

**TDOC** – “Teledoc engages in the provision of tele-healthcare services using a technology platform via mobile devices, video and phone. Its portfolio of services and solutions covers medical subspecialties from non-urgent, episodic needs like flu and upper respiratory infections, to chronic, complicated medical conditions like cancer and congestive heart failure.” (FactSet)

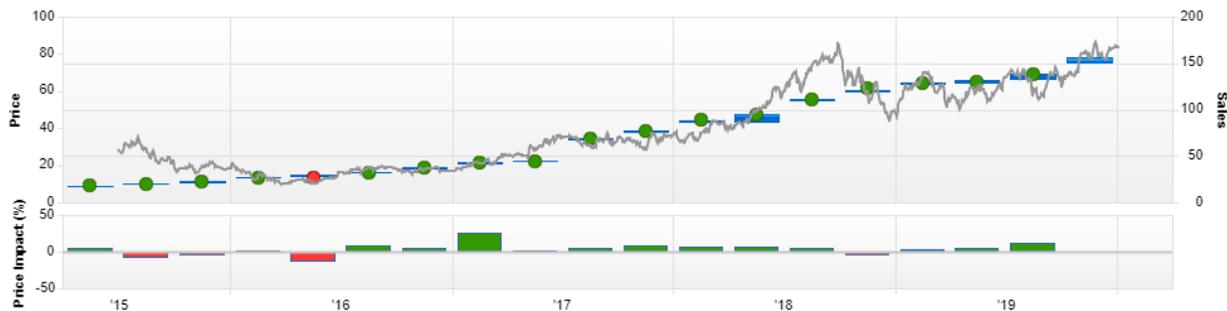
The payoff from telemedicine and the scaling of healthcare through technology will be massive. There will be an inflection point where consumers accept telecare as an option. It hasn't happened yet.

Income Statement

|                   | DEC '18<br>365 DAYS | DEC '17<br>365 DAYS | DEC '16<br>366 DAYS | DEC '15<br>365 DAYS |
|-------------------|---------------------|---------------------|---------------------|---------------------|
| Sales             | 417.91              | 233.28              | 123.16              | 77.38               |
| Growth (%)        | 79.14               | 89.42               | 59.15               | 77.78               |
| Gross Income      | 253.57              | 152.56              | 82.92               | 51.48               |
| Growth (%)        | 66.21               | 83.99               | 61.06               | 64.58               |
| Gross Margin (%)  | 60.68               | 65.40               | 67.33               | 66.53               |
| EBIT              | -62.06              | -56.94              | -55.44              | -51.69              |
| Growth (%)        | -8.99               | -2.71               | -7.25               | -241.19             |
| EBIT Margin (%)   | -14.85              | -24.41              | -45.01              | -66.80              |
| EBITDA            | -26.46              | -37.84              | -47.17              | -46.83              |
| Growth (%)        | 30.09               | 19.76               | -0.72               | -264.98             |
| EBITDA Margin (%) | -6.33               | -16.23              | -38.30              | -60.51              |
| Net Income        | -97.08              | -106.78             | -74.22              | -58.02              |
| Growth (%)        | 9.08                | -43.88              | -27.91              | -240.55             |
| Net Margin (%)    | -23.23              | -45.77              | -60.26              | -74.98              |

It is coming though, and revenue is exploding, with a 5-year CAGR 80%+ and estimates for 25-30% over the next few years. Expansion into Canada began in 2019 along with an exclusive partnership with CVS for their Virtual Minute Clinics. They also have been active in M&A with \$600mm in stock/cash deals over the last few years.

Valued at \$6B (7B fully diluted) the stock is richly priced at ~12x sales. They have minimal debt issued through ITM convertibles bonds (~\$54 & ~\$44), ~\$500m in cash and should be cash flow positive this year. EPS and other short hand metrics should not be how you value the stock at this stage. Focus should be on Teledoc's revenue growth, high gross margins (60%+) and the improvement in their EBITDA margins. They have a blue-chip book of partners and customers and a sticky business with what I would estimate carries a high conversion cost.



Management continues to beat and raise guidance, with strong numbers last quarter for revenue and US members. Right now, they are focused on aggressively growing the top line, acquiring market share and building their brand... but profitability is becoming increasingly important. It is necessary that they prove that leverage in business model is materializing as the business scales.

**THIS IS NOT INVESTMENT ADVICE. DO YOUR OWN RESEARCH AND MAKE YOUR OWN DECISIONS.**



Like all stocks, the ultimate catalyst for stock price appreciation is the underlying business performing above expectations and delivering strong earnings and cash flow. Forward EPS estimates have come down for a few years now. Wall Street got a bit ahead of themselves in their forecasts. However, the trend seems to have bottomed over the last year. If we continue to see top line beats and margin improvements, it is only a matter of time until estimates reverse trend and management starts to guide EPS higher.



In terms of technical and near-term catalysts, first the stock is at the top of a ~2-year range about to test all-time highs with over 35% short interest. The company is presenting at the Annual JPM Healthcare conference on January 13<sup>th</sup> which is well attended by institutional investors and always the potential for some interesting headlines.

You want to be a buyer of a push through \$85 on volume... or if the patient, dip buyer type, a pullback to the 50dma around \$80 or the \$70-75 breakout level, forming another higher high. Price target of \$100+ in 2020.

Lastly, Amazon is making in-roads into the telemedicine space which will be competition, but also could lead to partnership or M&A. It had taken time and investment to sale TDOC and build the brand. Amazon could determine that the path of least resistance is to acquire TDOC.

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