American Well Corp

Longer term guidance frames the roadmap to breakeven

Reiterate Rating: BUY | PO: 1.80 USD | Price: 1.34 USD

15 February 2024

Equity

Providing path to breakeven a positive, now to execution

Amwell's preliminary 2025 guidance and 2026 commentary pointing to EBITDA breakeven are clear positives, in our view, as the company works to integrate the Defense Health Agency's contract. We remain optimistic about Amwell's ability to manage its cash burn and shift to profitability over the next few years, though we acknowledge execution will not be without its challenges. Meanwhile, the Converge migration continues at a steady pace with total visits on the new platform growing to 52% of all visits in 4Q compared to 50%+ in 3Q and 43% in 2Q. We reiterate our Buy rating but reduce our PO to $1.80 on ~1.3x CY24 EV/Revenue (from $2, 1.9x). Our multiple comes down to align with the unprofitable HCIT peers.

FY24 Revenue/EBITDA below ST, FY25 meaningfully ahead

AMWL's FY24 revenue guidance of $259-269MM, is below VA consensus estimates of $271.6MM and BofA's estimate of $276.7MM. FY24 adj. EBITDA guidance of ($160.0)-($155.0)MM compares to VA consensus estimates of ($125.3)MM and BofA's estimate of ($147.1)MM. Preliminary FY25 revenue guidance of $335-$350MM is meaningfully ahead of VA consensus estimates of $301.4MM and BofA's estimate of $296.2MM. Similarly, FY25 adj. EBITDA guidance of ($45)-($35)MM is meaningfully above VA consensus estimates of ($96.5)MM and BofA's estimate of ($120.8)MM.

Increasing FY25 revenue and EBITDA estimates

Following results, we are adjusting our 2024 revenue estimate from $276.5MM to $265.6MM with the reduction driven by lower 1H'24 subscription revenue. We lower our FY24 adj. EBITDA estimates from ($147.1)MM to ($156.5)MM to account for higher R&D spend associated with the ramp up in the Defense Health Agency (DHA) contract. We increase our FY25 revenue estimate from $296.2MM to $340.0MM with the increase driven by revenue associated with DHA contract. We also increase our FY25 adj. EBITDA estimate from ($120.8)MM to ($44.6)MM. The increase in FY25 adj. EBITDA is driven by higher revenue, higher gross margins (from a higher mix of software revenues and COGS leverage), and better OpEx leverage. With this note, we also roll out our quarterly 2024 and FY27 estimates.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.84)	(0.94)	(0.62)	(0.27)	(0.20)
GAAP EPS	(0.99)	(2.38)	(0.81)	(0.47)	(0.41)
EPS Change (YoY)	-52.7%	-11.9%	34.0%	56.5%	25.9%
Consensus EPS (Bloomberg)			(0.62)	(0.52)	(0.39)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-64.7%	-49.9%	-45.8%	-9.1%	-2.0%

* For full definitions of *iQmethod*[SM] measures, see page 9.

Key Changes

(US$)	Previous	Current
Price Obj.	2.00	1.80
2024E EPS	-0.63	-0.62
2025E EPS	-0.51	-0.27
2026E EPS	-0.47	-0.20
2024E EBITDA (m)	-147.1	-156.5
2025E EBITDA (m)	-120.8	-44.6
2026E EBITDA (m)	-115.6	-18.1

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Stock Data

Price	1.34 USD
Price Objective	1.80 USD
Date Established	15-Feb-2024
Investment Opinion	C-1-9
52-Week Range	0.93 USD - 3.93 USD
Mrkt Val (mn) / Shares Out (mn)	359 USD / 268.0
Free Float	88.9%
Average Daily Value (mn)	1.43 USD
BofA Ticker / Exchange	AMWL / NYS
Bloomberg / Reuters	AMWL US / AMWL.N
ROE (2024E)	-50.6%
Net Dbt to Eqty (Dec-2023A)	-77.6%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

HCIT: Healthcare information technology

VA: Visible Alpha

Timestamp: 15 February 2024 10:37AM EST

*iQprofile*SM American Well Corp

iQ**method* SM – **Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-15.8%	-18.5%	-38.8%	-22.9%	-20.5%
Return on Equity	-19.7%	-35.1%	-50.6%	-35.2%	-36.3%
Operating Margin	-78.2%	-239.4%	-71.4%	-24.6%	-17.0%
Free Cash Flow	(193)	(149)	(136)	(27)	(6)

iQ**method* SM – **Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-49.7%	-77.6%	-69.3%	-69.1%	-72.5%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	277	259	266	340	364
% Change	9.7%	-6.5%	2.5%	28.0%	7.1%
Gross Profit	117	96	91	171	190
% Change	10.8%	-17.9%	-5.9%	89.0%	10.6%
EBITDA	(175)	(152)	(156)	(45)	(18)
% Change	-42.9%	13.2%	-2.9%	71.5%	59.5%
Net Interest & Other Income	6	19	12	8	6
Net Income (Adjusted)	**(229)**	**(269)**	**(192)**	**(93)**	**(75)**
% Change	**-65.0%**	**-17.3%**	**28.3%**	**51.8%**	**18.7%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(270)	(676)	(252)	(161)	(154)
Depreciation & Amortization	26	32	33	39	44
Change in Working Capital	(14)	(12)	(1)	1	(2)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	66	508	84	94	107
Capital Expenditure	0	0	0	0	0
Free Cash Flow	**-193**	**-149**	**-136**	**-27**	**-6**
% Change	**-35.6%**	**22.9%**	**8.3%**	**80.2%**	**78.3%**
Share / Issue Repurchase	8	2	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	539	373	217	171	146
Trade Receivables	58	54	56	71	76
Other Current Assets	30	23	25	29	31
Property, Plant & Equipment	1	1	11	18	25
Other Non-Current Assets	590	139	116	95	67
Total Assets	**1,218**	**590**	**424**	**384**	**344**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	114	94	95	117	122
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	20	16	16	20	22
Total Liabilities	**134**	**110**	**111**	**137**	**143**
Total Equity	**1,084**	**480**	**313**	**247**	**201**
Total Equity & Liabilities	**1,218**	**590**	**424**	**384**	**344**

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

Company Sector

Healthcare Technology & Distribution

Company Description

Amwell is a leading telehealth company providing digital delivery to its clients, which are primarily hospitals and health systems. The Amwell platform is a complete digital care delivery solution that embeds itself within its clients' existing offerings and clinical workflows across a wide variety of clinical, retail, school and home settings. The company has about 55 health plan clients, supporting 36k employers and 80MM covered lives as well as 150+ health system customers.

Investment Rationale

Our Buy rating on AMWL is driven by what we view as stabilizing revenue, limited capital requirements, and improving margin profile. The company's recently expanded contracts with two major clients provide longer-term optionality and greater revenue stability. Additionally, AMWL's strong cash position and improving margins as R&D spend moderates in 2023 can support a higher valuation.

Stock Data

Average Daily Volume	1,070,334

Quarterly Earnings Estimates

	2023	2024
Q1	-0.67A	-0.16E
Q2	-0.22A	-0.16E
Q3	-0.28A	-0.17E
Q4	-0.14A	-0.17E

4Q'23 call takeaways

Prepared Remarks

- In FY23, AMWL advanced goals for enabling digital healthcare
- Secured/deployed strategic clients that validate the solution
- Migrated more than half of volumes onto the new platform Converge
- Improved efficiency in the company and placed important elements to transform the commercial organization to reaccelerate momentum in the business
- AMWL sees high conviction in the path to profitability
- Sizable 4Q win with an Australian company
- Had an active quarter for renewals and expansions
    - Integris will expand the use of AMWL's behavioral health solutions
    - Virtual nursing solution continues to resonate in the market and expanded with St. Bernard Healthcare
- Completed the move from account management in sales to a combined model (streamlining client discussions)
- Growing list of expansion and new client wins
- Infrastructure platform digitally empowers clients to generate better outcomes
    - Customers looking for one infrastructure connecting disparate systems
- Payer clients leverage Amwell Medical Group (AMG)
- Strategic clients including CVS and Elevance are examples of the validation of the solution
- Focused on advancing towards profitability with the following priorities
    - Successful deployment of the military health system
    - Migrate the majority of remaining clients onto Converge
    - Reaccelerating bookings
- 4Q results
    - Total Revenue of $70.7MM, down 11% y/y
        - Subscription revenue of $27.3MM
        - Amwell Medical Group (AMG) visit revenue of $32.1MM, down 8% y/y
        - AMG visits 10% lower vs. prior year due to a more normal onset of the flu season
    - Gross margin of 34%, down from 42% in the prior year

        - Driven by lower software subscription revenue and mix shift to lower marketing services
    - Applying ongoing cost discipline
    - Net loss of ($50.0)MM vs. ($137.1)MM million in 3Q'23
        - 3Q'23 reflects non-cash goodwill impairment charges of $78.9MM
    - Adjusted EBITDA of ($36.9)MM vs. ($38.5)MM in 3Q'23
    - Total active providers of 103,000
    - Total visits of 1.6 million vs. 1.7 million last year
        - Visits on Converge grew to 52% of total visits
    - Scheduled visits represented 60% of total
    - Continue to make good progress migrating clients to Converge
    - Visits on Converge were 52% for 4Q
    - Average Annual Contract Value (ACV) was $902K for health systems
- FY23 results
    - Total Revenue of $259.0MM
        - Subscription revenue of $112.4MM
        - AMG visit revenue of $119.5MM
    - Gross margin of 37%
    - Net loss was ($679.2)MM
        - Reflects non-cash goodwill impairment charges of $436.5MM vs. ($272.1)MM in 2022
    - Adjusted EBITDA of ($165.4)MM vs. ($175.3)MM in 2022
    - Total visits of 6.3 million
- Cash and short-term securities as of quarter-end were $372.0MM
- FY23 results reflect headwinds associated with re-platforming
- FY24 guidance
    - Revenue of $259-$269MM
        - Subscription revenue to be roughly the same as FY23
    - AMG visits of 1.6-1.7 million
    - Adjusted EBITDA of ($160)-($155)MM

        - Reflects incremental Research and Development investment associated with the previously announced deployment supporting the Defense Health Agency's "Digital First" initiative
        - Guidance assumes return to normalized incentive compensation
    - Re-platforming headwinds in FY23 will impact subscription revenue
        - Expect a decline of 10% in 1Q and build back up with go-lives
    - Expect gradual return of bookings growth from transformation in 1H
- Preliminary FY25 view
    - Revenue of $335-$350MM
    - Adj. EBITDA of ($45)-($35)MM
- Preliminary FY26 view
    - Objective to attain adj. EBITDA breakeven in 2026
    - Cash and investments balance of $150MM

Q&A

- Health system benefit from improving utilization and thoughts around spending intentions of health systems vs. health plans
    - In general health systems are interested in systems that help them improve staff retention and efficiencies
    - Example: virtual nursing, automated programs
    - Behavioral health also in high demand
    - General need/awareness for a platform to enable digital hybrid care
- 10% headcount reduction and organizational efficiencies
    - Across the company
    - Some of it was programmed in as AMWL right-sized spending related to research & development (R&D) and some related to the growth side of the organization
    - Biggest opportunity in top line growth (which is all contracted in 2025 and beyond), so the only risk is in execution
    - Focused on cost structure across the entire company
    - Everything with Converge is much more efficient
    - Upscaled the team and changed the model from a fragmented sales account management into a single hybrid partner (trained individuals to sell the full offering)

    - Updated compensation to encourage high margin subscription software

- On 2025, how the defense health agency contract impacts guidance and contributions in the back half of the year
    - In 2024, AMWL is investing in a new market segment (government)
    - Doing some big investments with the military health service that will allow for strong returns and other similar clients in the same sector
    - Task order already budgeted and contracted
    - Initial phase – partially live and deployment of 5 sites (1 go-live per quarter)
    - In 2025 will step up to the full enterprise
    - Likelihood of continuing to provide is very high to do large investments in the deployment
    - This is a mission critical infrastructure (low risk)
    - Assuming end of 2024 run-rate to the beginning of 2025 continues going forward
- Discussion around potential expansion opportunities
    - Now creating multiple environments across the entire portfolio
    - Upscaling from here does not require additional effort (is an identical environment)
    - For the next government client, will likely not repeat a lot of this work
    - Almost entirely selling software which is much more scalable
- Focus of the salesforce and receptivity of clients
    - Appetite depends on the type of client
    - Health systems are very focused on savings/staff retention
    - Health plans have a different set of focus in providing better outcomes/steerage
    - Plan to expand to new logos and sees relationships as lifelong relationships
- 2025 guidance and client contributions
    - +90% is contracted backlog
    - Defense Health contract is a large component of that
    - 30% increase in revenue and 70% increase is EBITDA is largely predicated on contracted backlog
    - Mix more heavily weighted towards software than prior

- Converge related spending
    - Excluding government work, AMWL saw y/y high 20s% decline in 2023 vs. 2022
    - Would expect that to continue to 30s% in 2024, but the government contract will mitigate the decline to mid teens declines
    - By 2026, envisioning a run-rate of 25-30% of software revenues
- Payer migration dynamics in 4Q
    - 4Q includes all revenues from payer customers
    - AMWL is not charging for migrations (migrating plans won't change the type of revenue or the revenue recognition)
    - Puts AMWL in a position to upsell to customers, so the revenue potential is enhanced
- 2026 expectations
    - Guidance for 2025 and 2026, there's an improvement from a cash flow perspective (25-30% driven by costs and the balance driven by revenue and gross profit)
- Bookings trends with new customers and those that have migrated to the new platform
    - Have seen subscriptions revenues that reflected the outcome of decisions made quarters ago
    - Optimistic on growing/expanding the Converge clientele

Price objective basis & risk

American Well Corp (AMWL)

Our $1.80 price objective is based on c.1.3x our CY24 EV/revenue estimate. The revenue multiple is toward the middle of AMWL's unprofitable health IT peers. An in-line multiple is reasonable in our view given AMWL's strong cash position and lack of capital requirements, somewhat offset by execution risk on a large contracts.

Upside risks to our PO are faster acceleration of revenue growth into 2024 through Subscription cross-sales or rapid growth in AMG volume. Additionally, our assumptions around cash burn over the next 2-3 years may prove overly punitive which would imply shares trade at a more reasonable valuation today.

Downside risks are the inability to accelerate Subscription revenue, inability to scale gross margins, slower growth in visits and continued high levels of cash burn.

Analyst Certification

I, Allen Lutz, CFA, 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 - 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
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM 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

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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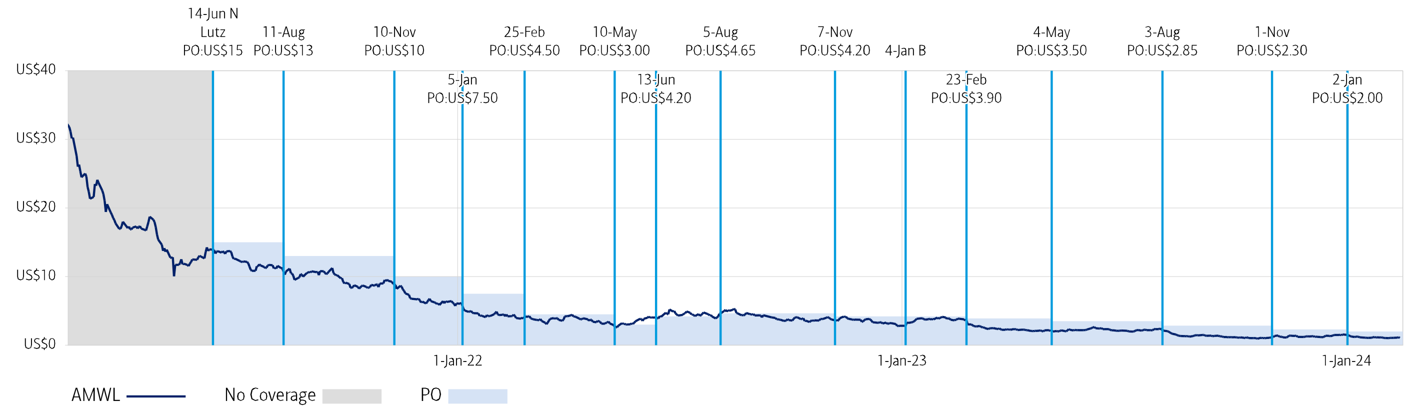
Disclosures

Important Disclosures

American Well Corp (AMWL) 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: 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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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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