Auginvestments

CLOVER HEALTH RECOMMENDATION

Company Background

Clover Health is the fastest growing Medicare insurer within the Medicare Advantage market. Clover is centered around their cutting-edge machine learning software, Clover Assistant, that allows physicians to improve their decision-making and allows for improved health outcomes at much lower costs versus other Medicare insurers. Although they are a new entrant into the Medicare market, they are looking at expansion through various channels and have the ability to fund such expansions via their recent SPAC IPO in which they secured $1.2B USD with Social Capital Hedosophia Holdings Corp. III.

Outlook

In 2019 the Medicare Advantage market was $270 billion USD and it is expected to grow to $590 billion by 2025, which represents a CAGR of 14%. There is also potential upside to this figure as the Biden Administration may seek to expand upon current policies related to healthcare benefits, specifically for older Americans. President Biden has stated his desire to lower the Medicare eligibility age to 60, from the current age of 65. If this policy change comes to fruition, as many as 23 million more Americans may be insured under the Medicare Program. This represents a huge potential gain for all market participants but specifically Clover. Clover has been gaining significant market share from competitors and the potential impact of such policy changes would be enormous. Clover has the ability, through its disruptive technology, to become a market leader in technology, market share, and revenue.

Government Spending

Government spending has also been on a steady rise due to COVID-19 and the US Government is expected to run steep deficits for the next few years. Due to the extreme debt levels of the Government and the prolonged effects of deficit spending, cost savings will be a huge focus now and for years to come. Clover will allow the government to achieve these costs savings by having a lower cost structure than all their competitors and by improving the outcome for all Americans. Clover Assistant allows physicians to make more effective decisions in terms of the health of their clients which also entails much reduced expenses for the Federal Government.

Scalability

Clover Assistant is a scalable software that can be applied to all aspects of the Medicare plan, currently approved and operating in 34 counties across the United States. Clover is acquiring new patients at a much higher rate in the current counties it is operating in. The most impressive numbers come via their market share across established markets. Their take rate over the past 3 years has been greater than 50% and they are currently in the top 3 in terms of market share within their established markets. While other market participants such as United Health and Horizon BCBS have been losing

Outperformer
CLOV-NASDAQ
Sector: Healthcare
Current Price (22/01/21): US$13.55
Price Target (12-18 months): US$20.00
Total Return: 48%

Market Data (US$)

Current Price	$13.55
52-Week Range	$9.87 - $17.45
Mkt Cap ($mm)	$6,009
AD Vol. (mm)	8.17
Current Dividend	$0.00
Dividend Yield	0.0%

Financial Data

Fiscal Y-E	December
Shares O/S (mm)	443.5
Net Debt ($mm)	($733)

Supplemental Data

Year	2023E	2025E
Medicare Adv Members	139,000	323,000
Revenue ($mm)	1,717	3,876

Price Target (Base Case): US $20.00

Our $20.00 price target is derived from our Financial Summary Model, assuming a 2021 average member achievement of roughly 73,500 Medicare Advantage Members. In this scenario our estimate is primarily driven from the 10x 2021E Revenue.

Upside Scenario: US $39.00

Market continues to price in future growth similar to other hyper growth scalable software companies. In this scenario our estimate is primarily driven from the 10x 2023E Revenue.

Downside Scenario: US $10.00

Market fails to recognize hyper growth and Clover Health continues to trade at a discount to hyper growth peers. In this scenario our estimate is primarily driven from the 5x 2021E Revenue.

market share, Clover has been gaining at a rapid rate and as the company is able to expand into new counties this growth will continue to progress as Clover is able to scale their software.

Partnerships

Clover Health has an existing partnership with a multinational chain, Walmart. Walmart is known for its superior products at a much lower cost, which is the perfect platform for Clover. This partnership will allow Clover to expand and move into new geographies which will further their goal to continue to acquire market share from their competitors. A potential catalyst in the coming months will be the announcement of yet another partnership with a huge chain that will further aid in Clover's expansion.

Metric	2019	Q12020	2022E	Long-Term Target
Member Growth	31%	38%	35%	30%+
Clover Assistant Penetration	59%	61%	68%	70%+
Clover Assistant Returning Member MCR	89%	82%	76%	<75%
Consolidated MCR	99%	89%	86%	82-83%
Adjusted EBITDA Margin	(38%)	(17%)	(3%)	6-7%

Financial Summary

(in millions)	2018A	2019A	2020E	2021E	2022E	2023E	CAGR
Counties	19	26	34	108	161	219	
Average Members	21,467	41,143	56,707	73,477	99,194	138,871	35.0%
YoY Growth (%)		31%	38%	30%	35%	40%	
Total Revenue	$358	$462	$671	$880	$1,219	$1,723	37.0%
YoY Growth (%)		29%	45%	31%	39%	41%	
Gross Profit	$15	$12	$121	$102	$178	$281	81.0%
Gross Margin (%)	4.1%	2.5%	18.0%	11.5%	14.6%	16.3%	
MCR	97.1%	98.8%	82.9%	89.3%	85.7%	84.0%	
Net Loss	($202)	($364)					
Adjusted EBITDA	($177)	($176)	($43)	($82)	($31)	$16	
Total EBITDA Margin (%)	(50.10%)	(38.30%)	(6.40%)	(9.40%)	(2.60%)	0.90%	