

Progyny

Mixed results with some weakness from lower Pharmacy revenue

Maintain Rating: BUY | PO: 47.00 USD | Price: 40.79 USD

4Q results were light, but FY24 guide in-line with ST

Progyny's 4Q'23 Rev/EBITDA missed Street estimates with weaker than expected Pharmacy revenue and lower gross margins vs. our model. Utilization was relatively steady and the key question heading on the call will be the driver of the lower than expected Pharmacy Benefit service revenue in 4Q and whether or not that is driving the 1Q revenue guide that fell below the Street. Management noted the 1st quarter range reflects a shift in treatment mix, resulting in a \$15MM headwind. The lower than expected 1Q revenue guidance also indicates 2024 will likely be a back-end weighted year for Progyny. We continue to view Progyny as well positioned competitively within an end-market with structural tailwinds that should help Progyny continue to grow ahead of HCIT peers. We look to the call for color drivers of 4Q results and components of the FY24 guide, including utilization and member trend commentary. We maintain our Buy rating ahead of the 4:45PM call.

4Q revenue and adj. EBITDA miss ST/BofA

Total revenue of \$269.9MM missed VA consensus estimates of \$273.5MM and BofA's estimate of \$274.6MM. Medical revenue of \$171.3MM came ahead of our estimate of \$165.7MM, with Pharmacy revenue of \$98.6MM missing our estimate of \$105.3MM. Adj. EBITDA of \$43.2MM was slightly below VA consensus estimates of \$43.5MM and missed BofA's estimate of \$44.5MM. This compares to 4Q guidance of \$268.3-\$276.3MM in revenue and \$42.2-\$44.7MM in adj. EBITDA. PGNV generated ~\$188.8MM of operating cash flow in FY23 up ~\$108MM y/y.

Initial FY24 revenue/EBITDA guide in-line with Street

The initial FY24 revenue guidance of \$1,285-\$1,315MM brackets VA consensus estimates of \$1,310.9MM and is ahead of BofA's estimate of \$1,277.2MM. FY24 adj. EBITDA guidance of \$224.0-\$232.0MM also brackets VA consensus estimates of \$229.3MM and is ahead of BofA's estimate of \$222.3MM. FY24 EPS guidance of \$0.66 - \$0.71 compares to VA consensus estimates of \$0.73 and BofA's estimate of \$0.60. 1Q'24 guidance includes revenue of \$285.0-\$292.0MM vs. VA consensus of \$312.3MM, adjusted EBITDA of \$49.0-\$51.0MM vs. VA consensus of \$56.9MM, and EPS of \$0.12-\$0.13 vs. VA consensus of \$0.18.

Key topics for the call

The key focus on the call will likely be on the FY24 guide and components therein, including utilization trends, timing of client starts, and updates/color on the government contract. We also expect to hear commentary regarding the recent Alabama Supreme Court ruling and any potential impact to the IVF market. Additionally, we look for updates on new offerings (menopause, male fertility) and geographic expansion opportunities (Canada), including potential contributions to FY24. Finally, we look for updates around any pockets of attrition within PGNV's current customer base and any commentary on member trends as well as details on any incremental cost initiatives being undertaken.

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27 February 2024

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Stock Data

Price	40.79 USD
Price Objective	47.00 USD
Date Established	8-Nov-2023
Investment Opinion	C-1-9
52-Week Range	29.44 USD - 44.95 USD
Mrkt Val (mn) / Shares Out (mn)	3,892 USD / 95.4
Free Float	86.2%
Average Daily Value (mn)	27.43 USD
BofA Ticker / Exchange	PGNY / NAS
Bloomberg / Reuters	PGNY US / PGNV.OQ
ROE (2023E)	12.6%
Net Dbt to Eqty (Dec-2022A)	-31.9%
ESGMeter™	Medium

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IVF - In vitro fertilization

Price objective basis & risk

Progyny (PGNY)

We have a \$47 price objective on shares of PGNY, based on about 19.6x CY24E EV/EBITDA. PGNY does not have any pure-play comps, and we use a mix of high-growth healthcare services / healthcare IT companies, including recently public companies. We use the median of the comp group primarily as comparison given the wide diversion of the companies used in our group. Our valuation assumes a slight premium to the broad health IT/digital health comp universe but a discount to some of the other high-growth names, as the balance of high-end revenue growth is offset by rate-limiting gross margins (as more of a service with tech-enablement vs. a more pure technology company). However, we still see PGNY's long-term EBITDA margins as appealing.

Downside risks are potential competition from traditional health insurers vs. the carve-out plan, a potential slowdown in utilization (including ongoing pressure tied to the COVID-19 impact and recessionary concerns), and the inability to maintain its growth rate in attractive new customers. Upside risks are better cross-sell of additional services (notably Progyny Rx and more Smart Cycles), increased awareness of fertility offerings driving better utilization, a faster rebound in volumes as part of the broad economic reopening, and new business opportunities due to a competitive labor market.

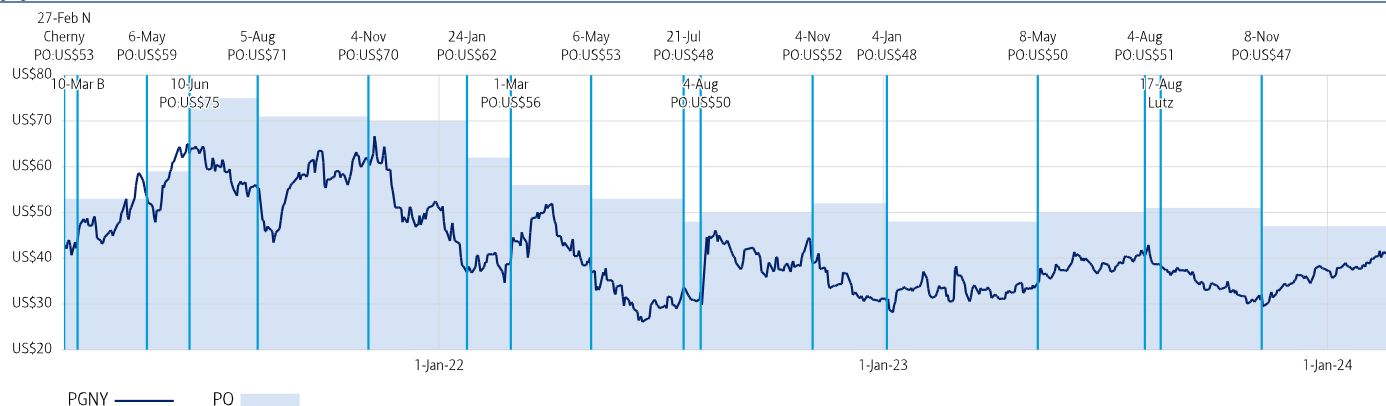
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Progyny (PGNY) Price Chart



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 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%
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Sell	807	22.84%	Sell	383	47.46%

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