

## HealthEquity Inc

## New three-year guidance, additional yield disclosures, and more

Maintain Rating: BUY | PO: 93.00 USD | Price: 80.07 USD

## The news: Updated FY24 guide ahead of ST, Reit. FY25

After market close, HealthEquity updated FY24 revenue, adj. EBITDA, and adj. EPS guidance ahead of the Street/BofA, reiterated FY25 guidance, provided additional disclosures on enhanced rates contracts and the HSA cash maturity schedule, and announced a new goal to double adj. EPS over the next three years. HQY now expects FY24 revenue of \$995-\$1,000MM (up from \$985-\$995MM) ahead of Visible Alpha (VA) consensus at \$992.3MM and BofA at \$990.8MM. FY24 Adj. EBITDA of \$364-\$369MM (up from \$350-\$360MM) is also ahead of VA consensus at \$356.1MM and BofA at \$357.5MM. FY24 adj. EPS of \$2.20-\$2.24 (up from \$2.08-\$2.16) is also ahead of VA consensus at \$2.15 and BofA at \$2.13. Prelim FY24 avg. daily HSA YTD cash of \$14,071MM compares to VA consensus at \$14,280MM and BofA at \$13,808MM and HSA accounts of 8.692MM compares to VA consensus at 8.662MM and BofA at 8.301MM. HQY also noted Prelim FY24 ending total accounts of 15.698MM, HSA cash of \$15,006MM, and HSA investments of \$10,208MM. On rates, HQY noted current adoption of Enhanced rates are ~30% with expectations to increase adoption by 10% p.a. over the next 3 years.

## Goal to double adj. EPS over the next 3 years

HQY announced a target to double adj. EPS over the next three years which implies FY27 EPS of \$4.40-\$4.48. This would put HQY shares at ~18x FY27 EPS today. We view this goal as above expectations and highly dependent on how aggressively HQY plans to buy back shares over the next three years. This new target combined with greater disclosures on cash maturities provides more clarity for investors, an incremental positive. Importantly, the \$4.44 implied midpoint is well above the Street's \$3.10 and there does not appear to be a clean Street est. for FY27 which will hopefully change.

## Market yields may be ~3.8%; FY27 may be "peak" yields

HealthEquity provided an addendum to its previously released cash maturity schedule. Today's update indicates that HQY cash repricing in FY28 has an average yield of 3.8%, representing \$1.9Bn. This is important for two reasons: 1) it indicates that recently placed cash is likely generating similar yields; and 2) it indicates that HQY's custodial yield will face much tougher comps in FY28 (which could mean yields peak in FY27). The broader takeaway from this update is mixed, and we remain confident that HQY can continue to generate higher custodial yields over the next few years. One key question we look to explore: If 3-5 year Treasuries are more than 100bps higher today than in CY2018-2019 and HQY is pivoting toward Enhanced Rates, why is the delta between replacement yields in FY28 (3.8%) barely higher than replacement yields in FY25 (3.6%)? One explanation is the relatively stubborn increase of CD rates this cycle vs prior cycles.

## Other quick takeaways from the investor presentation

The presentation highlights "reducing member service expense", the most significant direct cost driver for the company. HealthEquity plans to address these high expenses through 1) reducing staffing costs; 2) automating interactions; and 3) investing in the digital experience. We look for more information tomorrow. We maintain Buy & \$93 PO.

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## Stock Data

Price	80.07 USD
Price Objective	93.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	48.86 USD - 83.86 USD
Mrkt Val (mn) / Shares Out (mn)	6,966 USD / 87.0
Free Float	97.9%
Average Daily Value (mn)	50.26 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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## Price objective basis & risk

### HealthEquity Inc (HQY)

Our \$93 price objective is based on c.18x our 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.

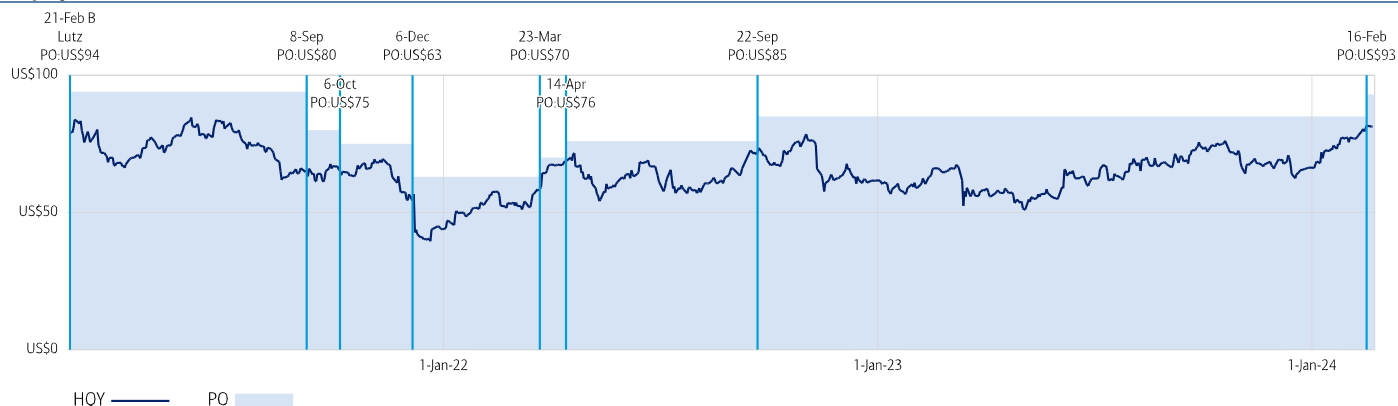
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### HealthEquity (HQQ) Price Chart



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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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