

GoodRx

Partnerships driving positive momentum in 2024, but risks beyond this year

Reiterate Rating: UNDERPERFORM | PO: 5.00 USD | Price: 7.85 USD

Near-term upside risk from ISP partnerships

GoodRx's initial FY24 guidance reflects solid core growth with nice contributions from the Integrated Savings Program (ISP) and direct contracting. The early traction with partnership launches including Express Scripts, CVS Caremark, Navitus, and MedImpact appear to be showing positive momentum likely related to win-rates at the pharmacy counter. Management commentary around the ramp in ISP over the course of the year combined with the margin outlook indicate that growth from these new models will contribute nicely to profitability in FY24. While there could be potential upside risk to near-term numbers vs. consensus, we remain cautious on the intermediate-term outlook given the competitive changes that could be taking place in 2025. As we move through 2024, the adoption of ISP programs will be important to track and will depend on variables including total addressable members and conversion rate. Additionally, the company's \$450MM share repurchase plan represents 65% of the public float, an important consideration for investors. We remain cautious around GoodRx's long-term business model as competition ramps and acknowledge that these dynamics are unlikely to play out in 2024. We reiterate our Underperform rating and increase our PO to \$5 (from \$4.50), based on 8.0x CY24 EBITDA (8.5x prior) with the multiple reduction reflecting longer-term risks to the model.

Increasing FY24 estimates to reflect partnerships

We are increasing our FY24 revenue estimate from \$797.9MM to \$801.7MM and our FY25 estimate from \$829.8MM to \$834.0MM. We are increasing our FY24 adj. EBITDA estimate from \$222.6MM to \$250.1MM and our FY25 estimate from \$229.8MM to \$253.1MM. The increase to FY24/FY25 reflects contributions from partnership programs.

Upcoming Catalysts: PBM partnerships and execution

We look for updates on continued progress of PBM partnerships and momentum in the prescription transactions business. We also monitor pharma manufacturers' ad spend for readthroughs to the manufacturer solutions segment. We also look for proof points from interim CEO Scott Wagner on the progress of growth initiatives. Finally, we continue to track changes to the pharmacy ecosystem including the impact of competitive offerings.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.30	0.28	0.33	0.34	0.36
GAAP EPS	(0.07)	0.03	0.14	0.14	0.15
EPS Change (YoY)	-14.3%	-6.7%	17.9%	3.0%	5.9%
Consensus EPS (Bloomberg)			0.28	0.35	0.46
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.2x	28.0x	23.8x	23.1x	21.8x
GAAP P/E	NM	261.7x	56.1x	56.1x	52.3x
EV / EBITDA*	15.4x	15.1x	13.1x	13.0x	12.5x
Free Cash Flow Yield*	2.8%	2.5%	4.5%	4.9%	5.2%

* For full definitions of *IQmethod*SM measures, see page 9.

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29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	4.50	5.00
2024E Rev (m)	797.9	801.7
2025E Rev (m)	829.8	834.0
2026E Rev (m)	862.7	867.4
2024E EPS	0.28	0.33
2025E EPS	0.30	0.34
2026E EPS	0.31	0.36

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Stock Data

Price	7.85 USD
Price Objective	5.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-3-9
52-Week Range	4.14 USD - 9.37 USD
Mkt Val (mn) / Shares Out (mn)	3,239 USD / 412.7
Free Float	80.8%
Average Daily Value (mn)	9.37 USD
BofA Ticker / Exchange	GDRX / NAS
Bloomberg / Reuters	GDRX US / GDRX.OQ
ROE (2024E)	17.5%
Net Dbt to Eqty (Dec-2023A)	-2.1%
ESGMeter™	Medium

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ISP – integrated savings program

PBM – pharmacy benefit manager

iQprofileSM GoodRx

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.0%	10.6%	11.2%	10.9%	11.1%
Return on Equity	15.3%	14.5%	17.5%	16.7%	16.7%
Operating Margin	23.8%	23.2%	25.6%	24.8%	25.0%
Free Cash Flow	92	83	145	159	168

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.2x	1.5x	1.6x	1.6x
Asset Replacement Ratio	1.8x	1.3x	1.4x	1.5x	1.5x
Tax Rate	20.1%	23.6%	23.4%	23.9%	24.0%
Net Debt-to-Equity Ratio	-12.1%	-2.1%	-1.4%	-2.3%	-4.2%
Interest Cover	5.3x	3.1x	5.3x	5.5x	5.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	767	760	802	834	867
% Change	2.8%	-0.8%	5.4%	4.0%	4.0%
Gross Profit	702	698	738	767	798
% Change	0.3%	-0.6%	5.7%	4.0%	4.0%
EBITDA	213	217	250	253	263
% Change	-7.0%	1.9%	15.0%	1.2%	4.0%
Net Interest & Other Income	(25)	(26)	(26)	(24)	(22)
Net Income (Adjusted)	126	115	137	140	148
% Change	-14.4%	-8.9%	19.8%	1.6%	6.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	126	115	137	140	148
Depreciation & Amortization	31	43	45	46	46
Change in Working Capital	(20)	(87)	(8)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	10	68	36	40	43
Capital Expenditure	(55)	(56)	(64)	(67)	(69)
Free Cash Flow	92	83	145	159	168
% Change	-36.6%	-9.9%	76.3%	9.0%	6.3%
Share / Issue Repurchase	(93)	(104)	(100)	(100)	(100)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(7)	(5)	(10)	(10)	(10)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	757	672	658	656	665
Trade Receivables	117	144	153	156	160
Other Current Assets	45	57	58	58	58
Property, Plant & Equipment	20	16	37	57	77
Other Non-Current Assets	665	700	729	753	776
Total Assets	1,605	1,589	1,634	1,681	1,737
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	69	114	117	120	124
Long-Term Debt	659	656	646	636	626
Other Non-Current Liabilities	62	57	61	65	70
Total Liabilities	790	827	825	822	820
Total Equity	815	762	809	859	917
Total Equity & Liabilities	1,605	1,589	1,634	1,681	1,737

* For full definitions of iQmethodSM measures, see page 9.

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 1,193,380

Quarterly Earnings Estimates

	2023	2024
Q1	0.07A	0.07E
Q2	0.07A	0.08E
Q3	0.06A	0.09E
Q4	0.08A	0.09E

4Q'23 call takeaways

Prepared Remarks

- Making meaningful progress on key priorities
- In 2023, over 25MM consumers used GDRX to achieve \$15Bn in prescription savings
- Continued to see positive momentum in the business
- Direct results of efforts in leaning into relationship to retailers, integrated savings program (ISP), and pharma manufacturer offering
- Confident in priorities to deliver growth in 2024 and drive shareholder value over the long-term
- Focused on strengthening retail pharmacy relationship and accelerating success of hybrid model
- Contracting efforts with retailers a driver of top-line performance
- Integrated Savings Program (ISP) is generating incremental revenue
 - Will be some level of ramp
 - Still in early days with pharmacy benefit managers (PBMs)
 - Working to accelerate lives and onboarding
 - Incremental to the direct to consumer offering with expectations of minimal cannibalization
 - Expect relationships to create some incremental seasonality more weighted towards 1H
- Continued to build pipeline within pharma manufacturing solutions and build standardized programs
- On track to deliver margin accretion in 2024
- GDRX drives volume and traffic for pharmacies (between 20-30% of prescriptions go unfilled due to price)
- Invested over \$200MM in advertising and promotional related efforts to promote GDRX users
- Focused on driving prescription-savings events by leaning into deep relationships with retail partners and bringing the benefit of GDRX to commercial plans through the Integrated Savings Program (ISP)
- 4Q revenue and adj. revenue of \$196.6MM, up 7% y/y vs. \$184.1MM in prior year
 - Prescription transactions revenue increased of \$143.9MM, up 11% y/y vs. \$129.4MM in prior year, primarily driven by an 8% increase in Monthly Active Consumers as well as quarter-specific favorability related to certain client contracts
 - Subscription revenue of \$23.1MM, down 6% y/y vs. \$24.6MM in prior year, primarily driven by a decrease in the number of subscription



- plans due to the anticipated sunset of the partnership subscription program, Kroger Savings Club
- Kroger Savings Club revenue was over \$1MM less in 4Q'23 than in the prior year period
 - Gold subscription plans grew y/y and q/q to ~694K and Gold revenue was \$21.5MM
 - Pharma manufacturer solutions revenue of \$24.4, down 2% y/y vs. \$24.9MM, primarily driven by the impacts of the Restructuring Plan
 - The prior year quarter included +\$2MM of revenue related to vitaCare, whereas in 4Q'23 there was essentially none
 - Other revenue of \$5.2MM stayed relatively flat
- 4Q adj. EBITDA of \$57.3MM vs. \$49.6MM, primarily driven by higher prescription transactions revenue
 - Adj. EBITDA Margin was 29.1% vs. 26.9% in prior year
- Net cash provided by operating activities in 4Q was \$15.9MM vs. \$31.9MM in prior year largely driven by the impact of higher net losses y/y
- Ended FY23 with cash of \$672.3MM and total outstanding debt of \$661.8MM
- Repurchased \$77.8MM shares (14.4MM shares) under the then-current share repurchase program which expired February 23, 2024
- As of December 31, 2023, GDRX had \$44.3MM of unused authorized share repurchase capacity under the then current share repurchase program
- On February 27, 2024, the board approved a new repurchase program of up to \$450MM shares
- 1Q'24 guidance
 - Revenue and adj. revenue of \$195-\$198MM, up 6-8% y/y
 - Adj. EBITDA margin in the high 20% range, potentially up to 30%
 - 1Q guide includes current estimate of the impact of the recent system outages disclosed by UnitedHealth Group that at this early stage, is not reasonably likely to have a material impact on financials, despite the impact lasting a couple of days
- FY24 guidance
 - Revenue and adj. revenue of \$800MM, up 7% y/y
 - Adj. EBITDA of \$250MM
 - FY24 growth rates tempered by ~\$25MM topline impact associated with the pharma manufacturer solutions restructuring, including the de-prioritization of vitaCare, the anticipated sunset of the Kroger Savings Club, and continued investments in consumer incentives which is expected to reduce revenue

- Prescription marketplace and pharma marketplace expectations in 2024
 - Prescription marketplace \$25-30MM (includes previously mentioned headwind of sunseting of Kroger and ISP)
 - Pharma manufacturer solutions \$10-15MM
 - Discontinued vitaCare and is not contributing in 2024
 - Some seasonality in pharma manufacturing with 1Q revenue to be slightly below 4Q revenue

Q&A

- Starting to see direct contracting become a much larger part of the model; longer-term view on the model?
 - If you roll this forward it will look like what GDRX is doing today (combination of working with a multi-variate PBM network as well as some form of direct relationship with retailers) and will not change much
- Progress on the roll-out
 - Going in the first step to building the program out, it's expanding more lives and getting more coverage
 - Step change in level of lives covered from where GDRX is today
 - In a much more narrow universe
 - Optimization is something that GDRX believes will be ongoing ways to tweak and help improve over time
 - Still early days particularly in lives covered and acceptance level
- Margin on the business
 - Substantially identical to the rest of the business
 - Distinction is on how to capture demand
 - Spend marketing dollars for traditional business
 - For the ISP program, the demand is aggregated from the PBM (GDRX pays a margin to PBMs)
- Pace of the roll-out
 - ISP up 2x y/y
 - Express Scripts is in the second year of existence
 - Navitus, CVS is in the first year
 - Not all the volume will be immediately loaded on (still ramping)
 - Retailers are assessing how this impacts the business
- Next leg of development?



- In terms of retailer partnerships and balance, the approach now is working with retailers to deliver benefits and economics that consumers feel good about
 - In the earlier days of working; don't expect huge structural differences
 - Tying the benefit more closely to insurance plans
- Demand environment for pharma manufacturing solutions and confidence in outperforming the market growth rate
 - \$100MM business that is anchored in the core of the GDRX marketplace
 - High return marketing vehicle in pharma
 - Relative to expectations, should be able to outperform the market that grows in the mid-single digits through penetrating more brands
- Go-to-market that GDRX can do on the ISP programs to increase the penetration
 - Effort on working with PBM partners to present capabilities into the plan and their own client base
 - Working with partners and over time will educate corporate/ corporate clients/ brokers/ consultants will work with partners
- Direct contracting breakdown and potential lives by the end of the year
 - In the quarter revenue grew 7%
 - Seeing now the performance of GDRX in the context of the system
 - See a retail network at a stable place working forward
 - Now seeing GDRX operating the way that it can in the system
- Cadence in 2H for the ramp for ISP and impacts of seasonality
 - Two factors are offsetting: expect ISP to be more valuable earlier in the year and GDRX will be picking up incremental transactions during the year
 - In a steady state would see the seasonality of people hitting deductibles
 - Economics look very similar and primary delta is how to acquire users
 - Revenue per users – don't see a substantial difference there at all
- In direct contracting, are any exclusive?
 - No they're not exclusive, but GDRX is working with retailers in how retailers think broadly about discount cards
- In the subscription business any granularity on headwinds and tailwinds in 2024
 - Kroger Savings Club users are less economically interesting than Gold users

- Gold users are paying \$10 per month and Kroger users \$36 per year with a split with Kroger
- Will see subscription counts decrease but revenue impact more diminished
- Kroger and Vitacare together will be \$15MM worth of impact (not a lot of revenue there)
- Gold users are growing
- Have line of sight into value prop with brands that have high value
- From an execution capability standpoint, still building flexibility in the GDRX experience



Price objective basis & risk

GoodRx (GDRX)

Our \$5.00 price objective is based on 8.0x 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.

Analyst Certification

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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
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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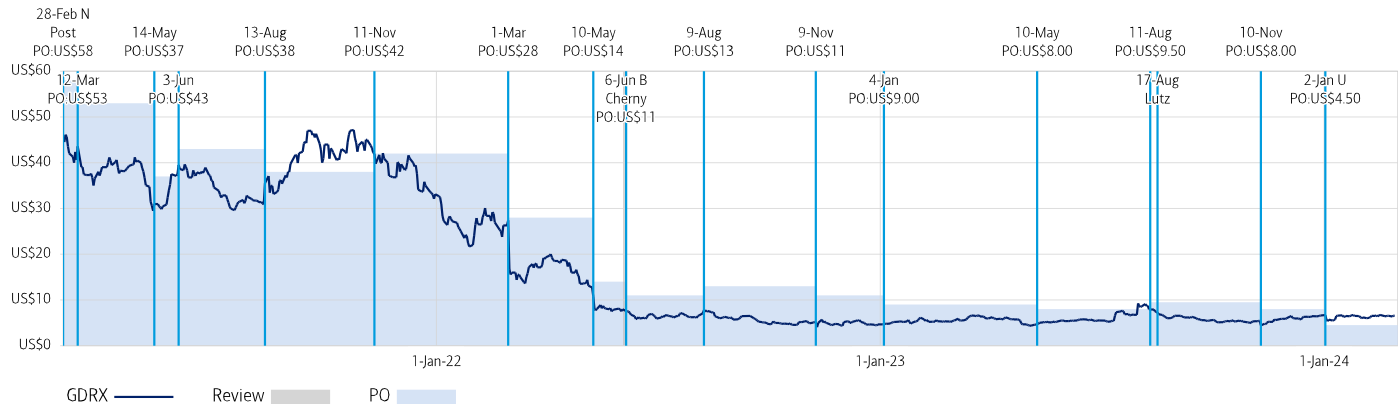
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Disclosures

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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