

Oscar Health

Quarter delivers the proof point we've all been waiting for

Reiterate Rating: BUY | PO: 20.00 USD | Price: 13.41 USD

Raising earnings estimates and PO on outperformance

The quarter was the catalyst investors have long been waiting for as OSCR is now on track to deliver meaningful profitability in 2024 as well as generate free cash flow for the first time, lifting the financing overhang. Meanwhile, the strong results in 2023, which exceeded the high end on key guidance metrics (including MLR), adds credibility to the new outlook. We are raising our forward estimates, particularly on revenue, as well as flowing through modestly higher profitability vs our initial expectations. We are raising our PO from \$10 to \$20 and adjusting our valuation methodology to be based on 25x 2026E EPS (a slight premium to where HUM/UNH/MOH have traded during periods of growth) discounted back at a 15% hurdle rate per year for two years, now that we have more visibility into GAAP earnings. For context, on our old methodology, the EV/EBITDA multiple on 2025E is increasing from 11x to 14x. Reiterate Buy.

This was the first real proof point we've been waiting for

Disruptive startups such as OSCR, need to prove two things to investors before getting full valuation credit. First, they need to prove product market fit by illustrating a demand for the product by growing revenues. On this front OSCR has undeniably succeeded in scaling to over \$8b in premiums. However, because the insurance industry is very price sensitive, it is just as important to prove profitability at scale. We've now seen many examples of companies growing membership by unsustainably undercutting competitors on price. Therefore, the only way to prove that an insurance company can sustain durable cash flows is by being both large and profitable (on consolidated financials, not cohort economics) at the same time. If OSCR can achieve its 2% margin target this year, it will go a long way in assuring investors that the company has a sustainable and competitive cost structure in the market.

Final leg of margin expansion hinges on growth, G&A

While progress on margins has been impressive, improving ~3,000bps since 2020, there is still another 600-700bps of improvement needed to achieve industry levels of GAAP profitability from here. The company believes the biggest piece will be from leveraging fixed G&A from growing revenues 20%+ annually through a combination of industry growth/cost trend (likely accounts for 1/3 of growth), geographic expansion, share gains, and entry into ancillary lines of business. To put it in context, OSCR's SG&A ratio guidance of ~20.75% compares to roughly ~15% at its matured competitors, meaning it is the main delta in closing the profitability gap vs peers. Additionally, there is likely another 100-200bps of MLR opportunity as OSCR raises prices again, its PBM contract ramps, it renegotiates its provider contracts, and the 20-30% of members who joined the exchanges from Medicaid redeterminations have a chance to be properly risk coded.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(2.87)	(1.23)	0.04	0.57	1.09
EPS Change (YoY)	10.3%	57.1%	NM	NM	91.2%
Consensus EPS (Bloomberg)	(2.90)	(1.27)	(0.36)	0.05	0.80
Valuation (Dec)					
P/E	NM	NM	335.3x	23.5x	12.3x

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08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	20.00
2024E Rev (m)	7,054.8	8,409.4
2025E Rev (m)	7,942.0	10,077.4
2026E Rev (m)	7,384.9	11,924.0
2024E EPS	-0.05	0.04
2025E EPS	0.18	0.57
2026E EPS	0.25	1.09

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Stock Data

Price	13.41 USD
Price Objective	20.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-1-9
52-Week Range	3.23 USD - 13.82 USD
Mkt Val (mn) / Shares Out (mn)	3,059 USD / 228.1
Free Float	81.1%
Average Daily Value (mn)	41.82 USD
BofA Ticker / Exchange	OSCR / NYS
Bloomberg / Reuters	OSCR US / OSCR.N
ROE (2024E)	1.5%
Net Dbt to Eqty (Dec-2023A)	-195.0%
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".

OSCR = Oscar Health

MLR = Medical Loss Ratio

SG&A = Selling General and Administrative Expense Ratio

MOH- Molina

HUM- Humana

UNH- UnitedHealth

iQprofileSM Oscar Health

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	3,871	5,685	8,215	9,924	11,780
Net Investment Income	93	177	194	153	144
Total Revenue	3,964	5,862	8,409	10,077	11,924
Total Cost of Benefits and Claims	(3,281)	(4,642)	(6,627)	(7,956)	(9,396)
S,G & A (Including Commissions)	(310)	(340)	(356)	(321)	(299)
Total Operating Expenses	(4,554)	(6,098)	(8,371)	(9,867)	(11,544)
Pre-Tax Operating Earnings	(590)	(237)	39	210	380
Income Tax Expense	1	(3)	0	0	0
Operating Earnings After Tax	(877)	(393)	13	189	361
Net Income (Reported)	(613)	(271)	14	188	361
Diluted Shares	305	320	326	331	332
Operating Earnings Per Share	(2.87)	(1.23)	0.04	0.57	1.09
Net Income (Reported) Per Share	(2.87)	(1.23)	0.04	0.57	1.09

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	2,962	2,567	2,739	4,904	3,573
Total Assets	4,527	3,601	4,035	7,190	5,310
Reserves	NA	NA	NA	NA	NA
LT Debt	298	299	299	299	299
Total Liabilities	3,634	2,790	3,110	4,224	3,627
Total Equity	892	806	924	2,966	1,683
Total Equity (Ex FAS 115)	892	806	924	2,966	1,683
Book Value per Share (Reported)	NA	NA	NA	NA	NA
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	7.8%	5.8%	4.2%	3.2%	2.5%
Loss Ratio	NA	NA	NA	NA	NA
Combined Ratio	7.8%	5.8%	4.2%	3.2%	2.5%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.4x	4.8x	4.4x	2.9x	2.7x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	111.4%	46.9%	44.5%	20.8%	18.7%
Net Investment Income	1,102.4%	91.1%	9.8%	-21.1%	-6.0%
Total Revenue	115.6%	47.9%	43.5%	19.8%	18.3%
Operating Earnings per Share	10.3%	57.1%	NM	NM	91.2%
Asset	36.3%	-20.4%	12.0%	78.2%	-26.1%
Reported Book Value per Share	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	-77.0%	-46.4%	1.5%	9.7%	15.5%
Operating ROE (Ex FAS 115)	-76.7%	-46.3%	1.5%	9.7%	15.5%
Operating Return on Average Assets	-22.3%	-9.7%	0.3%	3.4%	5.8%
Operating Margin	-22.1%	-6.7%	0.2%	1.9%	3.0%
Long Term Debt to Cap Ratio (Ex FAS 115)	25.0%	27.0%	24.4%	9.2%	15.1%
Net Income % Operating Income	69.5%	69.0%	105.2%	99.9%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Managed Health Care

Company Description

Oscar Health is a health insurer currently focused on the ACA Exchanges, but is rapidly scaling into other business lines such as MA, Small Group and HealthIT. OSCR leverages its proprietary technology to lower costs and improve outcomes by engaging consumers directly through telehealth, automated doctor, pharmacy, and diagnostic referrals, and other in-app health tools to close gaps in care and encouraging cost effective, high quality providers at scale.

Investment Rationale

OSCR is one of the fastest-growing companies we cover and differentiates itself with its technology platform (now also sold externally) creating multiple avenues for the company to monetize its technology. We think OSCR has potential to grow faster than average, while improving margins and solving the financing overhang.

Stock Data

Average Daily Volume 3,118,847

Quarterly Earnings Estimates

	2023	2024
Q1	-0.18A	0.29E
Q2	-0.07A	0.17E
Q3	-0.29A	-0.10E
Q4	-0.66A	-0.49E

Price objective basis & risk

Oscar Health (OSCR)

Our price objective of \$20.00 is based on roughly 25.0x 2026E GAAP EPS discounted back at 15% per year for two years. This is a modest premium to where peers have traded during periods of high growth (around 20x P/E.)

Our PO is also supported by a DCF on unlevered parent company free cash flows minus stock compensation for 2024E-2032E using a 11% discount rate and 10x exit P/E multiple.

Downside risks to our PO are: Exchange market risk around Medicaid redeterminations, inability to capture expected technology efficiencies, execution risks around a change in management, and difficulties improving margins over time.

Analyst Certification

I, Adam Ron, 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 - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

iQmethodSM 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 & 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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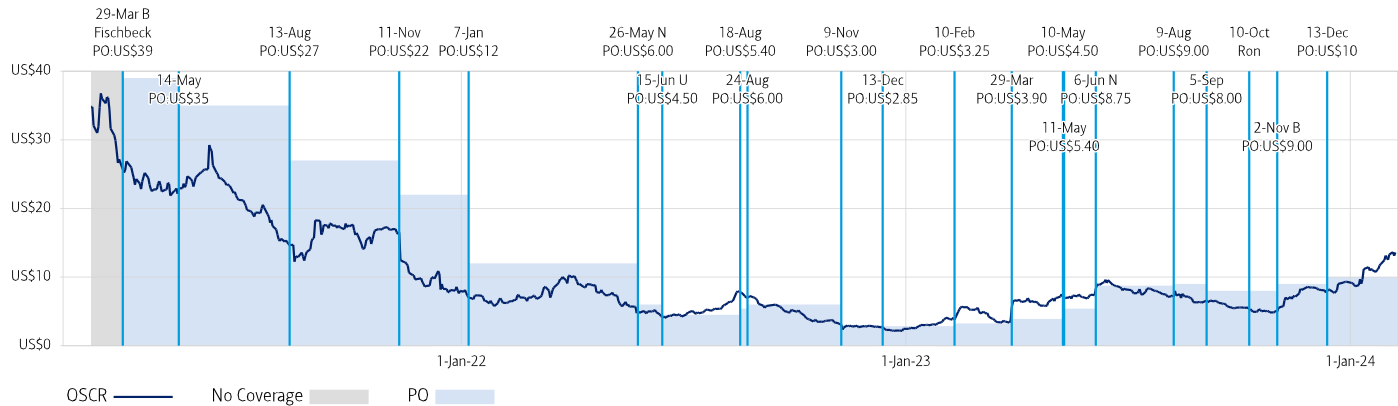
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Important Disclosures

Oscar Health (OSCR) Price Chart



OSCR — No Coverage PO

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: 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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