

## HealthEquity Inc

## FY24 metrics positive; new maturity disclosure confirms “higher for longer”

Maintain Rating: BUY | PO: 85.00 USD | Price: 67.95 USD

## HQY announces FY24 asset/account estimates

This morning, HQY announced HSA asset and account estimates for FY24 ending January 31, 2024. The updated outlook for HSAs, HSA assets, and HSA cash are ahead of consensus and our estimates, while total accounts are a touch below consensus. The company expects approximately 8.7MM HSAs versus consensus of ~8.6MM and our estimate of ~8.3MM, up from 8.0MM in FY23. HSA assets are estimated to be approximately \$24.5Bn versus consensus of ~\$23.9Bn and our ~\$22.6Bn, up from \$22.1Bn at the end of FY23. HQY expects \$15Bn of HSA cash versus ~\$14.8Bn consensus and ~\$14.1Bn BofA. Total accounts for FY24 are expected to be 15.60MM, a touch behind consensus estimates of 15.61MM but ahead of our estimate of 15.23MM. These estimates exclude the BenefitWallet HSA portfolio, as the acquisition is expected to close in FY25. In addition, the company expects to beat the FY24 goals for its Enhanced Rates offering, with over 30% of HSA cash assets expected to be in Enhanced Rates products and a 40% increase in capacity with highly rated insurance partners. The company plans to discuss the results and estimates during a presentation at an investor conference on Tuesday, January 9, at 4:30pm PST.

## “New” HSA cash maturity disclosure is a real positive

HealthEquity provided an HSA cash maturity schedule for the first time (Exhibit 2), providing a better view of the company’s maturing custodial cash contracts. HealthEquity will be repricing more low-yielding contracts in FY26 and FY27 than we previously estimated. For example, the average yields replaced in FY4Q24 and FY25 range between 3.1% and 3.4%, while the yields replaced in FY26 and FY27 will range from 1.4% to 1.6%. This transparency is an incremental positive. Combined with the shift to higher-yielding instruments, HealthEquity is even better positioned to increase its custodial cash yield through FY27 than we previously estimated. This acts to further de-risk near-term downside from interest rate fluctuations and should help investors gain more comfort in the duration of HealthEquity’s current earnings power. We maintain our Buy rating on shares of HQY and \$85 price objective.

08 January 2024

## Equity

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## Stock Data

Price	67.95 USD
Price Objective	85.00 USD
Date Established	22-Sep-2022
Investment Opinion	C-1-9
52-Week Range	48.86 USD - 76.62 USD
Mrkt Val (mn) / Shares Out (mn)	5,912 USD / 87.0
Free Float	97.9%
Average Daily Value (mn)	57.85 USD
BofA Ticker / Exchange	HQY / NAS
Bloomberg / Reuters	HQY US / HQY.OQ
ROE (2024E)	9.4%
Net Dbt to Eqty (Jan-2023A)	34.5%
ESGMeter™	Medium

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Timestamp: 08 January 2024 12:07PM EST

**Exhibit 1: FY24 ending total accounts, HSAs, HSA assets, and HSA cash estimates**

Company expectations for FY24 ending HSA assets and HSAs are ahead of consensus and BofA

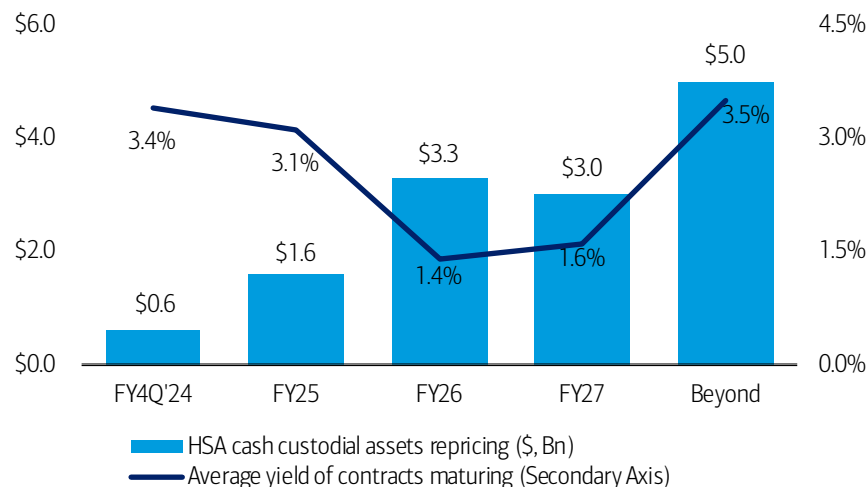
HQY estimates for FY24 ending January 31, 2024 (MM's)	Company	Consensus	BofA	Δ versus VA Consensus %	Δ versus BofA %
Total Accounts	15,600	15,614	15,225	(0.1%)	2.5%
HSAs	8,700	8,623	8,292	0.9%	4.9%
HSA Assets	24,500	23,907	22,561	2.5%	8.6%
HSA Cash	15,000	14,783	14,106	1.5%	6.3%

Source: Company reports, VA Consensus, BofA Global Research

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**Exhibit 2: HQY Cash maturity schedule**

HQY expects the average yield of contracts maturing to be lower in FY26/27 than FY25



Source: Company reports, BofA Global Research

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**Price objective basis & risk****HealthEquity Inc (HQY)**

Our \$85 price objective is based on c.17.5x CY24E EBITDA estimate. This represents a 1-2 turn premium to peers. We believe HQY should trade at a premium to peers given HQY's depressed EBITDA base, faster top-line growth, and rates optionality.

Downside risks to our PO are any long-term changes in demand for Commuter benefits from a broader shift in preference to work from home could permanently impair that part of the business. Additional downside risks to our PO are inability to drive expected revenue/operational synergies from recent M&A, and slower-than-expected growth from the HSA market and changes in interest rates. Less significant risks are new entrants to the market gaining share and fewer opportunities to acquire peer portfolios from companies exiting the HSA market.

**Analyst Certification**

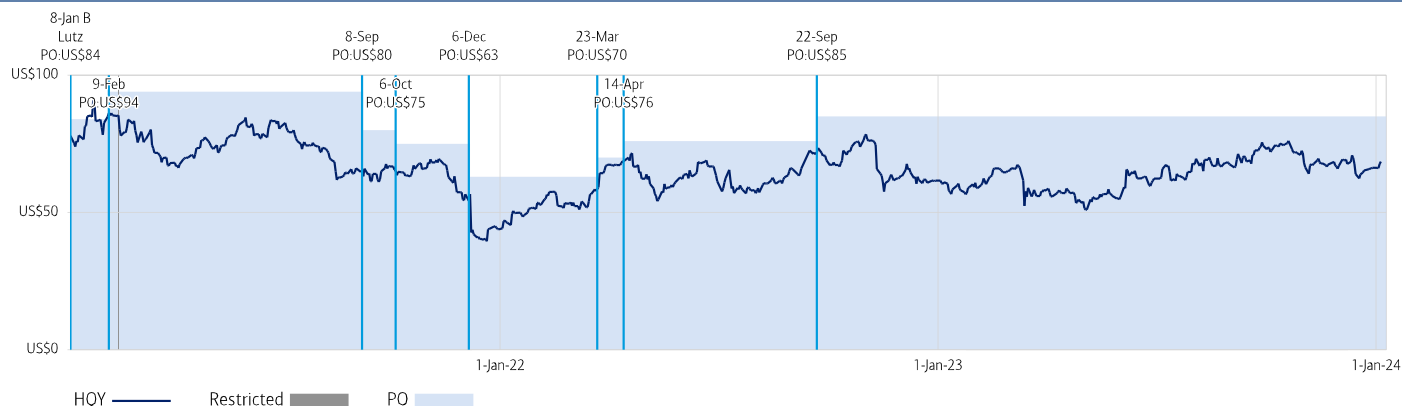
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### HealthEquity (HQQ) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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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%

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Underperform	N/A	≥ 20%

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