

Oscar Health

See multiple paths forward with or without expanded subsidies

Reiterate Rating: BUY | PO: 20.00 USD | Price: 14.95 USD

Comfortable valuation reflects risks of subsidies expiring

After a slew of good news for the Trump campaign, investors' concern that ACA subsidies might expire has grown. Oscar Health (OSCR) would be one of the more exposed companies, with >95% of revenue generated from ACA exchanges, which has seen outsized market growth from the expanded subsidies (passed by President Biden) to help members purchase coverage (often nearly for free), that are slated to expire January 1st 2026 if Congress does not act. There are still multiple paths to extending subsidies, making this far from certain, but after running a scenario analysis (now included in our model), we feel comfortable the current valuation remains supported, and OSCR can maintain or expand margins in 2026+. We are adjusting our estimates and valuation methodology where we equally weight subsidy expiration/continuance (\$0.69 of EPS in 2026, now assumes 22x P/E + NOL + Parent Cash), which supports our current PO of \$20. See page 2 for details.

Even if enrollment drops 30%, path to \$0.40+ of EPS

The CBO estimates that if subsidies expire, overall enrollment could decline nearly 30%, though that estimate seems to conservatively assume all the growth during COVID goes away. Therefore, in a worst-case scenario, we'd expect OSCR to see similar declines, offset by higher pricing, meaning revenue might drop 20%, ending near current 2024 levels. Even in this bear case, we see a path to \$0.40 of GAAP EPS, without any core MLR improvement and just modest corporate G&A optimization (~0.5% of revenue), which the company has already begun to undertake. Assuming a 22x P/E multiple, and accounting for the value of the tax assets and free cash flow unlocked at the parent company, we see valuation support around the current stock price of \$15. We note if the removal of expanded subsidies leads to more price sensitivity among consumers, in a more extreme scenario it could spur more competition and lead to margin pressure, which would mean downside to our estimates.

Bull case supports over \$1.00 in EPS, meaningful upside

If the subsidies are extended we see a clear path to over \$1.00 in EPS for 2026. Notably, this only assumes modest membership growth/cost leverage (still below target margin), and neither of these scenarios gives the company any credit for the ability to expand into new insurance product lines, monetize its HealthIT platform, or pursue accretive M&A. Using the same valuation methodology implies meaningful upside to our PO. Finally, the company's June Investor Day could add clarity around the forward trajectory.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(2.86)	(1.21)	(0.12)	0.60	0.69
EPS Change (YoY)	13.3%	57.7%	90.1%	NM	15.0%
Consensus EPS (Bloomberg)	(2.90)	(1.27)	(0.11)	0.43	0.91
Valuation (Dec)					
P/E	NM	NM	NM	24.9x	21.7x

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2026E Rev (m)	11,924.0	9,824.7
2025E EPS	0.57	0.60
2026E EPS	1.06	0.69

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Stock Data

Price	14.95 USD
Price Objective	20.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-1-9
52-Week Range	3.23 USD - 18.55 USD
Mkt Val (mn) / Shares Out (mn)	3,410 USD / 228.1
Free Float	91.9%
Average Daily Value (mn)	57.27 USD
BofA Ticker / Exchange	OSCR / NYS
Bloomberg / Reuters	OSCR US / OSCR.N
ROE (2024E)	-4.5%
Net Dbt to Eqty (Dec-2023A)	-195.0%
ESGMeter™	Medium

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Glossary

ACA = Affordable Care Act
CBO = Congressional Budget Office
MLR = Medical Loss Ratio
NOL = Net Operating Losses
OSCR = Oscar Health

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Timestamp: 07 March 2024 07:47AM EST

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	9,680
Net Investment Income	93	177	194	153	144
Total Revenue	3,964	5,862	8,409	10,077	9,825
Total Cost of Benefits and Claims	(3,281)	(4,642)	(6,627)	(7,956)	(7,721)
S,G & A (Including Commissions)	(310)	(340)	(356)	(310)	(294)
Total Operating Expenses	(4,554)	(6,098)	(8,371)	(9,856)	(9,571)
Pre-Tax Operating Earnings	(590)	(237)	39	222	254
Income Tax Expense	1	(3)	0	0	0
Operating Earnings After Tax	(874)	(382)	(39)	200	235
Net Income (Reported)	(613)	(271)	14	200	235
Diluted Shares	305	316	326	333	340
Operating Earnings Per Share	(2.86)	(1.21)	(0.12)	0.60	0.69
Net Income (Reported) Per Share	(2.86)	(1.21)	(0.12)	0.60	0.69

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	4,474	3,461
Total Assets	4,527	3,601	4,035	6,489	5,044
Reserves	NA	NA	NA	NA	NA
LT Debt	298	299	299	299	299
Total Liabilities	3,634	2,790	3,110	3,973	3,476
Total Equity	892	806	924	2,516	1,568
Total Equity (Ex FAS 115)	892	806	924	2,516	1,568
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%	3.1%	3.0%
Loss Ratio	NA	NA	NA	NA	NA
Combined Ratio	7.8%	5.8%	4.2%	3.1%	3.0%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.4x	4.8x	4.4x	3.1x	2.8x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	111.4%	46.9%	44.5%	20.8%	-2.5%
Net Investment Income	1,102.4%	91.1%	9.8%	-21.1%	-5.7%
Total Revenue	115.6%	47.9%	43.5%	19.8%	-2.5%
Operating Earnings per Share	13.3%	57.7%	90.1%	NM	15.0%
Asset	36.3%	-20.4%	12.0%	60.8%	-22.3%
Reported Book Value per Share	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	-76.7%	-45.1%	-4.5%	11.6%	11.5%
Operating ROE (Ex FAS 115)	-76.5%	-45.0%	-4.5%	11.6%	11.5%
Operating Return on Average Assets	-22.3%	-9.4%	-1.0%	3.8%	4.1%
Operating Margin	-22.0%	-6.5%	-0.5%	2.0%	2.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	25.0%	27.0%	24.4%	10.6%	16.0%
Net Income % Operating Income	69.8%	71.1%	NM	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 3,830,494

Quarterly Earnings Estimates

	2023	2024
Q1	-0.18A	0.29E
Q2	-0.07A	0.17E
Q3	-0.29A	-0.10E
Q4	-0.66A	-0.47E

Key assumptions to support valuation

If subsidies are extended, doesn't take much to grow EPS

To dive into a little more specifics, our scenario analysis lays out two paths. The first is relatively straightforward whereby if subsidies are extended, we believe OSCR can grow membership mid-single digits (through geographic expansion) and pricing high-single digits (cost trend plus some margin recapture), while margins would be supported by a modest 5% reduction in corporate costs and the company making more incremental progress on its insurance admin ratio through cost leverage.

If they are allowed to expire, requires more cost control

In the more extreme scenario, we assume that OSCR loses 30% of its membership, in-line with the CBO estimate. However, we note this is likely conservative as the CBO estimate may be overestimating the industry impact (assuming all of COVID gains go away) and OSCR is likely able to overcome some growth headwinds through geographic expansions. That being said, we would assume slightly higher pricing tailwinds as the industry would need to price conservatively for such a large shift in the risk pool, meaning revenue would 'only' decline 20%. In this case, to help preserve earnings more corporate G&A would need to come out, though we note it only amounts to \$25m in cuts by 2026 (after doing \$18m in 2023). On the insurance costs, we'd expect the admin ratio to be only modestly below 2024 levels.

Ultimately, we equally weight both scenarios

It is difficult to have any certainty in forecasting what will happen in Congress as we do not yet even have visibility into who will win the presidency and what the composition of Congress will look like. As such, we simply assign an equal weight to the probability of either scenario occurring, leading to a mid-point of \$0.69 of EPS in 2026. We value the company using 22x 2026E GAAP EPS, which is in-line with where growthy MCOs have traded, though we add in excess cash and the value of the NOL given their relative size.

Exhibit 1: Stress-testing possible outcomes with ACA subsidies to support current calculation

Laying out key assumptions of scenario analysis under extended subsidy and expiring subsidy scenarios

2026	Subsidies Extended	Subsidies Expire	Blended
ACA membership growth	6.0%	-30.0%	-12.0%
PMPM Pricing Growth	8.0%	12.5%	10.2%
Core HoldCo G&A Growth	-5.0%	-10.0%	-7.5%
InsureCo G&A Ratio	15.3%	15.8%	15.5%
Estimated EPS	\$1.00	\$0.40	\$0.69
Fully Diluted Shares	339,887	339,887	339,887
P/E Ratio	22.0x	22.0x	22.0x
Diluted Market Capitalization	\$7,473,643	\$2,983,209	\$5,164,209
Carried Losses	\$2,664,887	\$2,868,998	\$2,769,861
Tax Rate	26.0%	26.0%	26.0%
Value of NOL	\$692,871	\$745,939	\$720,164
Parent Cash	\$993,055	\$1,182,611	\$1,080,506
Shareholder value	\$9,159,568	\$4,911,759	\$6,964,879
Shares	339,887	339,887	339,887
Implied Share Value	\$26.95	\$14.45	\$20.49

Source: Company Filings, BofA Global Research

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Price objective basis & risk

Oscar Health (OSCR)

Our price objective of \$20.00 is based on roughly 22.0x 2026E GAAP EPS roughly around where matured MCOs have traded during periods of high growth. Additionally, within our valuation we include the value of the tax assets (NOL) as well as excess parent cash.

Our PO is also supported by a DCF on unlevered parent company free cash flows minus stock compensation for 2024E-2032E using a 10% discount rate and 20x exit P/E multiple.

Downside risks to our PO are: The expiration of ACA subsidies, 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
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSB	BTSB US	Joanna Gajuk
	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
	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
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix 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

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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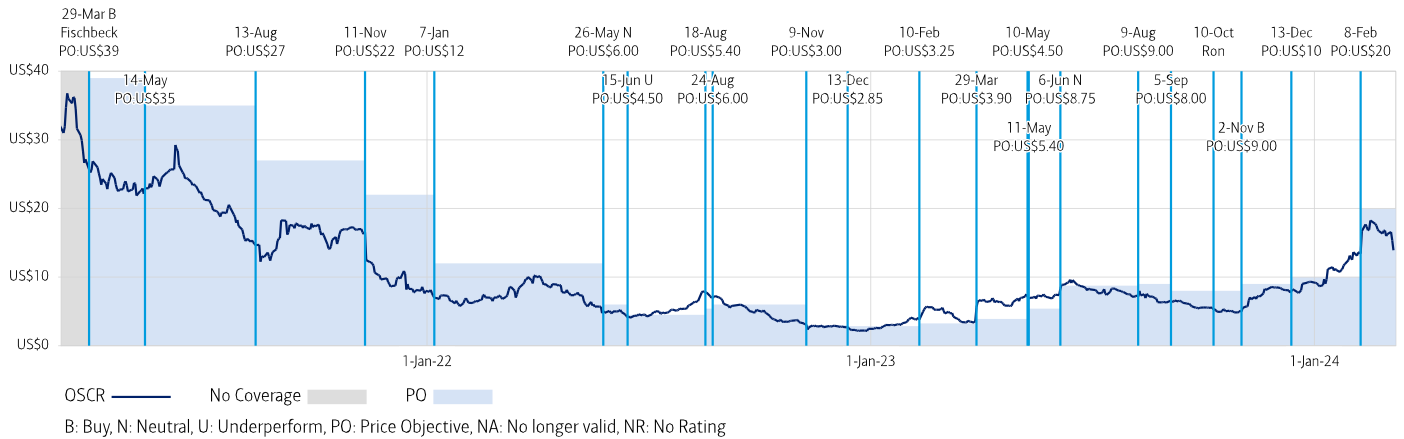
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Oscar Health (OSCR) Price Chart



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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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