

HealthEquity Inc

HQY announces new CFO

Maintain Rating: BUY | PO: 85.00 USD | Price: 65.23 USD

The News: HealthEquity announces a new CFO

This morning, HealthEquity announced the appointment of James M. Lucania as the new Executive Vice President and Chief Financial Officer. Lucania will begin his term following the filing of the Company's FY2Q 10-Q in September and will succeed Tyson Murdock, who will remain as the CFO through the transition period. Most recently, Lucania served as the CFO of Ascensus Holdings since 2016 and prior to that served as the CFO and VP of Finance and Treasurer of Checkpoint Systems. Prior to Checkpoint Systems, Lucania served in various positions at Miller Buckfire & Co. and Levine Leichtman Capital Partners. Lucania holds a B.S. in economics and a B.A. in music from the University of Pennsylvania and an MBA from the UCLA Anderson School of Management.

Quick comments/thoughts from sellside call with mgmt

We caught up with management earlier this morning as part of an investor call. Jim Lucania's most recent role at Ascensus led him to interface with some of HealthEquity's current and prospective partners. HealthEquity highlighted the importance of the relationship between its sales/commercial functions and its finance division, given HealthEquity's partnership strategy. HealthEquity also noted that it does not have a broader desire to enter the retirement space more aggressively (Ascensus offers both retirement plans like 401ks and college savings plans like 529s), but rather leverage someone who can actively manage its multi-channel strategy. Although HealthEquity did not reiterate guidance in today's press release, management commented that the transition was fully contemplated in last week's guidance. HealthEquity also indicated it is looking to somewhat more aggressively build out its enhanced rate offering over time, though management hedged this commentary by noting it would like to continue to smooth its interest rate sensitivity. Our initial takeaway from today's news is marginally more cautious, an initial stance that we think is appropriate for all major leadership changes. We continue to view HQY as a beat and raise story over the course of the year and into next year and maintain our Buy rating and \$85 PO.

14 June 2023

Equity

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Stock Data

Price	65.23 USD
Price Objective	85.00 USD
Date Established	22-Sep-2022
Investment Opinion	C-1-9
52-Week Range	48.86 USD - 79.20 USD
Mrkt Val (mn) / Shares Out (mn)	5,479 USD / 84.0
Average Daily Value (mn)	38.25 USD
BofA Ticker / Exchange	HQY / NAS
Bloomberg / Reuters	HQY US / HQY.OQ
ROE (2024E)	8.9%
Net Dbt to Eqty (Jan-2023A)	34.5%
ESGMeter™	Medium

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Timestamp: 14 June 2023 10:24AM EDT

Price objective basis & risk

HealthEquity Inc (HQY)

Our \$85 price objective is based on approximately 17-18x our CY24E EBITDA estimate. This represents a 1-2 turn premium to ADP which we believe is a close comparable following HQY's acquisition of WAGE. We believe HQY should trade at a premium to ADP 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.

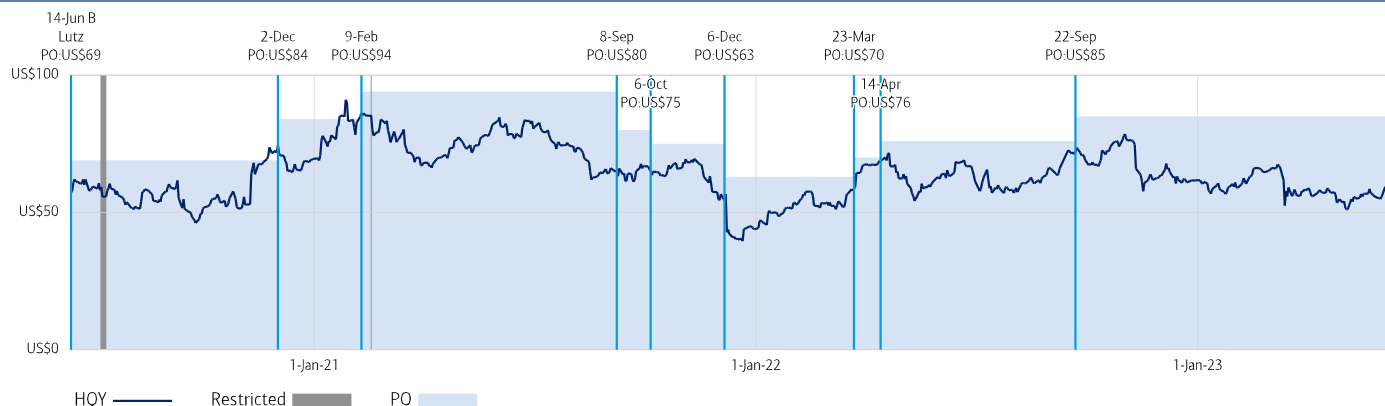
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Important Disclosures

HealthEquity (HQQ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	232	56.86%	Buy	104	44.83%
Hold	86	21.08%	Hold	44	51.16%
Sell	90	22.06%	Sell	23	25.56%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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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%

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