Teladoc (TDOC) | Short

Francis Lee

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What is Teladoc?

Business Overview

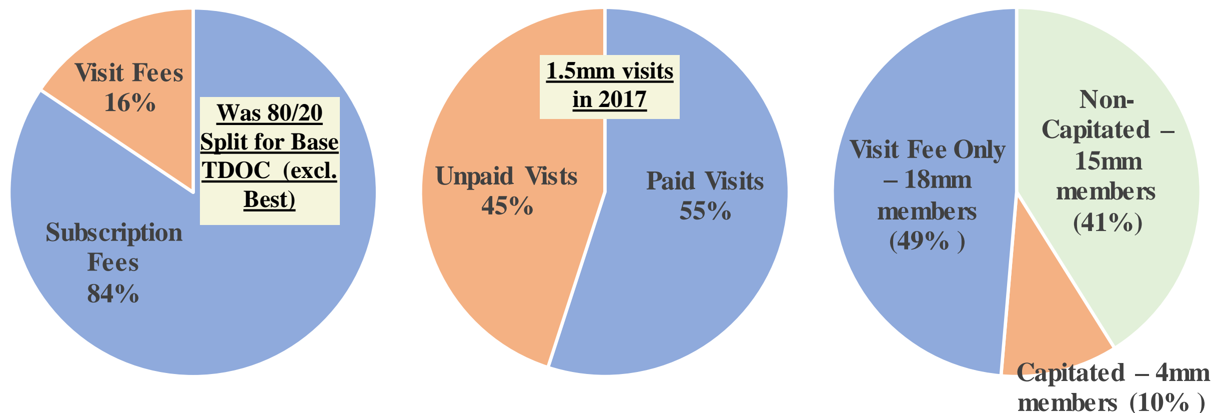
- Sole publicly traded telehealth provider
- Provide patients 24/7 access to doctors via voice telephone (~80%+ of visits) or video to treat non-acute medical needs
- Sells primarily to employer health plan sponsors & managed care companies with contracts that renew yearly
- >4,000 clients & >1,000 physicians & behavioral health professionals
- 37mm members (~50/50 split btwn subscription-fee and visit-fee only)

Key Metrics

Price – 4/19/18:	$43.05
Average Price Target:	$42.73
52-Week Range	$22.72 - 44.65
Market Cap ($,mm)	$2,899
Net Debt:	232
TEV:	$3,131
Avg. Volume (mm):	1.02
Short Interest:	30%
Borrow Cost:	General Collateral

How Does Teladoc Make Money?

1) **PMPM + Visit-Fee ("Non-Capitated"):** per-member-per-month fee (PMPM) for access to the network (average of ~$0.60 for base TDOC, ~$1 when including Best Dr.) & a per visit fee of ~$40
2) **PMPM Only ("Capitated"):** pays relatively higher PMPM, but no visit fees
3) **Visit-Fee Only:** does not pay PMPM, but pays a relatively higher visit fee



Financials & KPIs

	Historical			Consensus		
	2015A	**2016A**	**2017A**	**2018E**	**2019E**	**2020E**
Base TDOC Revenue	$77	$123	$186			
% Growth		*59%*	*51%*			
Best Dr. Contribution			47			
Total TDOC Revenue	**$77**	**$123**	**$233**	**$356**	**$452**	**$567**
% Growth		***59%***	***89%***	***26%*** [1]	***27%***	***25%***
Gross Margin	$56	$91	$172	$259	$327	$399
% Margin	*72.8%*	*74.0%*	*73.7%*	*72.9%*	*72.4%*	*70.4%*
EBITDA	($47)	($40)	($15)	$9	$37	$73
% Margin	*(61%)*	*(32%)*	*(6%)*	*3%*	*8%*	*13%*
EV / Rev				**8.8x**	**6.9x**	**5.5x**
PMPM Fee	$0.49	$0.58	**$0.62** [2]			
Total Members	12	18	**23**	42		
Total Visits (mm)	0.58	0.95	**1.50**	2.00		
Utilization	3.6%	4.3%	**5.0%**	3.7%		

(1) Reflects pro forma full year impact of Best Doctors revenue of an additional $49m
(2) PMPM fees excluding Best Doctors; $0.94 when including

Best Doctors Acquisition

Acquisition Overview

- Founded in 1989, Best Doctors is a specialist network provider focused on the second opinion market
- Acquired by TDOC in June 2017 for $446mm ($379 in cash and $66mm in stock)
- Financed portion w/ $275mm in '22 convertible notes at 3% & $175mm in term loan at 8.5%
  - Unfortunately in Dec. 2017, did a follow-on and raised $135mm to repay the term loan
  - Paid $22mm in fees / interest to have 6 month bridge loan…

Mgmt Rationale	Rebuttal
Doubled TAM with additional $28bn	▪ Mgmt. assumes that everyone who is diagnosed with cancer, MS, IBD, arthritis and surgeries for musculoskeletal will get a 2nd opinion…
Best Dr. has an international presence (15% of revenue)	▪ Providing telehealth internationally requires navigating a whole different set of regulations
$200mm opportunity just by cross-selling products to existing clients	▪ Best has existed since 1989 and has only penetrated ~800 clients in that time span ▪ Operates in a segment outside of Teladoc's core telehealth offering w/ little cross-selling capabilities besides both are used remotely

Best Doctors Financials

	2014	2015	2016	1H17 LHA
Revenue	$81	$85	$97	$99
% Growth		*4.0%*	*14.5%*	*2.0%*
Gross Profit	$51	$49	$62	$67
% Margin	*63%*	*58%*	*64%*	*68%*
EBITDA	($9)	($13)	$8	$12
% Margin	*(11%)*	*(16%)*	*8%*	*13%*

Acquisition Price	$446
Revenue Multiple	**4.5x**
EBITDA Multiple	**36.0x**

Why would a business with $30mm in LTM EBITDA losses and cashflow negative for the foreseeable future decide to pay 36x EBITDA & $23mm in interest for an old-line healthcare services business growing at MSD with significantly lower margins in an adjacency outside of telemedicine??

How Do Investors View Teladoc?

“TDOC is by far the **early category leader** in the rapidly growing and evolving telehealth space with market share of well over 50%” – *KeyBanc, May 2017*

“Teladoc is a **first mover, market leader, and the only public pure-play** in consumer-focused telemedicine., which we believe will be a meaningful disruptor to traditional healthcare.” – *Cannacord, Jan. 2017*

“We put TDOC’s multiple in into context by **comparing it to other disruptive tech players (SQ, WDAY, AMZN, NFLX, GRUB, and PAYX)**, which trade at about 7.0x on average” – *Citi, Feb. 2018*

“Values TDOC at 6.3x 2019E revenue, a slight **premium to peer SaaS companies** with similar LT revenue growth” – *Jefferies, Feb. 2018*

“We appreciate the **shares are expensive**, but a comparison of the company’s revenue growth rate and gross margin profile to a **comparable universe of HCIT and software companies** paints a more reasonable picture.“ – *Deutsche Bank, December 2017*

Investment Thesis – Teladoc is Priced to Perfection

	Thesis	What Will That Result In?
1	**Due to increasing competition, business model shift from high-visibility subscription revenue to utilization dependent visit-fee only**	▪ Will miss mgmt. / Street numbers due to slower subscription member / revenue growth o Projected 10% downside to 2019 revenue ▪ Revenue will become much less predictable as visit fee is very contingent on utilization
2	**Erosion of gross margin due to shift to visit-fee only, a significantly lower margin than PMPM**	▪ Inability to achieve near term gross & EBITDA margin consensus projections ▪ Need to significantly drive utilization, resulting in likelihood of increased ad / marketing spend
3	**Telehealth is an OK business model not worthy of a SaaS / disruptive tech multiple** ▪ Essentially a glorified call-center with 0 patents ▪ 4 scale competitors offering largely undifferentiable product ▪ Little to no pricing power and low switching costs ▪ Potential disintermediation by payers as utilization rises ▪ Saturated employer end market & irrational acquisition strategy as a result	▪ Multiple re-rates from SaaS multiple due to various catalysts: o Missed guidance due to declining revenue quality / predictability o Declining subscription member growth o Additional contract renewals to visit-fee only o Low utilization with visit-fee only members

PART 1 – BUSINESS MODEL SHIFT

Why Do I Believe This is Happening?

CEO on Q3 2015 Earnings Call

"Having been in business significantly longer than any other player in the telehealth market, we have been able to try several different approaches, and the **PMPM model is the only one that aligns us with our clients, provides funds to drive utilization, and produces dramatically better results for our clients."**

"We believe our [PMPM] model is not only **sustainable**, but **will continue to improve in the future**."

CEO at November 2017 Investor Day

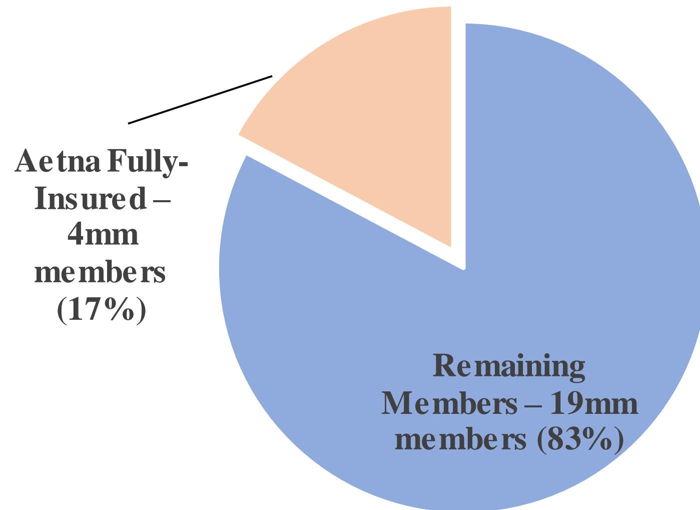
"For the right opportunities, it **[visit-fee only] makes good sense for us"**

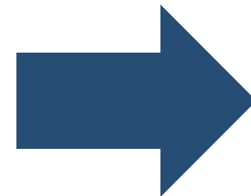
"So **we're going to use it [visit-fee only] selectively** where it aligns us and our clients, but I don't think you're going to see it in the foreseeable future, it's not going represent the majority of our business"

Recent Contracts Signed in Q4 '17 Have Dramatically Changed the Mix Profile

Q4 2017 Member Mix

100% Subscription Paying



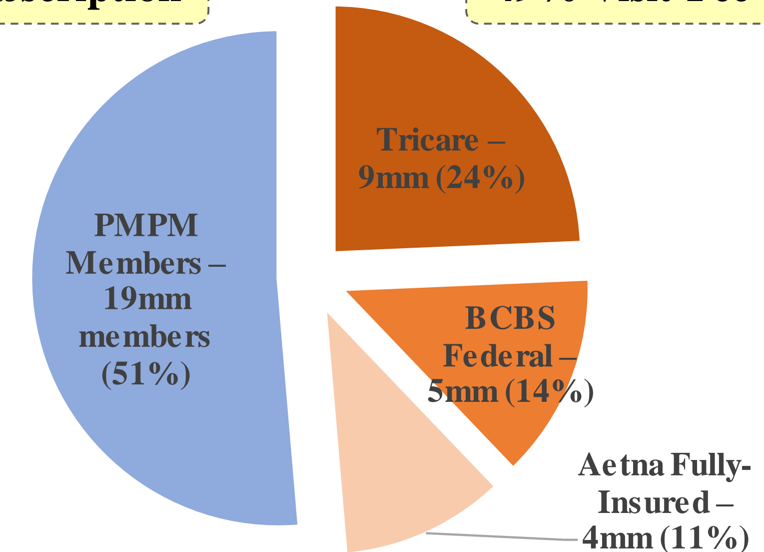


After 3 New Contracts

Q1 2018 Member Mix

51% Subscription

49% Visit-Fee Only



Aetna Renewal – 4mm

- Mgmt. says revenue impact is neutral for 2018 **BUT** that assumes increasing utilization by 50%
  - Mgmt. cites ability to access consumer data to directly market as primary reason
- Cites a "shared savings" plan that will increase "total revenue per visit by 4x"
  - Hard to believe that Aetna agreed to pay 4x what they previously paid

Tricare – 9mm

- Tricare contract justified with:
  - Guaranteed minimum visit volume
  - Marginally higher visit fee ("couple of dollars in excess of $45")
  - Further exposure to Optum / United

BCBS Federal – 5mm

- TDOC "won" vs. 10 other companies bidding on the deal
- Discussion with sell-side analysts said that according to CFO BCBS won't be a major revenue contributor

Significant Revenue Left on the Table by Agreeing to Visit-Fee Only

- **Recent concession with BCBS & Tricare contract highlights shifting industry dynamics to visit-fee only**
- **Believe that TDOC had to offer a visit-fee only contract to "win" the client**

Illustrative Revenue per PMPM Model	
BCBS + Tricare Member Count	14.0
PMPM (less than current @ $0.50)	$0.40
PMPM Revenue	**$67.2**
Utilization (less than current @ ~5%)	2.0%
Illustrative Visits	380,800
(x) $45 per Visit	$45.00
Visit Fee Revenue	**$17.1**
Total Revenue from PMPM Model	**$84.3**

Illustrative Revenue per Visit Fee-Only Model	
BCBS + Tricare Member Count	14.0
Illustrative Utilization	3.0%
Illustrative Visits	571,200
(x) $68 per Visit	$67.50
Total Revenue	**$38.6**
Amount Less in Visit-Fee Only Model	***$45.8***
Total Necessary Visits to Break-Even	*1,249,422*
Implied Utilization to Break-Even	***6.6%***
% Greater Than Previous Assumed Utilization	*228%*

- For Tricare & BCBS Federal, TDOC is **not providing any consumer engagement services** (emphasized as cost saving) but previously cited that as the #1 reason that mgmt. will be able to drive Aetna utilization?

"It is our understanding that telehealth utilization rates within the [Highmark] **fully insured segment were less than 1%,** while utilization rates for the ASO business were ~10%, with **the sizable disparity driven by the ability of Teladoc to directly engage members to drive utilization** (which Highmark did not allow under the fully insured relationship)" – *JP Morgan, Oct. 2015*

Industry Trends & Economics Indicate an Eventual Shift from PMPM

	Illustrative Client (1,000 Employees)				
	2% Utilization	4%	6%	8%	10%
Implied Visits Assuming 1.36 Visits Per Person	27	54	82	109	136
Visit Fee Per Visit	$45.00	$45.00	$45.00	$45.00	$45.00
(+) PMPM Fee per Visit ($0.60)	264.71	132.35	88.24	66.18	52.94
Total Revenue Per Visit	**$309.71**	**$177.35**	**$133.24**	**$111.18**	**$97.94**

Growing utilization over time lowers the total revenue per visit as fixed PMPM fees are spread amongst more visits.

- Mgmt. has stated that "revenue mix will stabilize at roughly 60% subscription access fees and 40% visit fees over the next several years"

"TDOC current sales process has now transitioned predominantly to payers [reduced sales rep covering employers from 13 to 2]. However due to primary care's low portion of the overall healthcare spend and thus lower available savings, payer's are not paying as much attention to potential savings as much as **being able to check the box and say they offer telehealth**. This **results in multiple payers opting for the lower cost alternative, which is visit fee-only**" – *Former Director of Large Employer Sales at TDOC*

"We just saw a recent RFP for a large Pacific Northwest Blue program that was issued **specifying a visit-fee only model**. We chose not to bid because **it would not have been economical for our cost structure**" – *Current Sales Director at Large Competitor*

"Utilization is currently so low for us that the **PMPM does not make economical sense**. A **shift to visit based fee will force the telehealth provider to drive utilization**." – *SVP 3rd Party Provider Administrator at Large Payer*

PART 1 – BUSINESS MODEL SHIFT

What Will This Result In?

Inability to Hit Street / Mgmt Revenue Growth Rates

Headwinds Facing PMPM Members Growth

	Historical				Wells Fargo / Consensus	
	2014A	2015A	2016A	2017A	2018E	2019E
Access Fee	$37	$63	$100	$197	$285	$343
Visit Fee	7	14	23	36	73	109
Total Revenue	**$43**	**$77**	**$123**	**$233**	**$358**	**$453**
% Growth		*78%*	*59%*	*51%*[(1)]	*26%*[(2)]	*26%*
Implied Consensus KPIs						
PMPM Members at Year End	8.1	12.2	17.5	23.2	23.0	28.1
% Growth		*51%*	*43%*	*33%*	***20%***[(3)]	***22%***
PMPM at Year End	$0.43	$0.49	$0.58	$0.94	$1.03	$1.12
% Growth		*14%*	*18%*	*62%*	*9%*	*9%*

SunTrust also projects 23% PMPM member growth

- **Believe there will be slower growth of PMPM members than mgmt. / street of 20% due to:**
  - Significant competition offering relatively same product with low switching costs
    - Founded in 2012, Dr. on Demand has always offered visit-fee contracts only and has gained ~10-20% mkt share
  - Payer preference for visit-fee only contracts
  - Potential for switch of PMPM paying members to visit-fee only as renewal cycles come up

(1) Excludes full year Best Dr. impact
(2) Includes full year Best Dr. impact
(3) Reflects decrease of PMPM members to 19mm at end of 2017 from Aetna fully insured renewal to visit-fee only of 4mm members

Inability to Hit Street / Mgmt Revenue Growth Rates (cont'd)

Analysis on Contract Switch from Subscription to Visit-Fee Only

- Assuming a low initial utilization of 2% and a significant visit fee increase, a contract switch from subscription paying to visit-fee only would require a **significant utilization increase of 30-100+%** (only grew 19% in 2017) to "break-even"

Necessary Utilization to "Break-Even"

		Implied Visit Fee		
		$78.75	$90.00	$101.25
		Visit Fee % Increase from $45		
		75%	100%	125%
Assumed Initial PMPM Fee	$0.20	3.4%	3.0%	2.6%
	$0.30	4.5%	3.9%	3.5%
	$0.40	5.6%	4.9%	4.4%

% Higher than Assumed Utilization of 2%

		Implied Visit Fee		
		$78.75	$90.00	$101.25
		Visit Fee % Increase from $45		
		75%	100%	125%
Assumed Initial PMPM Fee	$0.20	69%	48%	32%
	$0.30	125%	97%	75%
	$0.40	181%	146%	119%

Is the Utilization Increase Feasible?

- Mgmt. believes that the increased utilization is going to result from their new "Surround Sound" marketing strategy
  - Again, query why for Tricare / BCBS they are not in charge of marketing
- For Aetna contract renewal, mgmt. cites **utilization increase of 50%** needed to have neutral effect on revenue **even with a new ~$150 per visit fee (4x higher)**
- To the consumer, no change in incentives to use – same cost, if not higher, and same product
- Telehealth industry faces significant adoption hurdles:
  - Member awareness
  - Comfort with virtual doc service
  - Co-pay at doctor being ~$20 vs. ~$40 (or higher) for TDOC visit

Variant View on Revenue

WFC / Consensus	2015A	2016A	2017A	2018E	2019E
Access Revenue	$63	$100	$197	$285	$343
Visit Revenue	14	23	36	73	109
Total Revenue	**$77**	**$123**	**$233**	**$358**	**$453**
% Growth	*78%*	*59%*	*51%*	*26%*	*26%*
Implied Consensus KPIs					
PMPM Members at Year End	12.2	17.5	23.2	23.0	28.1
% Growth	*51%*	*43%*	*33%*	***20%***	***22%***
PMPM at Year End (Incl. Best Dr.)	$0.49	$0.58	$0.94	$1.03	$1.12
% Growth	*14%*	*18%*	*62%*	*9%*	*9%*

Variant View	2015A	2016A	2017A	2018E	2019E
PMPM Members Excl. Best Dr.	12.2	17.5	19.2	22.1	24.3
% Growth		*43%*	*10%*	*15%*	*10%*
PMPM Excl. Best Dr.	$0.49	$0.58	$0.62	$0.64	$0.66
% Growth		*18%*	*7%*	*4%*	*3%*
Base PMPM Revenue	**$63**	**$100**	**$153**	**$171**	**$194**
Utilization	3.6%	4.3%	5.1%	5.70%	6.10%
% Growth		*19%*	*19%*	*12%*	*7%*
Total Visits	575,231	952,081	1,463,839	1,711,642	2,014,932
% Paid Visit	*60%*	*61%*	*54%*	*55%*	*55%*
Paid Visits	345,139	579,255	796,720	941,403	1,108,213
Per Visit Fee	$40.85	$39.36	$41.67	$43.75	$45.07
% Growth		*(4%)*	*6%*	*5%*	*3%*
Visit Revenue from PMPM Payers	**$14**	**$23**	**$33**	**$41**	**$50**
Visit Fee Only Member Count				15.8	20.0
Utilization				3%	4%
Visits				642,600	1,088,000
Per Visit Fee				$50.00	$50.00
Visit Revenue from Fee Only Members				**$32**	**$54**
Best Drs.	**$85**	**$97**	**$96**	**$103**	**$108**
% Growth		*14%*	*(0%)*	*7%*	*5%*
Total Variant View Revenue	**$162**	**$220**	**$283**	**$347**	**$406**
% Growth		*36%*	*29%*	*23%*	*17%*
Consensus				356	452
% Difference From Consensus				*(2%)*	*(10%)*

PART 2 – GROSS MARGIN EROSION AS BUSINESS MODEL SHIFTS

Why Do I Believe This is Happening?

“We have **trouble assessing how sustainable the per-visit-only model** (not the PMPM model) **is over the longer term**… “For an average $40 to $45 telemedicine visit, we believe gross margins are quite thin (even at Teladoc’s scale, **mgmt. has alluded to the visit gross margins being in the mid- to high teens, at best**)– ” – *William Blair, October 2015*

”

Initial Indicators that Unit Economics are Terrible for Visits

In 2017 for TDOC's base business, visit fees have a 7% gross margin (assuming PMPM fees have 90% GM)

Sell-Side Estimated Visit-Fee Only Gross Margin

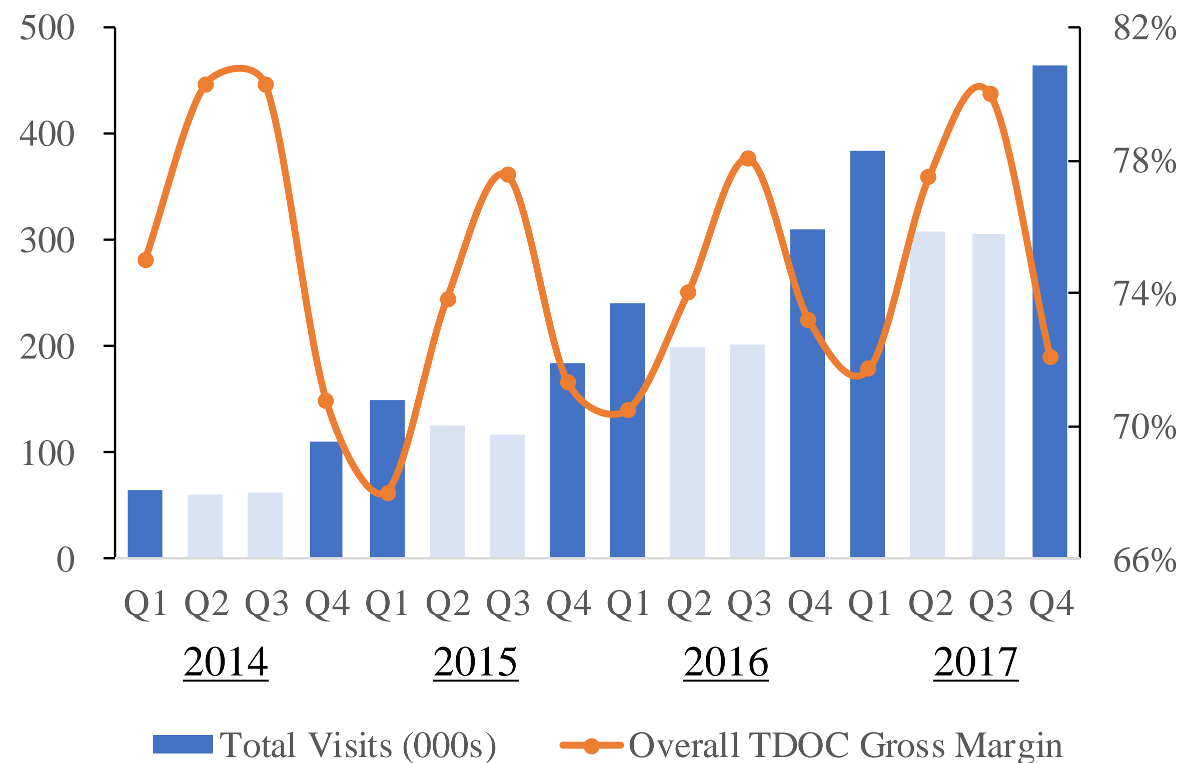
	Low Cost	High Cost
Current Visit Fee (Visit Fees / # of Paid Visits)	$42.00	$42.00
Split to Doctor	(25.00)	(30.00)
Medical Malpractice	(0.50)	(1.00)
Other Direct Costs (Network Mgmt., IT, Call Centers, etc.)	(7.00)	(8.00)
Gross Profit	$9.50	$3.00
Gross Margin per Visit	***23%***	***7%***

Potential upward pressure on doctor pay as **current TDOC take rate is ~40%** (based on a $45 visit fee, 80% if include PMPM)

Due to high number of visits done via phone, **necessary to scale call-center capacity** as utilization increases

Estimates per William Blair in Oct. 2015

Gross Margin "Seasonality"



~1,000bps margin difference between Q4/Q1 and Q2/Q3

Teladoc Base Business Pricing Structure

Based on 2017 financials, excluding Best Dr.

		Per Visit								
		PMPM Fees	(+) Visit Fees	(=) Total Revenue	(-) Cost of Revenue	(=) Gross Profit	Gross Margin	(-) Marketing	Net Profit	Net Margin
Non-Capitated	796,720 Visits	$111.2	$41.7	$152.9	$31.4	$121.4	*79%*	$39.4	$82.0	*54%*
Capitated	667,119 Visits	96.7	0.0	96.7	31.4	65.3	*67%*	$39.4	$25.9	*27%*
Blended Total	**1,463,839 Visits**	**$104.6**	**$22.7**	**$127.3**	**$31.4**	**$95.8**	***75%***	**$39.4**	**$56.4**	***44%***
			Illustrative Future Payment Model							
Illustrative Visit Fee Only		**$ -**	**$80.0**	**$80.0**	**$30.0**	**$48.6**	***61%***	**$30.00**	**$18.6**	***23%***

	Illustrative Visit Fee Price						
	$60.00	**$70.00**	**$80.00**	**$90.00**	**$100.00**	**$110.00**	**$120.00**
Implied Gross Margin	48%	55%	61%	65%	69%	71%	74%
Implied Net Margin	(2%)	12%	23%	32%	39%	44%	49%

Due to capitated contracts accounting for 45% of visits, **<u>the "incremental" visit loses ~$9 per visit</u>**

- Based on discussion with various payers, believe a visit-fee only price of $80-90 (~30% discount to a primary care visit at ~$120) would be amenable to payers.
  - However due to significant competition the "steady-state" price could very well trend lower
- While Net Margin Per Visit would be lower, the bull case will argue that driving utilization up can make up the difference on an absolute dollar basis
  - Would require <u>3x</u> as much utilization to compensate
  - Above analysis assumes marketing cost will decrease by 33% as business / revenue ramps, but potential for marketing cost to increase in order to drive utilization

PART 2 – GROSS MARGIN EROSION AS BUSINESS MODEL SHIFTS

What Will This Result In?

Inability to Achieve Near Term Gross Margin Targets

Illustrative Aetna Contract Renewal Gross Profit Effect

		Commentary
Lives	4.0	
PMPM	$0.20	Assumes low PMPM per various broker reports & discussion with industry experts
PMPM Fees ($mm)	**$9.6**	
Utilization	2%	Assumes low utilization per various broker reports & discussion with industry experts
Visits	108,800	
Visit Fee	$40	
Visit Fees ($mm)	**$4.4**	
Total Revenue ($mm)	**$14.0**	
Historical GM	*75.3%*	
Gross Profit ($mm)	**$10.5**	
Visit Fee Only GM	*25%*	Assumes high-end of Blair margin estimates; significantly higher than mgmt. "mid-to high teens" gross margin targets
Visit Fee Only GP ($mm)	**$3.5**	**Assumes mgmt. stated revenue neutral goal achieved**
GP Shortfall with New Contract ($mm)	**$7.0**	

Variant View on Gross Margin

WFC / Consensus	2015A	2016A	2017A	2018E	2019E
Access Revenue	$63	$100	$197	$285	$343
Visit Revenue	14	23	36	73	109
Total Revenue	**$77**	**$123**	**$233**	**$358**	**$453**
Gross Profit	**$56**	**$91**	**$172**	**$259**	**$327**
% Gross Margin	*72.8%*	*74.0%*	*73.5%*	*72.4%*	*72.3%*

Variant View	2015A	2016A	2017A	2018E	2019E
Base PMPM Revenue	$63	$100	$153	$171	$194
Visit Rev. From PMPM Contracts	14	23	33	41	50
Total Rev. from PMPM Contract	$77	$123	$186	$212	$244
GM Without Best Dr.			*75.3%*	*76.0%*	*77.0%*
PMPM Contract Gross Profit				**$161**	**$188**
Visit Revenue from Fee Only Members				$32	$54
Visit Fee Only GM				*25%*	*25%*
Visit Fee Only Gross Profit				**$8**	**$14**
Best Doctors Revenue	$85	$97	$96	$103	$108
% Gross Margin	*58.3%*	*64.2%*	*67.3%*	68.5%	69.5%
Best Dr. Gross Profit	**$49**	**$62**	**$65**	**$71**	**$75**
Total Variant View Gross Profit				**$240**	**$276**
% Gross Margin				*69.1%*	*68.0%*
Consensus				$259	$327
% Difference From Consensus				***(7%)***	***(16%)***

Aggressive Sell-side Assumptions to Achieve EBITDA Projections

Street Assumptions for EBITDA Margin Profitablity

	WFC / Consensus					
	2016A	2017A	2018E	2019E	2020E	16-'20E CAGR
Total Revenue	**$123**	**$233**	**$358**	**$453**	**$564**	**46%**
Cost of Revenue	32	62	99	125	176	53%
Gross Profit	**$91**	**$172**	**$259**	**$327**	**$388**	**44%**
OpEx						
Ad & Market	$35	$58	$85	$94	$106	32%
Sales	26	38	52	61	72	29%
Tech Development	22	34	47	55	64	31%
G&A	56	85	101	108	117	20%
Total OpEx	**$139**	**$215**	**$285**	**$319**	**$358**	**27%**
Total OpEx + Cost of Revenue	**$171**	**$277**	**$384**	**$444**	**$534**	**33%**
EBITDA	**($47)**	**($43)**	**($26)**	**$9**	**$30**	
% Margin	*(38%)*	*(18%)*	*(7%)*	*2%*	*5%*	
(+) SBC	8	28	38	46	55	
Adjusted EBITDA	**($40)**	**($15)**	**$12**	**$54**	**$84**	
% Margin	*(33%)*	*(7%)*	*3%*	*12%*	*15%*	
Key Cost Metrics						
Sequential Growth						
Ad & Market	72%	66%	47%	11%	12%	
Sales	46%	45%	36%	18%	18%	
Tech Development	54%	58%	37%	16%	16%	
G&A	2%	52%	19%	7%	8%	
Total OpEx	29%	**55%**	**33%**	**12%**	**12%**	
SBC	116%	264%	35%	20%	20%	
% of Sales						
Ad & Market	28%	25%	24%	21%	19%	
Sales	21%	16%	14%	13%	13%	
Tech Development	18%	15%	13%	12%	11%	
G&A	45%	36%	28%	24%	21%	
Total OpEx	113%	92%	80%	70%	63%	
SBC	6%	12%	11%	10%	10%	

- Revenue 3-year CAGR (2014-2017) of 72% has barely outpaced OpEx + Cost of Rev. growth of 66%
- Street projections has revenue growing significantly faster than total costs

Significant deceleration of cost growth

But Didn't They Achieve Q4 Breakeven EBITDA As Planned?

- ✓ Reported Q4 Adjusted EBITDA of $2.5mm
- **However without Best Dr. ~$3mm Q4 EBITDA contribution, adj. EBITDA would've been NEGATIVE $0.5mm**
  - I believe this was one of the primary reasons for the expensive purchase of Best Dr. as management realized in beginning of 2017 that Q4 breakeven wasn't achievable standalone
- *"Reaffirm Q4 2017* ***Adjusted EBITDA Break-Even Target Independent of Incremental, Positive Contributions from Best Doctors*** *Acquisition" – Best Dr. M&A Investor Presentation, June 2017*
  - In Q4, management did not report an adjusted EBITDA without Best Dr. contribution
  - No mention from sell-side regarding an actual miss on a target management set 6 months prior
- *"Management identified a* ***material weakness*** *relating to the accounting for certain Q4 2017 awards of stock-based compensation with unique or different terms than the company's standard stock awards. This* ***resulted in us not correctly recording certain stock-based compensation expense related to Q4 2017 awards of stock-based compensation*** *" – TDOC 2017 10K*
  - In Q4, management "recognized" $17mm in stock-based compensation (22% of sales) when historically the maximum was 10% of sales / $6mm
    - An equivalent 10% of sales in Q4 would've been $8mm in stock-based compensation
  - This wasn't discussed by mgmt. on the investor call, zero mentions in sell-side research and TDOC directed inquiries to an investor relations firm, which has not responded

PART 3

TELEHEALTH IS AN OK BUSINESS MODEL

Why Teladoc Is Not Deserving of a SaaS Multiple

	Business Trait	Rationale
1	4 scale competitors offering a largely undifferentiable product	▪ Industry consultants estimate mkt. share @ TDOC – 30%, Amwell – 25%, MDLive – 20%, Dr on Demand –15% o BCBS Federal RFP had 10 bidders ▪ Key differentiator cited by the salespeople is speed of connection o Believe the big 4 all have sufficient doctor network
2	Essentially a glorified call-center with 0 patents	▪ >80+% of calls are done via the phone o Former TDOC sales director actually cited the robust call-center support as a prominent differentiator that they went to market with vs. Dr. On Demand & AmWell (predominantly video) ▪ Large employee count @ 1.2K, a big portion I believe work in the call-center in Dallas, TX (doctors are contractor and not included in the count)
3	Little to no pricing power & low switching costs	▪ Contracts are renewed every year and onboard time of less than 1 month for new telehealth provider ▪ *"When we raised prices from $40 to $50 for our direct-to-consumer offering, we saw demand drop very significantly" – Head of Growth at Large Competitor*

Why Teladoc Is Not Deserving of a SaaS Multiple (cont'd)

	Business Trait	Rationale
4	**Potential disintermediation by payers as utilization rises**	▪ Industry experts have commonly cited the same 2 barriers to entry: o Navigating regulations around providing healthcare o Signing up enough doctors to scale ▪ Health plans have experience w/ both regulations & provider network o Kaiser currently offers own service o Discussion with payer indicates a PacNW insurance plan with 375K members is currently developing its own product
5	**Irrational Acquisition Strategy to Combat Saturated End Market**	▪ In S1 in May 2015, noted that large employer market as a prime opportunity and sole focus for sustainable growth ▪ In June 2016, paid $155mm for HealthiestYou, an app with ~$10mm of revenue, to make a push into the SMB market ▪ Now per discussions with former TDOC sales directors, they are predominantly targeting the health plan market ▪ Recent expensive purchase of Best Doctors to go up the acuity scale and again increase its end market / TAM

PART 4

VALUATION, CATALYSTS & RISKS

What is Teladoc Worth?

	2016A	2017A	2018E	2019E
PMPM Members Excl. Best Dr.	17.5	19.2	22.1	24.3
% Growth	*43%*	*10%*	*15%*	*10%*
PMPM Excl. Best Dr.	$0.58	$0.62	$0.64	$0.66
% Growth	*18%*	*7%*	*4%*	*3%*
Base PMPM Revenue	**$100**	**$153**	**$171**	**$194**
Utilization	4.3%	5.1%	5.70%	6.10%
% Growth	*19%*	*19%*	*12%*	*7%*
Total Visits	952,081	1,463,839	1,711,642	2,014,932
% Paid Visit	*61%*	*54%*	*55%*	*55%*
Paid Visits	579,255	796,720	941,403	1,108,213
Per Visit Fee	$39.36	$41.67	$43.75	$45.07
% Growth	*(4%)*	*6%*	*5%*	*3%*
Visit Revenue from PMPM Payers	**$23**	**$33**	**$41**	**$50**
Visit Fee Only Member Count			15.8	20.0
Utilization			3%	4%
Visits			642,600	1,088,000
Per Visit Fee			$50.00	$50.00
Visit Revenue from Fee Only Members			**$32**	**$54**
Best Drs.	**$97**	**$96**	**$103**	**$108**
% Growth	*14%*	*(0%)*	*7%*	*5%*
Total Variant View Revenue	**$220**	**$283**	**$347**	**$406**
% Growth	*36%*	*29%*	*23%*	*17%*
Consensus			356	452
% Difference From Consensus			*(2%)*	*(10%)*

What Multiple Does TDOC Deserve?

- Do not believe TDOC exhibits the characteristics of a SaaS company or a disruptive tech company like a Netflix or a Amazon
- Also do not believe it deserves a 50%+ premium to HCIT peers, due to slowing revenue growth
- We think TDOC deserves a multiple that is a 10-15% premium to its HCIT peers – **4.5x revenue on 2019 revenue**
  - Slightly higher growth profile
  - Current lack of profitability while peers are significantly profitable
  - Facing similar HC trends and challenges

Consensus Multiple	**6.9x**
Variant View Multiple	**4.5x**
Implied Stock Price	**$24.65**
Discount to Current	*(43%)*

Multiple Sensitivity

3.0x	4.0x	5.0x	6.0x	7.0x
$13.95	$21.77	$27.52	$33.26	$39.00
(68%)	(49%)	(36%)	(23%)	(9%)

Catalysts & Risks

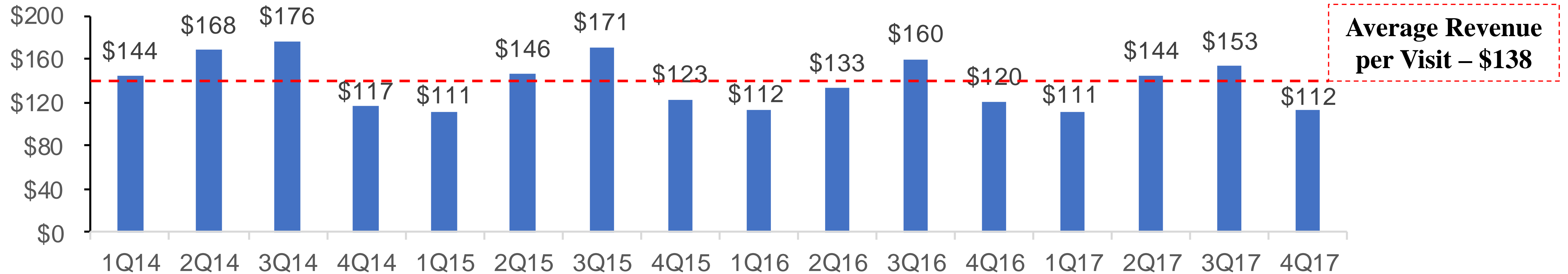
Catalysts	Risk & Impact
▪ Missing guidance due to declining revenue quality / predictability ▪ Overall deceleration of revenue growth from current projected 25% growth ▪ Acceleration of contract renewals from PMPM to visit-fee only ▪ Payers remove TDOC as sole supplier ▪ Lack of increased utilization & subsequent lack of significant revenue contribution from visit-fee only members ▪ Decelerating growth in PMPM paying members ▪ Lack of positive / growing EBITDA in line with consensus	▪ Short Interest Currently Around 30-35% o Risk of short squeeze but cost to borrow is low as well as lending pool utilization ▪ PMPM Fee Pressures Do Not Materialize & PMPM Members Continue to Grow o Multiple subsequently does not compress and mgmt. is able to hit guidance ▪ Improving Profitability o Will continue the SaaS comparison and multiple ▪ Increased Utilization o Marketing is effective and drives higher revenue & ROI to payer ▪ Medicare Advantage Eligibility for Telehealth o Passage of CHRONIC Act but sell-side does not believe will occur until 2020 ▪ Successful Best Doctors Cross-Sell o Mgmt. cites $200mm potential for cross sell ▪ Business to white-label software to hospital begins to rapidly grow o Actually more SaaS-like, but currently only <5% of business

PART 5

ADDITIONAL CONSIDERATIONS

Considerations Regarding ROI to Payers

Total Revenue (incl. PMPM impact) per Visit



IS TDOC One of the Lowest Cost Options Like it Claims?

- **Total cost per visit of $138** more expensive vs. other options
  - Urgent care clinics or WAG partnerships, available from $10–90 per visit
  - Bull case rebuttals to this focused on 1/3 of visits occur on weekends and holidays where primary care is not an option
- Study by RAND on CALPERS data revealed that **only 12% of TDOC visits were substitutes for an in-person visit**
  - Remaining 88% represented new utilization, people who wouldn't have gone to a doctor otherwise
- Study found that total annual spending was $**45 more per patient** for people who used telehealth to treat acute respiratory illnesses than it was for patients who saw doctors for the same conditions

Illustrative "Breakeven" Savings

- Assumption that alternative cost for treatment is $210 (80% weighted PCP/ urgent care at $125 and 20% weighted ER at $570)

Illustrative Employee Count	1,000
PMPM	$0.60
Annual PMPM Fee	**$7,256**
Per Visit Fee	$45.00
Implied Saving Per Visit	$165
Implied Cost Per Visit for Alternative	**$210**
Total Visits to Breakeven	**60.5**
Implied Utilization	**8.2%**

Significant Management Selling

- Mgmt. only owns under 2% of shares outstanding and the 4 VC firms collectively own 17% of the shares
- **In the March & April alone, mgmt. / BoD sold 240K shares for $10mm (0.4% of shares outstanding, 17% of mgmt. owned shares)**
  - All but one transaction were open market sales
    - CEO sale of 25K shares for $1.0mm on April 16 was a 10b5-1 sale
  - 5 separate senior employees sold >$1mm in shares
    - Jason Gorevic – CEO
    - Peter McClennen – President
    - Andrew Turitz – SVP Business Devlopment
    - Michael Goldstein – Director
- The last open market purchase was in March 2016

% Decrease in Shares Since January 1st, 2017

Name	Position	% Decrease	Remaining Share Count / % Ownership
4 VC Funds		32%	10.3mm shares / 17% ownership
Jason Gorevic	CEO & Director	29%	661K shares / 1.1% ownership
Peter McClennen	President	100%	**0 share ownership**
Mark Hirschhorn	CFO & COO	99%	3,700 shares

APPENDIX

Teladoc Comparable Companies – HCIT

Company Name	Market Cap	Ent. Value	FY EV/EBITDA FY2	FY EBITDA Growth FY2	FY EBITDA Margin FY2	FY EV/Sales FY2	FY Sales Growth FY2
Healthcare IT							
Evolent Health Inc Class A	1,126	1,011	*23.2x*	105.0%	6.5%	*1.5x*	16.2%
Tabula Rasa Healthcare, Inc.	643	579	*15.0x*	29.7%	16.7%	*2.5x*	22.9%
Castlight Health, Inc. Class B	305	412	*115.0x*	(120.4%)	2.0%	*2.3x*	17.6%
HealthEquity Inc	3,639	3,347	*32.0x*	27.2%	37.6%	*12.0x*	22.2%
Vocera Communications, Inc.	750	651	*24.1x*	60.6%	13.2%	*3.2x*	14.0%
Cotiviti Holdings, Inc.	3,350	3,991	*11.9x*	11.1%	40.4%	*4.8x*	10.1%
athenahealth, Inc.	5,839	5,962	*14.5x*	15.0%	27.5%	*4.0x*	10.4%
WageWorks, Inc.	1,916	1,256	*7.5x*	14.2%	31.9%	*2.4x*	8.7%
Inovalon Holdings, Inc. Class A	711	1,491	*11.6x*	11.4%	25.3%	*2.9x*	8.5%
Peer group average			***28.3x***	17.1%	22.3%	***4.0x***	14.5%

NOT Teladoc Comparable Companies – SaaS

Company Name	Market Cap	Ent. Value	FY EV/EBITDA FY2	FY EBITDA Growth FY2	FY EBITDA Margin FY2	FY EV/Sales FY2	FY Sales Growth FY2
Software/Technoloy							
ServiceNow, Inc.	30,632	29,785	*31.6x*	48.5%	28.7%	*9.1x*	28.5%
Proofpoint, Inc.	6,091	5,860	*45.6x*	50.9%	14.9%	*6.8x*	27.7%
Splunk Inc.	15,372	13,721	*41.5x*	48.1%	16.3%	*6.8x*	24.5%
Workday, Inc. Class A	19,014	26,759	*44.8x*	18.4%	18.1%	*8.1x*	22.9%
Paylocity Holding Corp.	2,905	2,752	*27.9x*	29.1%	21.9%	*6.1x*	21.7%
Palo Alto Networks, Inc.	17,309	16,225	*23.2x*	25.3%	26.4%	*6.1x*	19.7%
Guidewire Software, Inc.	6,900	6,415	*41.3x*	22.1%	20.3%	*8.4x*	18.0%
salesforce.com, inc.	92,447	89,997	*26.0x*	21.5%	22.9%	*6.0x*	19.3%
RealPage, Inc.	4,396	4,922	*18.8x*	19.5%	28.1%	*5.3x*	10.9%
Adobe Systems Incorporated	107,764	104,477	*22.5x*	19.5%	45.0%	*10.1x*	17.7%
Veeva Systems Inc Class A	9,024	9,965	*31.3x*	20.1%	33.0%	*10.3x*	17.9%
CyberArk Software Ltd.	1,805	1,509	*18.3x*	26.1%	22.3%	*4.1x*	17.9%
Match Group, Inc.	3,014	13,449	*19.0x*	19.0%	38.3%	*7.3x*	15.0%
Peer group average			***30.1x***	28.3%	25.9%	***7.3x***	20.1%