month 2 retention rate improving

Teladoc disclosed a new disclosure at a competitor conference in January: Month 2 retention rate. BetterHelp's improvement in month 2 retention has been modest, but should ultimately support margin expansion in the BetterHelp business, all else equal. This metric also indicates BetterHelp still needs significant advertising and marketing spend to attract new members since more than one-third of new members churn by the second month.

Exhibit 4: BetterHelp Month 2 Retention Rate, 2020-2023

Teladoc has seen continuous improvement in second month retention rates for BetterHelp over the past four years



Source: Company Presentation

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Price objective basis & risk

Teladoc Health (TDOC)

We have a \$24 price objective on shares of TDOC, based on approximately 12x our CY2024E EBITDA estimate (1.5x EV/sales). This represents a modest premium to its unprofitable peer group on an EV/sales basis (1.0x-2.0x), which we believe is warranted given TDOC's positive FCF. On an EV/EBITDA basis, this represents a discount to higher-margin peers. The most significant long-term risk factor, in our view, is growing competition across core virtual therapy/telemedicine/chronic care management and the ability to drive paid membership growth in line with consensus expectations.

Risks to our price objective are a) slower-than-expected utilization growth, b) execution risk around the behavioral health business, c) the competitive landscape/pricing, and d) failure to adequately integrate new acquisitions to the platform.

Analyst Certification

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	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

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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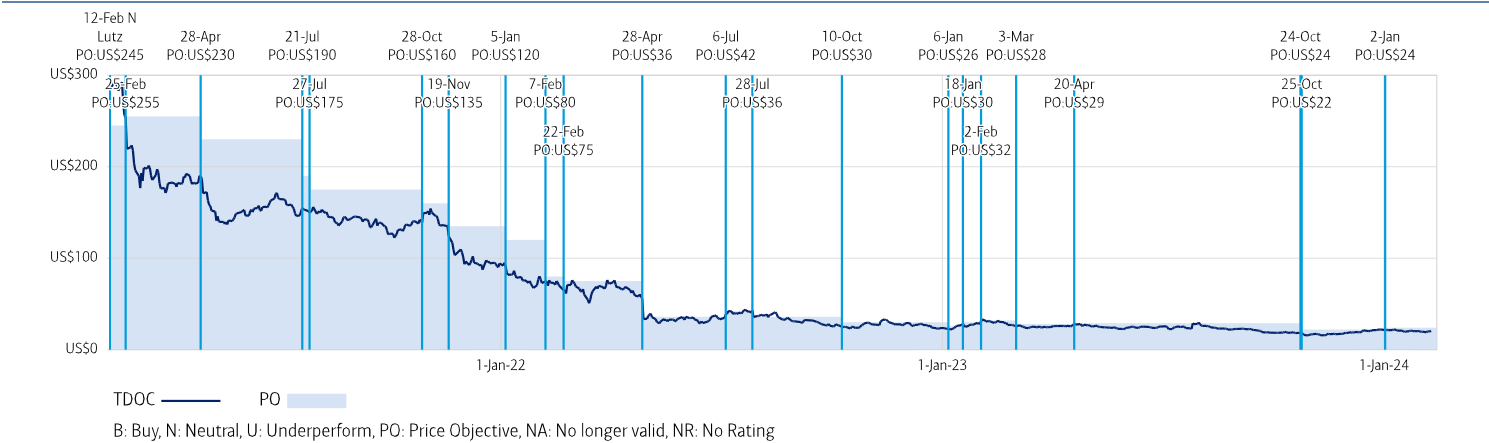
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Disclosures

Important Disclosures

Teladoc (TDOC) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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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