

Benefytt Technologies – A Leader in Offering Telemedicine Benefits to Seniors... Says the Secretary of Health and Human Services

Price Target \$60

Yesterday's White House briefing to the country on the COVID-19 pandemic started and ended with the same theme – the need for more telemedicine offerings for seniors. This is not a trend or a fad... this is the moment that will make telemedicine mainstream and Benefytt Technologies is at the forefront of this megatrend. Just look at their commercial that started to run nationwide yesterday.

<https://citronresearch.com/wp-content/uploads/2020/03/Namath-Questions.mp4>

While some might view a TV commercial as archaic, the use of this channel has become so effective that last month HHS Secretary Alex Azar referred to it as “The Future of Healthcare”.

As noted by Azar:

“One particular ad looks a bit like something out of the 1990s, with red, white, and blue graphics, and, to complete the picture, there's an NFL star from the 1960s involved.

On its surface, this doesn't look or sound like the future of healthcare—but it represents important work done here at the department, placing patients at the center and providing them with a tailored set of benefits that will keep them healthy and keep their costs affordable.

We've delivered significant results on affordability over the past year.”

<https://citronresearch.com/wp-content/uploads/2020/03/HHS.mp4>

<https://www.hhs.gov/about/leadership/secretary/speeches/2020-speeches/2020-state-of-the-department-address.html>

This is the commercial he was referring to:



With 10k people turning 65 every day, the importance of Medicare Advantage cannot be overstated and Benefytt Technologies is using a suite of products to become a top 5 nationwide broker for Medicare Advantage.

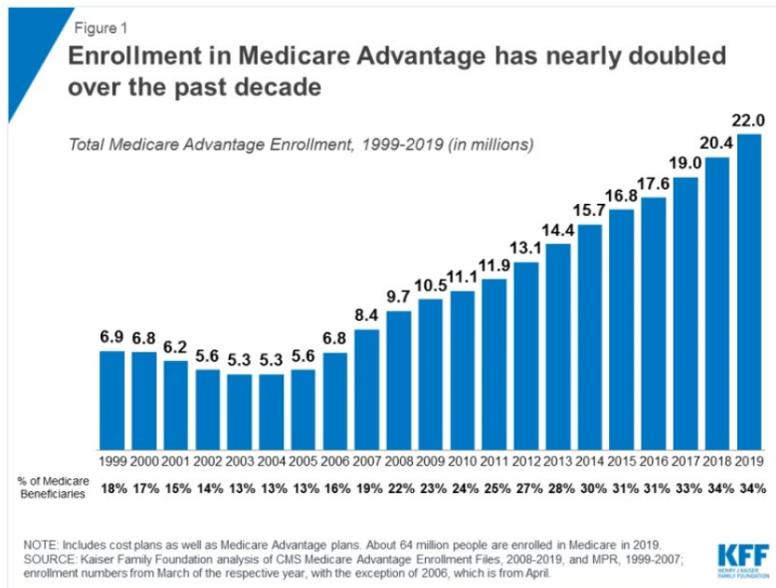
The first half of this Citron report will address BFYT and its role in Medicare Advantage / Telemedicine and the second half will give a clear valuation analysis of why this stock will be over \$60 by the end of 2020 – regardless of the economy.

Medicare Advantage – Telemedicine Benefits New to 2020

Over the past decade, enrollment in Medicare Advantage has almost doubled to 22 million in 2019 or 34% of Medicare beneficiaries. L.E.K Consultants project that Medicare Advantage penetration will reach 70% penetration between 2030 and 2040.

Up until 2020, Medicare Advantage and Traditional Medicare both had site and geographical restrictions in getting covered access to telemedicine. **Starting in 2020, a new CMS ruling allows Medicare Advantage plans to offer these telemedicine benefits as a basic benefit and regardless of location while these site and geographical restrictions still apply to Traditional Medicare.**

<https://medcitynews.com/2019/04/cms-expands-medicare-advantage-coverage-of-telehealth-services/?rf=1>
<https://healthtechmagazine.net/article/2019/08/why-medicares-expanded-telehealth-reimbursement-matters>



<https://www.kff.org/medicare/fact-sheet/medicare-advantage/>
<https://www.lek.com/insights/ei/medicare-advantage-penetration-drivers>

With the seismic shift to telemedicine, the push to Medicare Advantage enrollments is going to be stronger than forecasted and BFYT will benefit from their new national media campaign that informs seniors of this key telemedicine benefit.

HealthInsurance.com for Medicare Advantage and Telemedicine

This month, Benefytt Technologies launched HealthInsurance.com, the most recognizable URL in health insurance. Now Benefytt Technologies along with eHealth are the only 2 platforms that allow consumers to buy Medicare Advantage insurance directly from the website without having to speak to an agent.

Benefytt Technologies was one of the first brokers for Teladoc and it is actually cheaper for consumers to buy a Teladoc policy through Benefytt Technologies vs. directly from Teladoc as Benefytt Technologies had secured a favorable agreement early on several years ago.

A Teladoc policy through Benefytt Technologies costs \$12.95 per month while Teladoc’s website offers the same plan at \$5 per month plus \$55 per visit.

Your Teladoc Quote

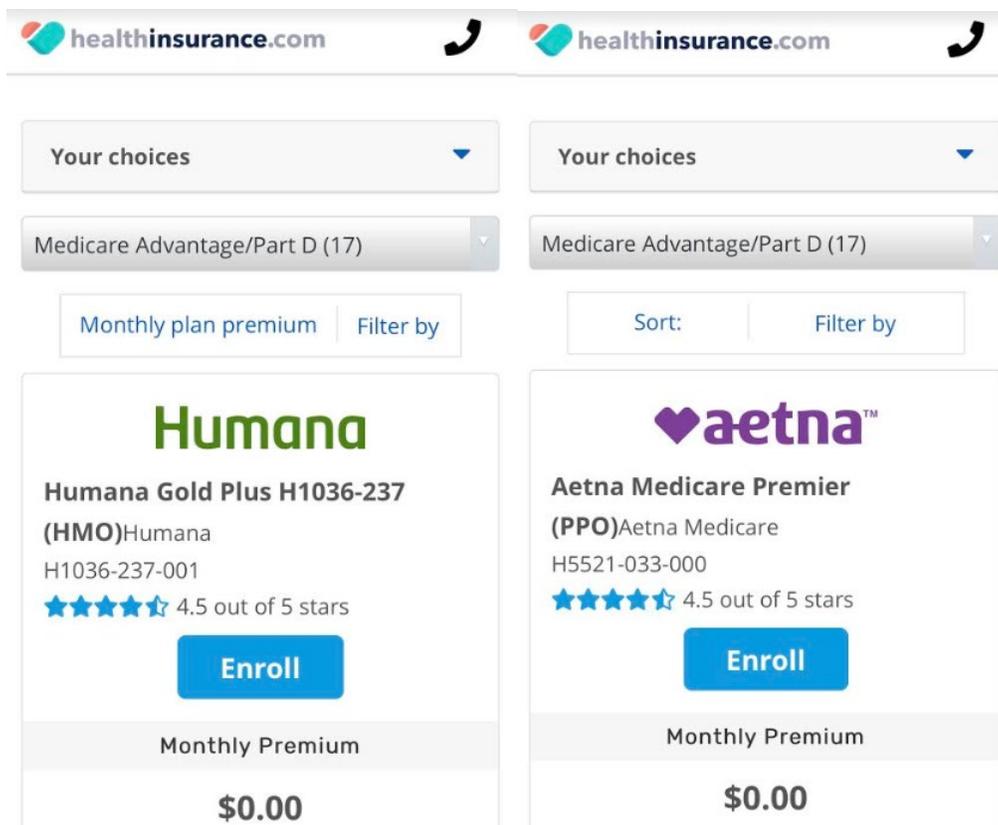
Please review the following information and start your application today.

 <p>Teladoc Individual Plan</p>	<p>Location: 33301/FL</p> <p>Primary Applicant: 01/01/1970 Male</p> <p>Coverage Start: 03/18/2020</p> <p>Coverage End: Cancel anytime</p> <p>CHANGE INFO</p>	<p>Fast & Simple Application</p> <ul style="list-style-type: none"> No medical questions No underwriting Credit cards accepted <p>All of your personal info is protected using industry standard (SSL) encryption technology</p> 
	<p>MONTHLY TOTAL: \$12.95</p>	

[Start Secure Application](#)

<https://www.cnbc.com/2020/03/13/reuters-america-teladoc-health-says-daily-patient-visits-rose-50-percent-in-past-week.html>

As you can see below, Benefytt Technologies is already working with some of the largest players in Medicare Advantage including Aetna and Humana.



The screenshot shows two Medicare Advantage plans side-by-side. Both are filtered by 'Medicare Advantage/Part D (17)'. The left plan is Humana Gold Plus H1036-237 (HMO) with a 4.5 star rating and a \$0.00 monthly premium. The right plan is Aetna Medicare Premier (PPO) with a 4.5 star rating and a \$0.00 monthly premium. Both plans have an 'Enroll' button.

The Pivot to Medicare Advantage and Telemedicine

Citron has followed Benefytt Technologies for several years with no opinion as we could not recommend investing in the future of short-term insurance... and then the pivot happened and we took notice. In the preparation of this report, Citron has visited the company's headquarters, met with management, conducted extensive background checks on management, spoke to competitors and former employees, spoke with numerous industry experts, and reached out to every major bull and bear on the stock to get the most complete picture.

In June 2019, Benefytt Technologies made a very savvy acquisition of lead generation firm Together Health, which generates over 1 million Medicare Advantage leads annually. As a result, Benefytt Technologies was able to generate approximately 50K approved applications for Medicare Advantage in the second half of 2019 despite still being in the process of ramping up their operations. If the Together Health asset had been acquired earlier and fully optimized during the enrollment period, we believe the company would have generated over 80K approved applications for Medicare Advantage.

This is Where The \$\$\$ Is Made

To put this pivot to Medicare Advantage into perspective, let's look at eHealth (EHTH) which made a similar pivot to Medicare Advantage in early 2018 when the company disclosed Q4 2017 approved applications for Medicare Advantage of 55K.



After eHealth disclosed this metric in March 2018, the stock quickly traded from \$16 to over \$100 over the next year. We believe Benefytt Technologies is on the exact same path but even faster as Medicare Advantage is more relevant today in 2020 than it was in 2018.

We spoke to numerous senior industry executives but found that our call with the former COO of UnitedHealth Group (UNH) to be most insightful as he had conducted an extensive state by state analysis of Benefytt Technologies when UNH was entering the short-term medical market. He provided his views on the company's outlook and push into Medicare Advantage.

Below are the takeaways:

- “Medicare Advantage is not a win or lose battle. It is a win or win battle.”
- “UNH will absolutely work with Benefytt Technologies in Medicare Advantage”
- “I think overall Benefytt Technologies from a business perspective is doing a good job”
- “Benefytt Technologies is not running at its full potential. The company has the right infrastructure in place. A little tweaking and it's very valuable. The sites, the marketing, the agent infrastructure, the call center, etc.”
- “With 50K Medicare Advantage policies in less than a year, Benefytt Technologies is definitely worth at least \$1.5 billion”

Valuation and Takeout

In July 2019, the company announced that it was exploring strategic alternatives including a sale of the company. The process was restarted in December after the company reported explosive growth in its Medicare Advantage segment. This makes sense considering in the second half of 2019, three of the company's peers were acquired!

(\$ in millions)

	<u>Enterprise Value</u>			
	<u>/ Takeout Price</u>	<u>Sales</u>	<u>EV/Sales</u>	<u>Notes</u>
Assurance IQ	\$3,500	\$300	11.7x	Acquired on October 2019
GoHealth	\$1,500	\$250	6.0x	Acquired on September 2019
TRANZACT	\$1,400	\$260	5.4x	Acquired on July 2019
SelectQuote	\$2,000	\$338	5.9x	Upcoming IPO
eHealth	\$2,700	\$607	4.4x	Publicly Traded
Average			6.7x	

Despite being a direct beneficiary of the megatrends within Medicare Advantage and telemedicine, BFYT is trading at just 1x-2x EV/Sales vs. EHTH at 4x-5x and TDOC at 12x.

If we assume that Benefytt Technologies should trade in-line with Medicare Advantage peers at 7x EV/Sales, this implies a price target of \$90. If we apply a discount to its peers and assume the company should trade at 5x EV/Sales, the stock is at \$60.



(\$ in millions)

BFYT Medicare Advantage Sales	\$200	\$200	\$200
EV/Sales Multiple	7.0x	6.0x	5.0x
BFYT Enterprise Value	\$1,400	\$1,200	\$1,000
Debt	\$179	\$179	\$179
Minority Interest	\$39	\$39	\$39
Cash	\$4	\$4	\$4
BFYT Market Cap	\$1,187	\$987	\$787
Shares Outstanding	13	\$13	\$13

BFYT Target Share Price	\$90	\$75	\$60
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It's worth mentioning that Benefytt Technologies Chairman Paul Gabos has bought over \$1 million of stock in the open market and has not sold a single share. Gabos was former CFO of Lincare, which was acquired by Linde for \$4.6 billion. Also, Robert Murley, former Chairman of Investment Banking at Credit Suisse, is a board member. These are dealmakers and we believe there is a high probability that the company is sold before the Q1 2020 earnings release.

Despite recent market volatility, M&A activity within the global insurance industry has not slowed. Earlier this month, Aon announced that it was acquiring Willis Towers Watson for approximately \$30 billion. With a market cap of less than \$300 million, Benefytt Technologies would be an easy takeout for a strategic buyer.

<https://www.cnbc.com/2020/03/09/aon-to-buy-willis-for-nearly-30-billion-in-insurance-mega-deal.html>

Conclusion

It is rare that investors can invest in a stock that has the ability to go up 300% that captures the most relevant theme of a major shift in healthcare policy. The only reason to be short this name is if you don't like their legacy business. This is like being short Netflix because sending DVD in the mail is a bad idea. There are no bad/good Medicare Advantage policies. They are all CMS approved and they are growing rapidly. Forward Thinking.

Cautious Investing and Social Distancing to All

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