HealthEquity Inc.

HealthEquity

Smith Investment Fund

Amit Thakrar
athakrar@terpmial.umd.edu
Jack Mason
Jmason19@terpmail.umd.edu
Aria Zutshi
azutshi@termail.umd.edu

Investment Recommendation

We are recommending a BUY for HealthEquity (NASDAQ: HQY) at its current price of $96.79 as of December 12th's market close. HQY is an industry leader within the health savings account (HSA) administration and consumer-directed benefits space, providing integrated platforms that enable individuals and employers to manage healthcare spending efficiently. The company's solutions support HSAs, FSAs, HRAs, and other tax-advantaged benefit accounts, positioning HQY at the center of the shift toward consumer-driven healthcare. Its platform-based model, scale advantages, and strong retention allow HQY to generate recurring, high-margin revenue while benefiting from long-term healthcare cost inflation, and increasing HSA adoption.

Key Metrics	
Revenue	$1.199 B
Gross Margin	64.78%
EBITDA	$212.91 M
EPS	$1.11
EV/EBITDA	44.0x

Stock Details	
Current Price	$96.79
YTD%	-0.02%
52wk (High/low)	$117/$74
# of Shares	88.8M

Thesis

Market Leader in a Structurally Growing HSA Industry: HealthEquity is the largest pure-play HSA administrator in the U.S., controlling approximately 25% of all HSA accounts and ~21% of total HSA assets, making it the clear market leader among a highly concentrated industry where the top five providers control roughly two-thirds of accounts. The HSA industry benefits from powerful secular tailwinds, including rising healthcare costs, greater adoption of high-deductible health plans, and favorable legislation. Industry data from Devenir shows HSA accounts growing at ~5% CAGR and HSA assets at ~11% CAGR through 2027, while HQY continues to outgrow the market, supported by consistent share gains and scale advantages

High Recurring Revenue Driven Through Retention and Deposits: HQY's business model is anchored by extremely strong account retention (~97%+), long account lifetimes, and recurring employer- and employee-funded cash inflows into HSAs. Once an HSA is established, switching costs are high due to account inertia, payroll integrations, and embedded employer relationships, resulting in durable, predictable revenue streams. As balances accumulate over time, HQY benefits from recurring custodial cash deposits that reset at higher yields, driving compounding revenue and cash flow even in modest account growth environments.

Integrated Tech Platform: HQY operates a fully integrated, cloud-based platform that unifies all its custodial accounts into a single system, enabling employers to consolidate vendors, reduce complexity, and lower healthcare benefit costs. Deep payroll and HR integrations create high switching costs and support industry-leading retention (~97%), while platform scale allows HQY to automate servicing and deploy AI-driven customer support, reducing cost per account.

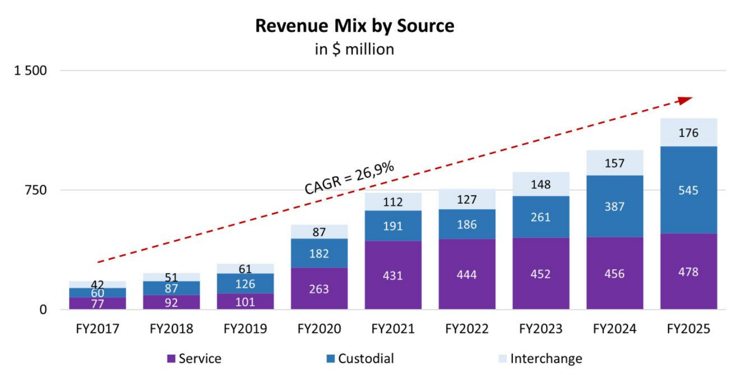
5-Year Price Performance

Investment Overview

HealthEquity (NASDAQ: HQY) has delivered strong, consistent growth over the past several years, driven by secular expansion in Health Savings Accounts (HSAs), continued market share gains, and a highly recurring, asset-light business model. Revenue has grown from ~$734 million in FY2020 to ~$1.2 billion in FY2024, representing a CAGR of 13.05%, with the company focusing heavily on scaling out their most profitable segment, custodial revenue. They have seen a shift from 58% and 26% of revenue coming from service and custodial revenue in FY2020, respectively. This massive to where custodial has now over 45% of revenue and service revenue growth slowing. This strategic shift reflects management's emphasis on aggressively growing HSA account numbers and asset balances, leveraging its strong retention and recurring cash inflows to drive higher-margin, more predictable revenue and long-term earnings visibility.

What Matters?

- **Highly Recurring Revenue Built Through Retention and Cash Compounding –** HQY's business model is built around exceptionally high account retention (~97%+), long account lifetimes, and recurring employer and employee contributions into HSAs. Once established, accounts tend to persist for decades, allowing cash balances to accumulate and compound over time. This dynamic creates predictable, recurring revenue streams across service fees, interchange, and—most importantly—custodial interest income. As balances grow, incremental revenue is generated with minimal incremental cost, underpinning strong operating leverage and cash flow durability.
- **Custodial Cash Yield as a Structural Earnings Driver –** Nearly half of HQY's revenue is derived from custodial interest income, which carries ~90%+ gross margins and provides a powerful earnings lever. Importantly, HQY has $5–6 billion of HSA cash contracts repricing through FY27, moving from legacy yields near ~2% to renewal rates around 4.4–4.7%, creating a multi-year, highly visible EPS tailwind. This repricing cycle meaningfully enhances earnings growth and margin expansion independent of incremental account growth, differentiating HQY from traditional HealthTech and benefits administrators.
- **Integrated Technology Platform Supporting Scale and Margin Expansion –** HQY's fully integrated platform unifies HSAs and other consumer-directed benefits into a single system for employers, driving switching costs, cross-sell opportunities, and operational efficiencies. Continued investments in automation, AI-enabled customer service, and mobile-first engagement are reducing service costs per account while improving user experience. Combined with a favorable shift toward high-margin custodial revenue, these dynamics support EBITDA margin expansion toward the mid-40% range over the medium term.



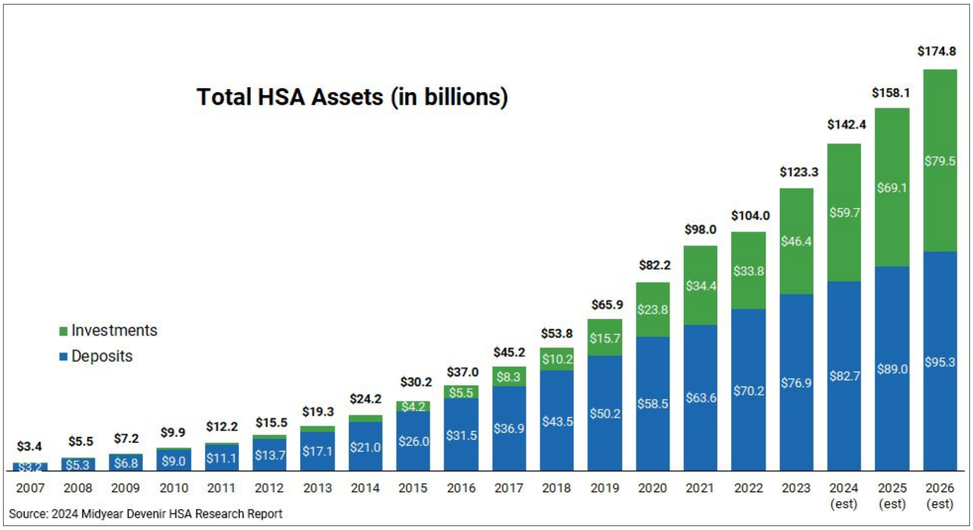
Additional Upside Lever

- **Long-Term Expansion of the HSA Market and Legislative Tailwinds –** The total HSA market continues to expand, with industry data projecting ~5% CAGR in accounts and ~11% CAGR in assets through 2027, driven by rising healthcare costs, an aging U.S. population, and increased financial responsibility placed on consumers. Recent pro-HSA legislation under the One Big Beautiful Bill Act (OBBBA) further expands eligibility, particularly through ACA bronze and catastrophic plans, which management estimates could unlock 3–4 million incremental HSA-eligible households over time. As the market leader with deep employer and payer relationships, HQY is well positioned to capture a disproportionate share of this incremental growth, providing upside to long-term account, asset, and revenue assumptions.

- **Mix Shift Toward Investment-Enabled HSAs Increases Revenue per Account -** HealthEquity continues to drive adoption of investment-enabled HSA accounts, which carry meaningfully higher average balances than cash-only accounts and require minimum cash thresholds before funds are invested. As more members transition to investment-enabled accounts, total HSA assets per account increase, resulting in higher recurring custodial cash balances and greater exposure to high-margin interest income. This mix shift enhances revenue per account without a proportional increase in operating costs, reinforcing HQY's ability to compound earnings as account tenure and balances grow over time.

Questions Researched and Outstanding Questions

- How sensitive is HealthEquity's long-run earnings power to interest rate changes, and how quickly is custodial cash repriced to offset a reduction in short rates?
- To what degree is the growth of custodial revenues driven by accumulation vs growth in yield?
- How scalable is distribution through health plan partnerships?
- How defensible is HealthEquity's model against bank-owned and insurer owned administrators as competition intensifies for higher-balance accounts?
- How will management balance reinvest in growth initiatives, acquisitions, and shareholder returns as free cash flow expands?



Business Overview

HealthEquity, Inc. (NASDAQ: HQY) is a U.S.-based healthcare financial technology company headquartered in Draper, Utah, and is the largest independent, pure-play administrator of Health Savings Accounts (HSAs) and other consumer-directed benefits. Founded in 2002, HealthEquity partners with employers, health plans, and benefits advisors to help individuals manage and save for healthcare expenses through tax-advantaged accounts. The company operates primarily in the United States and serves ~10 million HSA accounts, representing over 25% of total U.S. HSA accounts, alongside millions of additional consumer benefit accounts.

HQY's business model is centered on a technology-enabled, custodial platform that combines long-duration account retention, recurring employer and employee cash contributions, and high-margin custodial interest income. Revenue is generated through a combination of service fees, custodial interest revenue, and interchange revenue, resulting in a highly recurring, capital-light, and cash-generative operating model.

Operating Segments & Revenue Model

1. Service Revenue (40% of FY2024 Revenue)

Service revenue consists primarily of per-account fees paid by employers or members for administering HSAs and other consumer-directed benefits.

Key offerings include:

- HSA Administration: Account setup, compliance, recordkeeping, and reporting
- Consumer-Directed Benefits (CDBs):
- Flexible Spending Accounts (FSAs)
- Health Reimbursement Arrangements (HRAs)
- COBRA administration
- Commuter and lifestyle benefit accounts
- Employer Platform Services: Payroll integration, plan design support, and benefits administration tools

Service revenue is highly recurring and scales with account growth, while deep integration into employer payroll and HR systems creates high switching costs and industry-leading retention (~97%+).

2. Custodial Revenue (45% of FY2024 Revenue)

Custodial revenue is generated from interest earned on HSA cash balances held with bank and insurance partners.

Key characteristics:

- Nearly half of total revenue
- ~90%+ gross margins
- Driven by:
    - Total HSA cash balances
    - Contractual interest rate yields (often benchmarked to the 5-year Treasury)
    - Long-dated contracts (3–5 years) create earnings visibility and predictability

Business Overview (continued)

3. Interchange Revenue (15% of FY2024 Revenue)

Interchange revenue is generated when members use HSA-linked debit cards to pay for qualified healthcare expenses.

Key attributes:

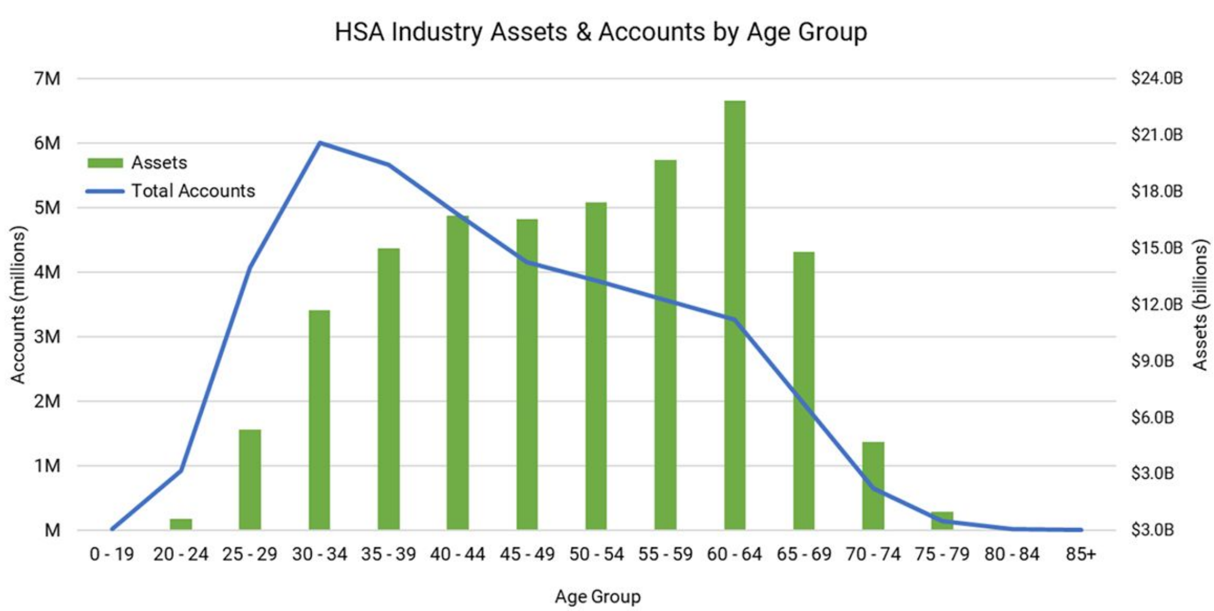
- Transaction-based revenue stream
- Benefits from increased account engagement and healthcare utilization
- Complements custodial and service revenue without meaningful incremental cost

Customer Base & Distribution

HealthEquity serves a diversified base of:

- Employers (small, mid-sized, and large enterprises)
- Health plans and insurance carriers
- Benefits advisors and consultants
- Individual account holders

The company distributes its platform through enterprise employer relationships and health plan partnerships, rather than direct-to-consumer marketing, reinforcing account stickiness and long-term retention.



1. Sustainable Above-Average Earnings Growth

Revenue Growth:

HealthEquity has delivered strong historical revenue growth driven by the expansion of consumer-directed healthcare and rising HSA adoption. Total revenue increased from approximately $734 million in 2020 to nearly $2.0 billion in 2024, reflecting growth in HSA assets, higher custodial cash balances, and increased contribution from custodial revenue as interest rates rose. This period of growth was supported by steady employer adoption of **high-deductible health plans** and **increased consumer engagement with HSAs** as both spending and long-term savings vehicles.

Going forward, revenue growth is expected to normalize but remain above average. Our model projects total revenue to grow from approximately $2.0 billion in 2024 to just over $2.6 billion by 2029, implying mid single-digit annual growth. This reflects HealthEquity's increasing scale and conservative assumptions around interest rate normalization, while still benefiting from continued asset growth and recurring fee-based revenue.

Revenue Drivers:

The primary driver of revenue growth is the **expansion of total HSA assets**, which are projected to grow from approximately $32 billion in 2024 to over $53 billion by 2029. This growth is supported by high single-digit annual increases in HSA accounts and mid single-digit growth in average balances per account. Average daily HSA cash balances continue to rise, though at a decelerating rate, as participants gradually allocate a greater portion of assets toward investments.

Custodial revenue represents the most significant source of incremental growth. Estimated custodial revenues increase from approximately $545 million in 2024 to over $950 million by 2029, driven by asset growth and sustained yield on cash balances. Other custodial revenues and interchange revenue grow steadily, supported by modest increases in spend per account and consistent account engagement. Service revenue remains stable and is supported by long-term employer relationships and recurring benefit administration fees.

Gross Margin:

HealthEquity benefits from a **capital-light business model with limited incremental costs** to service additional accounts. Gross margins have historically been supported by recurring revenue streams and scale efficiencies across technology and administration. As custodial revenue becomes a larger share of total revenue, gross margins are expected to remain stable to modestly expanding over the forecast period, supported by high-margin interest income and operating leverage.

Operating Margin:

Operating margins are expected to expand gradually as revenue scales and fixed costs are leveraged across a larger asset base. The model assumes operating margin improvement toward the high twenties to low thirties over time, driven by growth in high-margin custodial revenue, declining integration-related costs, and disciplined operating expense growth. **Earnings growth outpaces revenue growth** as incremental revenue flows through at attractive margins, supporting sustainable above-average earnings growth over the long term.

2. Leadership in an Attractive Business Space

Attractive Industry

HealthEquity operates within the consumer-directed healthcare and benefits administration industry, which is supported by long-term structural tailwinds. Rising healthcare costs continue to pressure employers to shift toward high-deductible health plans as a cost-control mechanism, increasing demand for Health Savings Accounts. HSAs benefit from favorable tax treatment, growing regulatory support, and increasing consumer awareness, positioning them as both healthcare spending vehicles and long-term savings tools. As healthcare expenses grow faster than wages, demand for tax-advantaged accounts and benefits optimization is expected to remain durable over time. The benefits administration market is further supported by increasing complexity in employer-sponsored benefits. Regulatory requirements, compliance standards, and administrative burdens incentivize employers to outsource benefits management to scaled platforms. This creates high barriers to entry and favors established providers like HealthEquity that can offer integrated, compliant, and technology-driven solutions.

Competitive Positioning

HealthEquity is one of the largest HSA custodians in the United States, with a scaled platform that administers tens of billions of dollars in HSA assets. The company's size provides meaningful advantages in technology investment, regulatory compliance, and operating efficiency. HQY's platform supports a broad range of consumer-directed benefits, including HSAs, FSAs, HRAs, COBRA, and commuter benefits, allowing the company to serve as a comprehensive benefits administrator for employers. The company's custodial model benefits from scale, as larger asset balances generate higher interest income and custodial revenue without proportional increases in cost. HQY's long-standing relationships with employers, health plans, and benefits brokers reinforce its competitive position and create high switching costs. Once integrated into an employer's benefits ecosystem, HealthEquity becomes deeply embedded in enrollment, payroll, and compliance workflows.

Technology and Platform Leadership

The platform supports account administration, payments, investment management, and participant engagement through digital tools and educational resources. Continued investment in technology enhances user experience, improves retention, and supports cross-selling across benefit products. The platform's scalability allows HealthEquity to grow assets under administration while maintaining disciplined cost growth. As account volumes increase, fixed technology and compliance costs are spread across a larger base, reinforcing operating leverage and margin expansion.

Customer Ecosystem and Retention

HealthEquity serves a diversified customer base that includes employers of varying sizes, health plans, and individual account holders. Employer relationships tend to be long-term due to regulatory complexity, operational integration, and participant inertia. Account holders often remain with HealthEquity even when changing employers, supporting long account lifecycles and recurring revenue. This ecosystem creates durable competitive advantages, as HealthEquity benefits from both employer-level retention and individual account persistence. The company's ability to retain assets over long periods strengthens revenue visibility and supports sustainable earnings growth.

3. Sustainable Competitive Advantage

Scale and Market Leadership Drive Switching Costs and Long-Duration Relationships

HealthEquity is the largest independent HSA administrator in the U.S., with approximately 25% of all HSA accounts and over 20% of total HSA assets, establishing clear market leadership in a highly concentrated industry. This scale enables HQY to serve employers of all sizes and embed its platform deeply across payroll systems, HR platforms, compliance workflows, debit card infrastructure, and mobile applications. As a result, employers face meaningful operational, financial, and compliance friction when switching providers, while employees tend to retain HSAs across job changes. These dynamics drive industry-leading account retention of ~97%+ and exceptionally long account lifetimes, creating a compounding customer base that is difficult for competitors to displace.

Custodial Cash Flywheel Reinforces Competitive Advantage

HQY's scale allows it to aggregate large and recurring HSA cash balances, creating a powerful custodial revenue flywheel. As balances grow, custodial interest income, which carries ~90%+ gross margins, increases disproportionately, enabling HQY to reinvest in technology, security, product enhancements, and potential acquisitions. Importantly, HQY's size provides leverage in negotiating long-dated depository contracts (3–5 years) with bank and insurance partners at more attractive yields than smaller competitors can achieve. This scale-driven pricing power and reinvestment loop reinforces HQY's competitive moat and earnings durability.

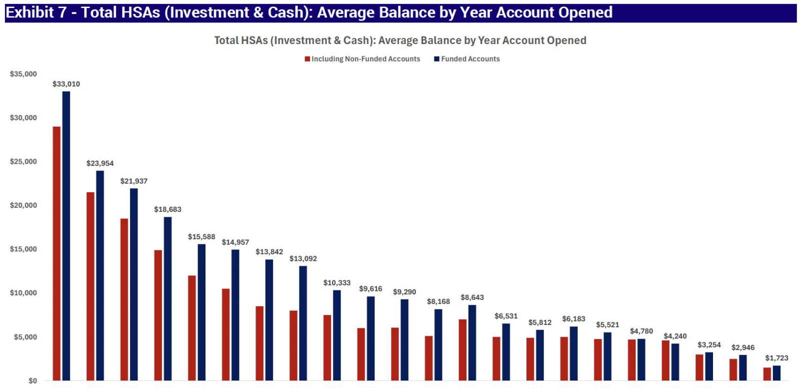
Integrated Cloud-Based Technology Platform Lowers Costs and Enhances User Experience

HQY operates a highly scalable, technology-driven platform that supports significant operating leverage. Continued investments in automation, AI-enabled customer service, and fraud detection reduce service and administrative costs per account while improving member experience. As account volumes and assets scale faster than operating expenses, incremental revenue increasingly flows through to EBITDA and free cash flow, supporting sustained margin expansion that smaller or less technologically sophisticated competitors struggle to match.

Default Provider Positioning Enables Scalable Account Growth

HQY's integration with health plans, insurance companies, benefits advisors, and employer platforms positions the company to increasingly become a default HSA provider, particularly within ACA exchange plans and employer-sponsored HDHP offerings. This embedded distribution model enables steady account growth with minimal incremental sales and marketing expense, while shifting customer acquisition upstream and reducing competitive churn at the point of sale.

Exhibit 7 - Total HSAs (Investment & Cash): Average Balance by Year Account Opened

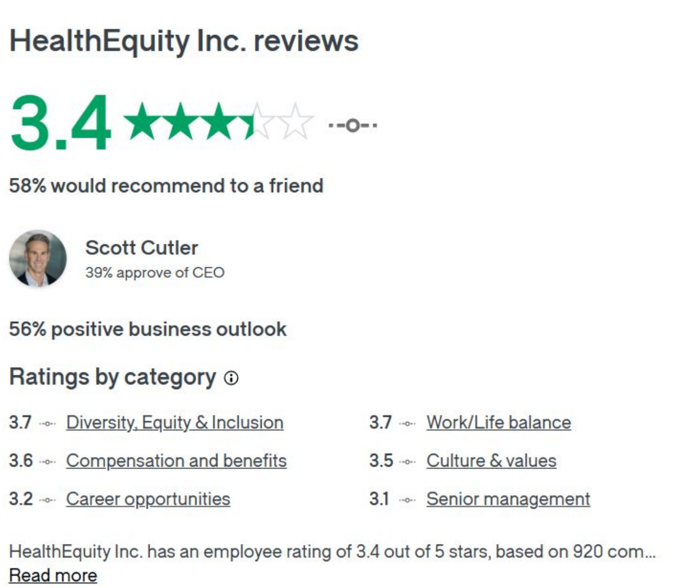


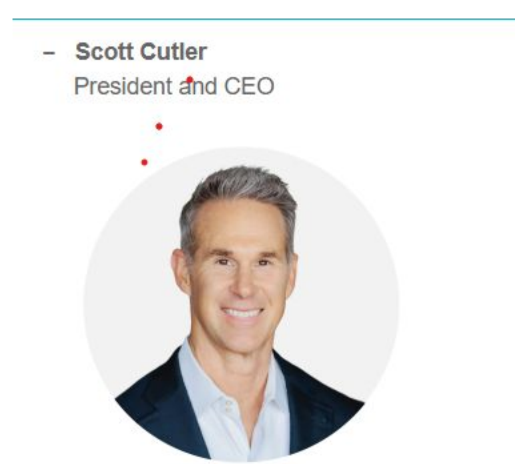
Source: Devenir Research

4. Strong Management Team and Culture

HealthEquity Inc. has a fairly new set of executives who blend skills from outside with a sense of continuity from the founder, which is a smoother transition than a full reset. The current Chief Executive Officer, Scott Cutler, has a deep background in managing platforms that are highly dependent on technology, such as his previous position as Chief Executive Officer at StockX, as well as his previous senior leadership roles at StubHub, eBay, and New York Stock Exchange. This is a very relevant background, especially in a company that focuses on scalability, data protection, and member satisfaction.

In terms of cultural metrics, employee sentiment is mixed. HealthEquity has an average Glassdoor rating of 3.5 stars, with a 41% Chief Executive Officer approval rate, which is behind some competitors. On a relative basis, though, it is a different story, with Alight Solutions having a rating of 3.3 stars and 59% Chief Executive Officer approval, while UnitedHealth Group has a 3.4-star score with 54% approval. This indicates that HealthEquity's cultural factors are average for a healthcare and benefits administrator undergoing change.



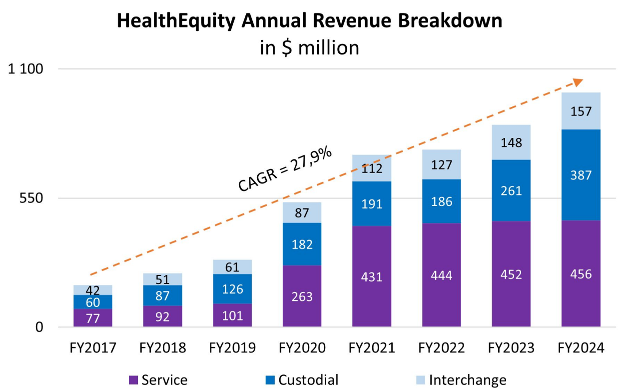


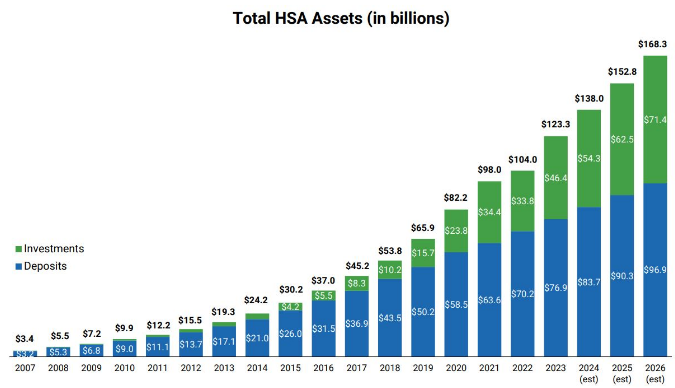
The compensation package is designed to strike a balance between short-term delivery and long-term growth. The base salary of the Chief Executive Officer is approximately $775,000, with a bonus based on 100% of base salary that is performance-driven on the basis of revenues, adjusted earnings before interest, taxes, depreciation, and amortization, as well as the sale of new Health Savings Accounts. It is important to note HealthEquity has minimum ownership standards that require the Chief Executive Officer to own six times his base salary in stock.

5. Financial Strength

HealthEquity, Inc. demonstrates strong financial performance driven by consistent account growth, expanding margins, and improving profitability. The operating margin improvement is significant, with the margin rising from negative values in fiscal year 2021 to 1.0% in fiscal year 2022, 11.7% in fiscal year 2023, and 13.5% in fiscal year 2024, which is a result of operating leverage. This has been achieve, with the earnings per share rising from -0.47 in fiscal year 2021 to 1.09 in fiscal year 2024, including two quarters of earnings beats of approximately $0.16 per share.

The growth in revenues has been constant and evident, with a compound annual growth rate of 13.1 percent from the year 2020 to 2024. Additionally, from January 2024 to January 2025, HealthEquity experienced a growth in Health Savings Accounts from 8.7 million to 9.9 million, an increase of 14 percent, in consumer-directed benefit accounts from 7.0 million to 7.1 million, an increase of 2 percent, and a total accounts increase from 15.3 million to 16.7 million, an increase of 9 percent.





Balance sheet strength remains solid, with a debt-to-equity ratio of 0.63 and a current ratio of 4.23x, providing ample liquidity and financial flexibility. This conservative leverage profile allows HealthEquity to fund acquisitions, invest in technology, and absorb short-term volatility without balance sheet strain.

Notably, growth in assets remains ahead of growth in accounts, demonstrating steady earnings durability. The overall Health Savings Accounts rose from about $25.2 billion to $32.1 billion, a 27% increase, within the same period, fueled by the acquisition of the BenefitWallet, together with ongoing contributions from current and new members. This enhanced custodial revenues, thereby leading to a 74% increase in the year-over-year net income margin.

6. Fair Price

DCF

With IRR of 9%, slightly below SIF's 15% criteria, we acknowledge that HQY has some room for the price to fall before we invest. Still, from the DCF Analysis we yielded a share price of **$160.60.**

HQY DCF	Expected				
	2025E	2026E	2027E	2028E	2029E
Net Change in Cash	455,472	457,378	470,225	448,374	470,647
Dividends	-	-	-	-	-
FCFE	**455.47**	**457.38**	**470.22**	**448.37**	**470.65**
Discount Factor	0.95	0.91	0.86	0.82	0.78
PV of FCFE	433.55	414.41	405.55	368.09	367.79

Current Valuation		
Terminal Valuation	$	15,709.81
PV of TV	$	12,276.39
PV of Equity	$	14,265.79
Diluted Shares		88,828
share price	$	160.60

Terminal Assumption	
Valuation date	12/12/25
FY End	1/31/26
Terminal Growth Rate	2%

Capital Asset Pricing Model

Cost of Equity	
Risk Free rate	4.19%
Beta	0.18
Expected Market Return	9.00%
Ke	5.06%

IRR	2024A	2025E	2026E	2027E	2028E	2029E
Net Income	96,703	143,670	172,305	198,889	214,908	232,893
Shares	88,828	88,828	88,828	88,828	88,828	88,828
EPS	1.09	1.62	1.94	2.24	2.42	2.62
Current Price	96.79					
Current P/E	44.4					
Terminal P/E	35					
Implied Price		$ 56.61	$ 67.89	$ 78.37	$ 84.68	$ 91.76

	2024A	2025E	2026E	2027E	2028E	2029E	IRR
Returns Analysis	$ (96.79)	$ 56.61					-42%
	$ (96.79)		$ 67.89				-30%
	$ (96.79)			$ 78.37			-19%
	$ (96.79)				$ 84.68		-13%
	$ (96.79)					$ 91.76	-5%

EV/EBITDA IRR	2024A	2025E	2026E	2027E	2028E	2029E
Price per share	96.79	56.61	67.89	78.37	84.68	91.76
Market cap	8,597,662	5,028,442	6,030,659	6,961,123	7,521,764	8,151,267
Net debt	760,353	400,990	12,513	-391,217	-802,609	-1,234,234
EV	8,596,902	5,028,041	6,030,646	6,961,514	7,522,567	8,152,502
Implied EV	7,836,549	4,627,051	6,018,133	7,352,730	8,325,175	9,386,736
EBITDA	212,907	241,113	334,295	372,270	395,806	421,333
Multiple	40.38	20.85	18.04	18.70	19.01	19.35
Current Price	96.79					
Implied Price		52.09	67.75	82.77	93.72	105.67

	2024A	2025E	2026E	2027E	2028E	2029E	IRR
Returns Analysis	$ (96.79)	$ 52.09					-46%
	$ (96.79)		$ 67.75				-30%
	$ (96.79)			$ 82.77			-14%
	$ (96.79)				$ 93.72		-3%
	$ (96.79)					$ 105.67	9%

Coverage Plan

For the investment thesis to pan out, the following factors must be closely monitored:

Sustained HSA Account and Asset Growth

HQY's long-term value creation is driven by continued growth in HSA accounts and HSA assets, as these directly fuel service revenue, custodial cash balances, and high-margin interest income. While industry tailwinds remain intact, account growth can be sensitive to U.S. employment trends, employer hiring activity, and healthcare plan design decisions. A sustained slowdown in job growth or a reversal in HDHP adoption could pressure new account formation and asset inflows, reducing the compounding effect central to HQY's growth model.

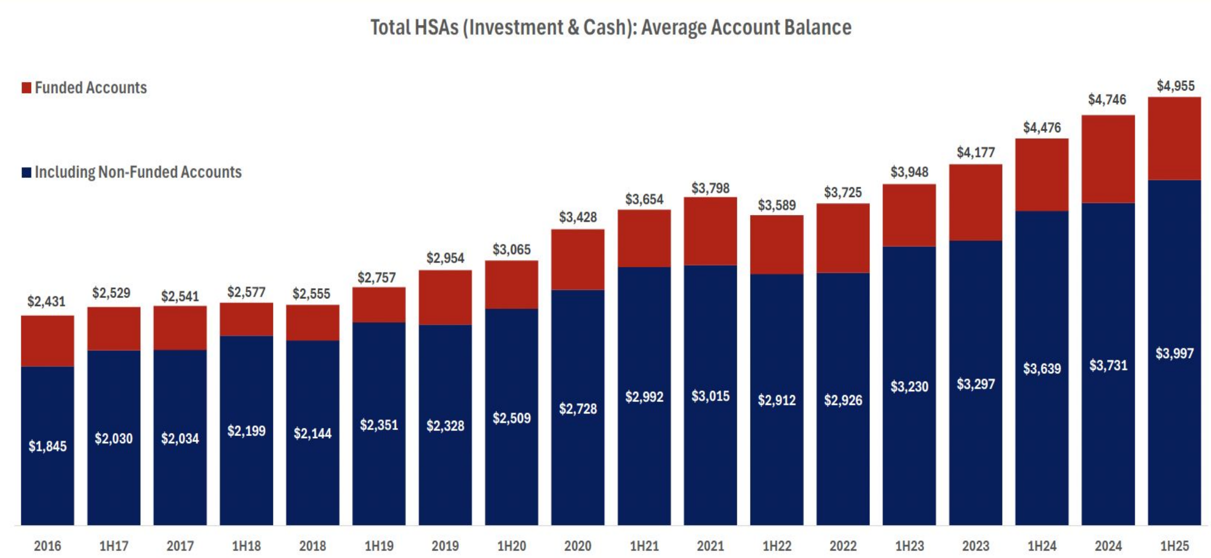
Execution and Timing of Custodial Yield Repricing

A core pillar of the investment thesis is the repricing of legacy custodial cash contracts at higher interest rates over the next several years. Investors should monitor the pace of contract maturities, renewal yields, and benchmark interest rate movements, as well as management's hedging strategy. A faster-than-expected decline in interest rates or unfavorable renegotiation terms could reduce the magnitude or duration of the anticipated earnings uplift from custodial revenue.

Distribution Expansion and Competitive Positioning

The company's strategy to deepen relationships with health plans, benefits advisors, and ACA exchange offerings is intended to position HQY as a default HSA provider and drive low-cost account growth. Progress in embedded distribution partnerships, new plan integrations, and account wins should be tracked to ensure HQY continues to capture share and defend its leadership position against bank-affiliated custodians and other benefits administrators. They must particularly watch out for Fidelty and Optum Bank's penetration into ACA-related markets while making sure that they aren't able to take their customers.

Exhibit 8 - Total HSAs (Investment & Cash): Average Account Balance



Risks & Mitigants

Business Model Concentration Risk

HQY derives the majority of its revenue from employer-sponsored health benefits accounts, making growth partially dependent on employment levels, benefits adoption, and corporate hiring trends. A prolonged economic downturn or reduction in employer benefits offerings could slow account growth and asset accumulation. This risk is mitigated by long-term secular tailwinds in healthcare consumerization, regulatory support for HSAs, and increasing employer preference for high-deductible health plans. Additionally, HQY continues to expand beyond HSAs into complementary products such as FSAs, HRAs, and COBRA administration, which diversifies revenue sources and reduces reliance on any single benefits product.

Interest Rate Sensitivity

A meaningful portion of HQY's revenue is generated from custodial cash yields, which exposes earnings to changes in short-term interest rates. A faster-than-expected decline in rates could pressure near-term revenue growth and margins. This risk is mitigated by the company's growing mix of non-interest revenue streams, including interchange revenue and investment-based fees, as well as long-term account growth that increases balances over time regardless of the rate environment. Management has also demonstrated the ability to adjust pricing and product mix to preserve profitability across rate cycles.

Competitive Pressure

The health benefits administration market is competitive, with pressure from large payroll providers, fintech platforms, and traditional benefits administrators. Increased competition could lead to pricing pressure or slower client acquisition. This risk is mitigated by HQY's scale advantages, deep integrations with employers and payroll systems, and reputation for high-quality service and compliance. Switching costs are high for enterprise clients, and HQY's technology platform and customer support create durable relationships that are difficult for newer entrants to replicate.

Regulatory and Policy Risk

Changes in healthcare policy, tax treatment of HSAs, or benefits regulation could impact demand for HQY's products or increase compliance costs. This risk is mitigated by HQY's long history of regulatory compliance, active engagement with policymakers, and diversified product offerings that are not solely dependent on any single regulation. The company's scale allows it to absorb compliance costs more effectively than smaller competitors.

Appendix

Income statement

Income Statement- USD($) and shares in thousands			Actual					Expected		
	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Service Revenue	430,966	426,910	452,026	455,690	478,317	491,352	505,600	522,132	539,980	559,559
Custodial Revenue	190,933	202,817	261,282	386,594	545,414	662,102	750,965	838,801	893,209	951,582
Interchange Revenue	111,671	126,829	148,440	157,303	176,043	185,909	196,655	208,765	221,934	236,399
Total revenue	**733,570**	**756,556**	**861,748**	**999,587**	**1,199,774**	**1,339,363**	**1,453,221**	**1,569,698**	**1,655,123**	**1,747,540**
Revenue Growth (Y/Y or Q/Q)		*3.1%*	*13.9%*	*16.0%*	*20.0%*	*11.6%*	*8.5%*	*8.0%*	*5.4%*	*5.6%*
COGS										
Service Costs	280,214	290,302	318,516	317,357	351,588	353,774	369,088	386,378	404,985	425,265
Custodial Costs	19,574	21,867	26,101	32,502	39,675	48,163	50,873	52,629	51,576	50,189
Interchange Costs	18,448	20,681	25,196	27,091	31,252	31,521	33,343	35,396	37,629	40,081
Total COGS	318,236	332,850	369,813	376,950	422,515	433,458	453,303	474,402	494,190	515,535
Gross profit	**415,334**	**423,706**	**491,935**	**622,637**	**777,259**	**905,906**	**999,917**	**1,095,296**	**1,160,932**	**1,232,005**
Gross profit margin	56.6%	56.0%	57.1%	62.3%	64.8%	67.6%	68.8%	69.8%	70.1%	70.5%
OPERATING EXPENSES										
Sales and marketing	49,964	58,605	68,849	79,273	90,739	101,900	110,562	119,424	125,923	132,954
Technology and development	124,809	157,364	193,375	218,811	239,513	273,517	296,768	320,555	338,000	356,873
General and administrative	84,493	84,379	97,472	103,656	132,260	148,336	160,946	173,846	183,307	193,542
Amortization of acquired intangible assets	76,064	82,791	94,586	92,763	111,878	136,329	147,918	159,774	168,469	177,876
Merger Integration	45,990	64,805	28,596	10,435	40,535	4,710	-	-	-	-
Total Operating Expense	381,320	447,944	482,878	504,938	614,925	664,792	716,195	773,599	815,699	861,245
OpEx Growth		*17.5%*	*7.8%*	*4.6%*	22%	8%	8%	8%	5%	6%
EBIT	**34,014**	**(24,238)**	**9,057**	**117,699**	**162,334**	**241,113**	**283,722**	**321,697**	**345,233**	**370,760**
EBIT Margin	*4.6%*	*-3.2%*	*1.1%*	*11.8%*	*13.5%*	*18.0%*	*19.5%*	*20.5%*	*20.9%*	*21.2%*
OTHER INCOME (EXPENSE)										
Interest expense	(34,881)	(36,572)	(48,424)	(55,455)	(60,634)	(57,103)	(60,517)	(63,812)	(65,644)	(67,578)
Other income, net	5,007	(5,931)	1,271	12,796	14,334	5,627	6,106	6,595	6,954	7,342
Total other expense	(29,874)	(42,503)	(47,153)	(42,659)	(46,300)	(51,475)	(54,411)	(57,216)	(58,690)	(60,235)
INCOME BEFORE INCOME TAXES (EBT)	**4,140**	**(66,741)**	**(38,096)**	**75,040**	**116,034**	**189,638**	**229,311**	**264,480**	**286,543**	**310,524**
Provision for income taxes (benefit)	(4,694)	(22,452)	(11,953)	19,328	19,331	45,968	57,007	65,591	71,636	77,631
Effective tax rate	-113%	34%	31%	26%	17%	24%	25%	25%	25%	25%
NET INCOME ATTRIBUTABLE TO HQY	**8,834**	**(44,289)**	**(26,143)**	**55,712**	**96,703**	**143,670**	**172,305**	**198,889**	**214,908**	**232,893**
Net Income Margin	*1.2%*	*-5.9%*	*-3.0%*	*5.6%*	*8.1%*	*10.7%*	*11.9%*	*12.7%*	*13.0%*	*13.3%*
NET INCOME PER COMMON SHARE ATTRIBUTABLE TO HQY:										
Basic	0.12	(0.53)	(0.31)	0.65	1.11	1.65	1.98	2.29	2.47	2.68
Diluted	0.12	(0.53)	(0.31)	0.64	1.09	1.62	1.94	2.24	2.42	2.62
Shares used in calculation (000's)										
Basic	74,235.00	83,133.00	84,442.00	85,564	86,870.00	86,870.00	86,870.00	86,870.00	86,870.00	86,870.00
Diluted	75,679.00	83,133.00	84,442.00	86,957	88,828.00	88,828.00	88,828.00	88,828.00	88,828.00	88,828.00

Appendix

Balance Sheet

Balance Sheet - USD($) in thousands	Actual					Expected				
	2020A	2021A	2022A	2023A	2024A	2025	2026	2027	2028	2029
Assets										
Current assets										
Cash and cash equivalents	328,803	225,414	254,266	403,979	295,948	751,420	1,208,798	1,679,023	2,127,396	2,598,044
Accounts receivable, net	72,767	87,428	96,835	104,893	118,006	142,085	154,163	166,520	175,582	185,386
Prepaid expenses and Other current assets	58,607	38,495	31,792	48,564	63,795	61,900	67,163	72,546	76,494	80,765
Total current assets	460,177	351,337	382,893	557,436	477,749	955,406	1,430,124	1,918,088	2,379,472	2,864,195
Property and equipment, net	29,106	23,372	12,862	6,013	3,239	1,435	567	807	2,302	5,190
Operating lease right-of-use assets	89,508	63,613	56,461	48,380	43,185	44,861	45,042	44,727	43,024	41,057
Intangible assets, net	767,003	973,137	936,359	835,948	1,204,658	1,058,149	928,548	816,904	718,749	621,619
Goodwill	1,327,193	1,645,836	1,648,145	1,648,145	1,648,145	1,648,145	1,648,145	1,648,145	1,648,145	1,648,145
Other assets	37,420	49,807	52,180	67,868	71,574	93,755	103,179	113,018	120,824	129,318
Total assets, non-current	2,250,230	2,755,765	2,706,007	2,606,354	2,970,801	2,846,345	2,725,481	2,623,602	2,533,044	2,445,330
Total assets	2,710,407	3,107,102	3,088,900	3,163,790	3,448,550	3,801,751	4,155,605	4,541,691	4,912,516	5,309,525
Liabilities and stockholders' equity										
Current liabilities										
Accounts payable	1,614	27,541	13,899	12,041	14,361	14,957	15,641	16,369	17,052	17,789
Accrued compensation	50,670	47,136	45,835	49,608	69,330	71,628	73,586	75,616	75,652	75,570
Accrued liabilities	75,880	57,589	43,668	46,038	62,631	68,477	73,772	79,685	84,022	88,713
Current portion of long-term debt	62,500	8,750	17,500	-	-	-	-	-	-	-
Operating lease liabilities	14,037	12,171	10,159	9,404	10,001	15,943	17,176	18,552	19,562	20,654
Total current liabilities	204,701	153,187	131,061	117,091	156,323	171,005	180,175	190,223	196,288	202,727
Long-term liabilities										
Long-term debt, net	924,217	922,077	907,838	874,972	1,056,301	1,152,410	1,221,311	1,287,806	1,324,788	1,363,809
Operating lease liabilities, non-current	74,224	65,232	58,988	48,766	42,219	45,643	45,591	45,377	43,768	41,906
Other long-term liabilities	8,808	14,185	12,708	19,270	22,962	22,480	24,391	26,346	27,780	29,331
Deferred tax liability	119,729	99,846	82,665	68,670	55,834	55,633	53,096	49,504	43,922	37,637
Total long-term liabilities	1,126,978	1,101,340	1,062,199	1,011,678	1,177,316	1,276,166	1,344,389	1,409,033	1,440,258	1,472,683
Total liabilities	1,331,679	1,254,527	1,193,260	1,128,769	1,333,639	1,447,172	1,524,564	1,599,255	1,636,546	1,675,409
Stockholders' equity										
Preferred stock,		-	-	-	-	-	-	-	-	-
Common stock,	8	8	8	9	9	9	9	9	9	9
Additional paid-in capital	1,158,372	1,676,508	1,745,716	1,829,384	1,905,628	2,001,626	2,105,783	2,218,289	2,336,917	2,462,168
Accumulated Other Comprehensive Earnings		-	-	-	-	-	-	-	-	-
Accumulated earnings	220,348	176,059	149,916	205,628	209,274	352,944	525,248	724,138	939,045	1,171,938
Total stockholders' equity	1,378,728	1,852,575	1,895,640	2,035,021	2,114,911	2,354,579	2,631,041	2,942,435	3,275,971	3,634,116
Total liabilities and stockholders' equity	2,710,407	3,107,102	3,088,900	3,163,790	3,448,550	3,801,751	4,155,605	4,541,691	4,912,516	5,309,525
CHECK	-	-	-	-	-	-	(0)	0	0	0

Appendix

Cash Flow statement

Statement of Cash Flows - USD($) in thousands	Expected				
	2025E	2026E	2027E	2028E	2029E
Operating Activities					
Net Income	143,670	172,305	198,889	214,908	232,893
Plus: Depreciation and Amortization	150975	133719	115308	101191	99461
Plus: SBC	95996	104157	112505	118628	125252
Changes in operating assets and liabilities:					
Accounts receivable, net	-24079	-12078	-12356	-9062	-9804
Prepaid expenses and Other current assets	1895	-5262	-5383	-3948	-4271
Operating lease right-of-use assets	-1676	-181	314	1704	1967
Other assets	-22181	-9423	-9840	-7806	-8494
Accounts payable	596	685	728	683	737
Accrued compensation	2298	1957	2030	37	-82
Accrued liabilities	5846	5295	5913	4337	4692
Operating lease liabilities	5942	1233	1377	1010	1092
Operating lease liabilities, non-current	3426	-265	-214	-1609	-1862
Other long-term liabilities	-482	1911	1955	1434	1551
Deferred tax liability	-201	-4062	-37111	-57651	-17996
Cash from operating activities	362024	389990	374115	363853	425135
Investing Activities:					
Capex	1804	2606	2281	1088	-3755
Intangible assets, net	146509	129601	142642	147641	109708
Cash from investing activities	-2661	-1513	29615	47539	6491
Financing Activities:					
Current portion of long-term debt	0	0	0	0	0
Long term debt	96109	68900	66496	36982	39022
Cash from financing activities	96109	68900	66496	36982	39022
Net Change in Cash	455472	457378	470225	448374	470647

Smith
Investment
Fund